

**REPORT OF THE AUDIT OF THE  
BELL COUNTY  
SHERIFF'S SETTLEMENT - 2018 TAXES**

**For The Period  
April 17, 2018 Through April 15, 2019**



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**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
The Honorable Andy Beshear, Governor  
Holly M. Johnson, Secretary  
Finance and Administration Cabinet  
The Honorable Albey Brock, Bell County Judge/Executive  
The Honorable Mitch Williams, Bell County Sheriff  
Members of the Bell County Fiscal Court

Independent Auditor's Report

**Report on the Financial Statement**

We have audited the Bell County Sheriff's Settlement - 2018 Taxes for the period April 17, 2018 through April 15, 2019 - Regulatory Basis, and the related notes to the financial statement.

**Management's Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Audit Guide for Sheriff's Tax Settlements*, issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



To the People of Kentucky  
The Honorable Andy Beshear, Governor  
Holly M. Johnson, Secretary  
Finance and Administration Cabinet  
The Honorable Albey Brock, Bell County Judge/Executive  
The Honorable Mitch Williams, Bell County Sheriff  
Members of the Bell County Fiscal Court

### **Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles**

As described in Note 1 of the financial statement, the financial statement is prepared by the Bell County Sheriff on the basis of accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

### **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the taxes charged, credited, and paid of the Bell County Sheriff, for the period April 17, 2018 through April 15, 2019.

### **Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statement referred to above presents fairly, in all material respects, the taxes charged, credited, and paid for the period April 17, 2018 through April 15, 2019 of the Bell County Sheriff, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2020, on our consideration of the Bell County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Bell County Sheriff's internal control over financial reporting and compliance.

To the People of Kentucky  
The Honorable Andy Beshear, Governor  
Holly M. Johnson, Secretary  
Finance and Administration Cabinet  
The Honorable Albey Brock, Bell County Judge/Executive  
The Honorable Mitch Williams, Bell County Sheriff  
Members of the Bell County Fiscal Court

**Other Reporting Required by *Government Auditing Standards* (Continued)**

Based on the results of our audit, we have presented the accompanying Schedule of Findings and Responses, included herein, which discusses the following report comments:

- 2018-001 The Bell County Sheriff's Office Lacks Adequate Segregation Of Duties
- 2018-002 The Bell County Sheriff Has Not Settled 2016 Tax Collections

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal line extending to the right.

Mike Harmon  
Auditor of Public Accounts

March 12, 2020

BELL COUNTY  
MITCH WILLIAMS, SHERIFF  
SHERIFF'S SETTLEMENT - 2018 TAXES

For The Period April 17, 2018 Through April 15, 2019

	Special Taxing			
	County	Districts	School	State
<u>Charges</u>				
Real Estate	\$ 870,482	\$ 1,536,534	\$ 3,971,692	\$ 804,537
Tangible	128,014	177,705	499,265	290,078
Fire Protection	3,101			
Total Per Sheriff's Official Receipt	<u>1,001,597</u>	<u>1,714,239</u>	<u>4,470,957</u>	<u>1,094,615</u>
<u>Other Taxes &amp; Charges</u>				
Court Ordered Increases	49	88	192	46
Franchise Taxes	230,162	359,445	1,103,563	
Unmined Coal Taxes	19,625	34,641	104,370	18,138
Oil/Gas Property Taxes	24,965	44,067	132,768	23,074
Penalties	6,215	10,750	28,896	6,655
Gross Chargeable to Sheriff	<u>1,282,613</u>	<u>2,163,230</u>	<u>5,840,746</u>	<u>1,142,528</u>
<u>Credits</u>				
Exonerations	5,839	10,290	29,038	5,441
Discounts	16,114	27,533	72,207	17,460
Delinquent Real Estate	40,890	71,808	191,199	37,599
Delinquent Tangible	5,650	7,845	26,229	25,531
Delinquent Unmined Coal	1,328	2,345	7,064	1,228
Total Credits	<u>69,821</u>	<u>119,821</u>	<u>325,737</u>	<u>87,259</u>
Taxes Collected	1,212,792	2,043,409	5,515,009	1,055,269
Less: Sheriff's Commissions*	<u>51,544</u>	<u>86,846</u>	<u>165,452</u>	<u>44,849</u>
Taxes Due Districts	1,161,248	1,956,563	5,349,557	1,010,420
Taxes Paid	1,160,905	1,955,945	5,347,889	1,010,098
Refunds (Current and Prior Year)	<u>359</u>	<u>618</u>	<u>1,737</u>	<u>336</u>
(Refunds Due Sheriff)	<u>\$ (16)</u>	<u>\$ 0</u>	<u>\$ (69)</u>	<u>\$ (14)</u>

\*\*

\* and \*\* See next page.

The accompanying notes are an integral part of this financial statement.



BELL COUNTY  
MITCH WILLIAMS, SHERIFF  
SHERIFF'S SETTLEMENT - 2018 TAXES  
For The Period April 17, 2018 Through April 15, 2019  
(Continued)

\* Commissions:

4.25% on \$ 4,311,470

3% on \$ 5,515,009

\*\* School Districts:

Bell County \$ (45)

Middlesboro (11)

Pineville (13)

(Refunds Due Sheriff) \$ (69)

BELL COUNTY  
NOTES TO FINANCIAL STATEMENT

April 15, 2019

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

KRS 66.480 authorizes the sheriff's office to invest in obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

D. Preparation of State Settlement

The Kentucky Department of Revenue conducts the settlement relating to taxes collected for the state under the provision of KRS 134.192(2)(a). This is reported as the "State Taxes" column on the financial statement.

Note 2. Deposits

The Bell County Sheriff maintained deposits of public funds with depository institutions insured by the FDIC as required by KRS 66.480(1)(d). According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

BELL COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 April 15, 2019  
 (Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the sheriff's deposits may not be returned. The sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of April 15, 2019, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of November 30, 2018, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured                      \$247,595

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2018. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2018. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 22, 2018 through April 15, 2019.

B. Oil and Gas Property Taxes

The oil and gas property tax assessments were levied as of January 1, 2018. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 17, 2019 through July 16, 2019.

C. Unmined Coal Property Taxes

The unmined coal property tax assessments were levied as of January 1, 2018. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was February 27, 2019 through September 17, 2019.

D. Franchise Taxes

The franchise tax assessments were levied by the Department of Revenue for various tax years. Franchise taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was May 1, 2018 through April 15, 2019.

Note 4. Interest Income

The Bell County Sheriff earned \$10,229 as interest income on 2018 taxes. The sheriff was in substantial compliance with his statutory responsibilities.

Note 5. Sheriff's 10% Add-On Fee

The Bell County Sheriff collected \$42,605 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the sheriff's office.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Albey Brock, Bell County Judge/Executive  
The Honorable Mitch Williams, Bell County Sheriff  
Members of the Bell County Fiscal Court

**Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With *Government Auditing Standards***

**Independent Auditor's Report**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Bell County Sheriff's Settlement - 2018 Taxes for the period April 17, 2018 through April 15, 2019 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated March 12, 2020. The Bell County Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statement, we considered the Bell County Sheriff's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Bell County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Bell County Sheriff's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiency in internal control that we consider to be a material weakness and another deficiency we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2019-001 to be a material weakness.



Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With *Government Auditing Standards*  
(Continued)

**Internal Control over Financial Reporting (Continued)**

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2019-002 to be a significant deficiency

**Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the Bell County Sheriff's financial statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Views of Responsible Official and Planned Corrective Action**

The Bell County Sheriff's views and planned corrective action for the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Bell County Sheriff's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Mike Harmon  
Auditor of Public Accounts

March 12, 2020



## SCHEDULE OF FINDINGS AND RESPONSES

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BELL COUNTY  
MITCH WILLIAMS, SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES

For The Period April 17, 2018 Through April 15, 2019

INTERNAL CONTROL - MATERIAL WEAKNESS:

2018-001 The Bell County Sheriff's Office Lacks Adequate Segregation Of Duties

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The Bell County Sheriff's office lacks adequate segregation of duties over receipts, disbursements, and bank reconciliations. The sheriff's bookkeeper collects tax payments, prepares deposits, prepares daily tax collection journals, prepares monthly tax reports, prepares tax disbursements and signs those disbursements.

According to the sheriff's office, the lack of adequate segregation of duties within the sheriff's office is the result of limited staff size which prevented the sheriff from segregating accounting duties to different individuals within the sheriff's office.

A lack of segregation of duties could result in undetected misappropriation of assets or inaccurate financial reporting to local taxing districts. The segregation of duties over various accounting functions such as preparing deposits, and recording payments and disbursements, is essential for providing protection from asset misappropriation or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. The sheriff can implement oversight when duties cannot be segregated.

We recommend the sheriff segregate duties over receipts, disbursements and reconciliations. If this is not feasible due to a lack of staff, then strong oversight over these areas should occur and involve an employee that wasn't currently performing any of those functions. This oversight could be provided by the sheriff (or an individual who did not perform the original procedure) with the oversight documented by the person doing the comparison initialing the appropriate source documents. For example, the sheriff could compare the daily checkout sheet to the receipts ledger and bank deposit slip then initial the checkout, deposit slip and ledger. Also, the sheriff or other individual could compare the disbursement checks to the districts to the disbursement ledger and to the monthly report then initialing the ledger and monthly report when he signs the check.

*Sheriff's Response: In process putting policy in place*

BELL COUNTY  
 MITCH WILLIAMS, SHERIFF  
 SCHEDULE OF FINDINGS AND RESPONSES  
 For The Period April 17, 2018 Through April 15, 2019  
 (Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2018-002 The Bell County Sheriff Has Not Settled 2016 Tax Collections

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The Bell County Sheriff still has receivables and liabilities that need to be collected and paid in order to settle the 2016 tax collections. The receivables and liabilities are as follows:

- |                                      |          |
|--------------------------------------|----------|
| • Amount due from State              | \$ 20    |
| • Amount due from Pineville School   | \$ 10    |
| • Amount due from Middlesboro School | \$ 373   |
| • Amount due from Health District    | \$ 40    |
| • Amount due to Franchise Companies  | \$ 1,340 |

According to the sheriff's office, the receivables and liabilities are currently being collected. However, the sheriff did not maintain any documentation of this. As a result, the franchise companies did not receive the funds they overpaid and sheriff's office did not receive funds which could have been used to operate his office. Proper internal controls require that all tax collections be settled timely.

KRS 134.192(7) states "On the final settlement, the sheriff shall pay to the county treasurer all money that remains in his or her hands attributable to amounts charged against the sheriff relating to the collection of property taxes, and shall take receipts as provided in KRS 134.160. The sheriff shall pay any additional amounts charged against him or her as a result of the settlements."

We recommend the sheriff settle his 2016 tax collections and maintain documentation of the settlement. Any outstanding checks due taxpayers should be escrowed, and subsequently turned over to the Kentucky State Treasurer as unclaimed funds.

*Sheriff's Response: In process of completing*