

**REPORT OF THE AUDIT OF THE
BRECKINRIDGE COUNTY
SHERIFF'S SETTLEMENT - 2014 TAXES**

**For The Period
April 16, 2014 Through April 15, 2015**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE 502.564.5841
FACSIMILE 502.564.2912**

EXECUTIVE SUMMARY
AUDIT OF THE
BRECKINRIDGE COUNTY
SHERIFF'S SETTLEMENT - 2014 TAXES

For The Period
April 16, 2014 Through April 15, 2015

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2014 Taxes for the Breckinridge County Sheriff for the period April 16, 2014 through April 15, 2015.

We have issued a qualified opinion on the financial statement taken as a whole.

Financial Condition:

The sheriff collected 2014 taxes of \$9,665,407 for the districts, retaining commissions of \$397,398 to operate the sheriff's office. The sheriff distributed 2014 taxes of \$9,259,950 to the districts. Taxes of \$114 are due to the districts from the sheriff and refunds of \$567 are due to the sheriff from the taxing districts.

Report Comments:

- 2014-001 The Sheriff Did Not Have Sufficient Policies And Procedures Or Internal Controls Over Fire Dues Exonerations Processing
- 2014-002 The Sheriff Did Not Adequately Segregate Duties Or Provide Sufficient Oversight To Ensure An Accurate Tax Settlement Process For The 2014 Tax Year
- 2014-003 The Sheriff Does Not Have Sufficient Internal Controls Or Policies And Procedures In Place For Reconciling And Settling The Tax Account
- 2014-004 The Sheriff Did Not Follow The Minimum Requirements For Handling Public Funds In The 2014 Tax Settlement
- 2014-005 The Form Provided To Taxpayers To Allow Opting Out Of Fire Dues Does Not Contain All Of The Required Information

Deposits:

The sheriff's deposits were insured and collateralized by bank securities.

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

Honorable Maurice D. Lucas, Breckinridge County Judge/Executive

Honorable Todd Pate, Breckinridge County Sheriff

Members of the Breckinridge County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the Breckinridge County Sheriff's Settlement - 2014 Taxes for the period April 16, 2014 through April 15, 2015 - 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.



To the People of Kentucky
Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
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Auditor's Responsibility (Continued)

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

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 Breckinridge County Sheriff on the basis of the 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 Breckinridge County Sheriff, for the period April 16, 2014 through April 15, 2015.

Basis for Qualified Opinion on Regulatory Basis of Accounting

The Breckinridge County Sheriff's Settlement - 2014 Taxes for the period April 16, 2014 through April 15, 2015 includes subscription fees collected for volunteer fire departments which did not have adequate records to support a material amount of exonerated subscription fees. Since sufficient accounting records were not maintained to support exonerated subscription fees, the tax settlement financial information presented for the volunteer fire departments, including exonerations, total credits, taxes due, taxes collected, and amounts due districts cannot be determined to be reasonably accurate.

Qualified Opinion on Regulatory Basis of Accounting

In our opinion, except for the possible effects of the matters discussed in the Basis for Qualified Opinion on Regulatory Basis of Accounting paragraph, the financial statement referred to above presents fairly, in all material respects, the taxes charged, credited, and paid for the period April 16, 2014 through April 15, 2015 of the Breckinridge County Sheriff, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

To the People of Kentucky

Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

Honorable Maurice D. Lucas, Breckinridge County Judge/Executive

Honorable Todd Pate, Breckinridge County Sheriff

Members of the Breckinridge County Fiscal Court

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2016 on our consideration of the Breckinridge 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 effectiveness of the Breckinridge County Sheriff's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Breckinridge County Sheriff's internal control over financial reporting and compliance.

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

- 2014-001 The Sheriff Did Not Have Sufficient Policies And Procedures Or Internal Controls Over Fire Dues Exonerations Processing
- 2014-002 The Sheriff Did Not Adequately Segregate Duties Or Provide Sufficient Oversight To Ensure An Accurate Tax Settlement Process For The 2014 Tax Year
- 2014-003 The Sheriff Does Not Have Sufficient Internal Controls Or Policies And Procedures In Place For Reconciling And Settling The Tax Account
- 2014-004 The Sheriff Did Not Follow The Minimum Requirements For Handling Public Funds In The 2014 Tax Settlement
- 2014-005 The Form Provided To Taxpayers To Allow Opting Out Of Fire Dues Does Not Contain All Of The Required Information

Respectfully submitted,



Mike Harmon

Auditor of Public Accounts

October 10, 2016

BRECKINRIDGE COUNTY
TODD PATE, SHERIFF
SHERIFF'S SETTLEMENT - 2014 TAXES

For The Period April 16, 2014 Through April 15, 2015

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 907,847	\$ 1,995,129	\$4,495,151	\$ 1,078,943
Tangible Personal Property	55,353	88,592	246,468	42,631
Fire Protection	2,938			
Increases Through Exonerations	395	614	1,951	430
Franchise Taxes	163,058	256,398	717,536	
Additional Billings	7	51	35	8
Oil and Gas Property Taxes	5,314	8,256	26,240	5,789
Limestone, Sand and Mineral Reserves	932	1,448	4,605	1,016
Bank Franchises	63,654			
Penalties	4,551	9,404	22,473	5,201
Adjusted to Sheriff's Receipt	(88)	(320)	(150)	(69)
 Gross Chargeable to Sheriff	 <u>1,203,961</u>	 <u>2,359,572</u>	 <u>5,514,309</u>	 <u>1,133,949</u>
 <u>Credits</u>				
Exonerations	3,279	246,068	16,251	3,613
Discounts	17,481	30,320	79,266	18,617
Delinquents:				
Real Estate	13,067	37,465	64,881	14,209
Tangible Personal Property	171	268	720	588
Oil and Gas Property Taxes	11	17	55	12
Franchise Taxes	4	6	15	
 Total Credits	 <u>34,013</u>	 <u>314,144</u>	 <u>161,188</u>	 <u>37,039</u>
 Taxes Collected	 1,169,948	 2,045,428	 5,353,121	 1,096,910
Less: Commissions *	<u>49,723</u>	<u>86,931</u>	<u>214,125</u>	<u>46,619</u>
 Taxes Due	 1,120,225	 1,958,497	 5,138,996	 1,050,291
Taxes Paid	1,119,255	1,956,778	5,134,511	1,049,406
Refunds (Current and Prior Year)	<u>1,060</u>	<u>1,791</u>	<u>4,776</u>	<u>885</u>
 Due Districts or (Refunds Due Sheriff) as of Completion of Audit	 <u>\$ (90)</u>	 <u>\$ (72)</u>	 <u>\$ (291)</u>	 <u>\$ 0</u>

*, **, ***, and **** see next page.

**

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

BRECKINRIDGE COUNTY
TODD PATE, SHERIFF
SHERIFF'S SETTLEMENT - 2014 TAXES
For The Period April 16, 2014 Through April 15, 2015
(Continued)

* Commissions:

4.25% on	\$ 4,312,286
4% on	\$ 5,353,121

** Special Taxing Districts:

Library District	\$ (50)
Health District	(15)
Extension District	(68)
City of Cloverport	(53)
McDaniels Fire	38
Hardinsburg Fire	38
Harned Fire	<u>38</u>

Due Districts or

(Refunds Due Sheriff)	<u>\$ (72)</u>
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*** School Taxing Districts:

Breckinridge County School	\$ (200)
Cloverport Independent School	<u>(91)</u>

(Refunds Due Sheriff)	<u>\$ (291)</u>
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**** Exonerations for Fire Districts

included in Special Districts Total	<u>\$ 240,800</u>
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BRECKINRIDGE COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2015

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).

Note 2. Deposits

The Breckinridge County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (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.

BRECKINRIDGE COUNTY
NOTES TO FINANCIAL STATEMENT
April 15, 2015
(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 Breckinridge County 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, 2015, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2014. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2015. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 7, 2014 through April 15, 2015.

B. Oil, Gas and Limestone, Sand and Gravel Property Taxes

The tangible property tax assessments were levied as of January 1, 2014. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was December 10, 2014 through April 15, 2015.

C. Franchise Taxes

The franchise assessments were levied by the Kentucky Department of Revenue for various tax years. Franchise taxes are billed to finance governmental services. The collection period for these assessments was April 16, 2014 through April 15, 2015.

Note 4. Interest Income

The Breckinridge County Sheriff earned \$631 as interest income on 2014 taxes. The sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the sheriff's office.

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

The Breckinridge County Sheriff collected \$32,224 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*



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Maurice D. Lucas, Breckinridge County Judge/Executive
Honorable Todd Pate, Breckinridge County Sheriff
Members of the Breckinridge 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 Breckinridge County Sheriff's Settlement - 2014 Taxes for the period April 16, 2014 through April 15, 2015 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated October 10, 2016 wherein we issued a qualified audit opinion on the financial statement. The Breckinridge 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 Breckinridge 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 Breckinridge County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Breckinridge County Sheriff's internal control over financial reporting.

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 comments and recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 deficiencies described in the accompanying comments and recommendations as items 2014-001 and 2014-003 to be material weaknesses.



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 deficiencies described in the accompanying comments and recommendations as items 2014-002 and 2014-004 to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Breckinridge County Sheriff's financial statement is free of 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying comments and recommendations as items 2014-004 and 2014-005.

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

October 10, 2016

COMMENTS AND RECOMMENDATIONS

BRECKINRIDGE COUNTY
TODD PATE, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period April 16, 2014 Through April 15, 2015

FINANCIAL STATEMENT FINDINGS:

2014-001 The Sheriff Did Not Have Sufficient Policies And Procedures Or Internal Controls Over Fire Dues Exonerations Processing

According to a fiscal court ordinance, taxpayers can choose not to pay fire dues subscriber fees (fire dues) by completing a Notice of Subscriber Fee Nonpayment form and providing the completed form to the sheriff when they pay their tax bill each year. The form should be completed and maintained on file by the sheriff to support the fire dues that are exonerated or removed from tax bills.

For the 2014 tax collection period, the sheriff included \$240,800 on his settlement as fire dues that were exonerated. There should have been a properly completed form on file for each \$40 subscriber fee, or approximately 6,020 forms. The sheriff's staff said that they do not require each taxpayer to fill out a form and that if the bill was paid short by \$40, they assumed the taxpayer was "opting out." Furthermore, many of the forms were incomplete, some with an illegible signature. Because of this, sufficient audit evidence could not be obtained to determine that \$240,800 in fire dues were legitimately exonerated. Auditors were also told that any person in the sheriff's office that accepts tax payments could exonerate or remove \$40 from a bill without secondary or supervisory approval. This lack of internal controls leaves \$240,800 at increased risk of fraud or material error. Because of this increased risk, lack of internal controls, and lack of documentation, audit procedures could not be performed on these exonerations and could not determine whether the financial statement was free from fraud or material errors.

The sheriff has not implemented policies and procedures or internal controls over the exoneration process leaving a material amount of money susceptible to fraud or material errors. Good internal controls require clear policies and procedures to address the process and documentation of exonerating any part of a tax bill. The process of exonerating a bill should be documented and should be limited to only certain personnel.

We recommend the sheriff implement sufficient internal controls to ensure accurate processing of fire dues exonerations. The sheriff should develop standardized policies and procedures for staff to follow, including:

- Maintaining properly completed opt out forms for each taxpayer;
- Documenting the forms in an orderly, consistent manner to provide an audit trail;
- Limiting the ability to exonerate to only certain personnel; and
- Periodically reviewing or spot-checking exonerations against opt out forms.

Sheriff's Response: The sheriff did not respond.

BRECKINRIDGE COUNTY
TODD PATE, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period April 16, 2014 Through April 15, 2015
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-002 The Sheriff Did Not Adequately Segregate Duties Or Provide Sufficient Oversight To Ensure An Accurate Tax Settlement Process For The 2014 Tax Year

During the 2014 tax year, the bookkeeper accepted tax payments, recorded taxes paid, prepared the daily deposit, prepared monthly tax reports, prepared monthly disbursements checks, and co-signed monthly disbursements checks. There was no documented review or approval by another individual to provide evidence of oversight. There were also numerous errors noted in the settlement, including:

- Errors were noted in the areas of collections and distributions for school districts and fire districts,
- Monthly franchise distribution for the library was not included on the settlement for one month,
- A refund for a franchise bill was not entered as a refund,
- The tax account has not been reconciled to the tax bank accounts,
- Reports from the tax accounting software did not agree to the sheriff's settlement.

The sheriff has not provided sufficient oversight of the tax settlement process to ensure all taxes collected are recorded and disbursed accurately. Most of the errors could have been prevented or detected if the sheriff had developed standard policies and procedures for the tax settlement process based on requirements documented in state statutes and the *Property Tax Duties of the Sheriff's Office* manual provided by the Office of Property Valuation. The lack of oversight could result in misappropriation of assets or inaccurate financial reporting to external agencies such as the Department of Revenue and taxing districts. Undetected errors or fraud could occur. Proper segregation of duties over receipts and disbursements is essential for providing protection of asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. Good internal controls dictate that management be sufficiently involved in the day to day operations to ensure internal controls are in place and working to prevent and detect errors or fraud. Policies and procedures should be developed to identify and address routine tax settlement issues. We recommend the sheriff become sufficiently familiar with the tax settlement processing to be able to identify areas where policies and procedures are lacking and where internal controls should be strengthened. The sheriff should ensure sufficient records are maintained and that staff responsible for this activity understand the complexities of the tax settlement process. The sheriff should seek additional training and guidance if necessary. We recommend the following compensating controls be implemented to offset the lack of segregation of duties:

- The sheriff should require an employee that does not accept tax payments to prepare the bank reconciliation. The sheriff should compare the bank reconciliation to the balance in the checkbook and any differences should be reconciled. The sheriff should document his oversight by initialing the bank reconciliation and the balance in the checkbook.
- The sheriff should compare total tax collections per the monthly reports to the total of the monthly disbursement checks. Any discrepancies should be resolved and the review should be documented by initialing and dating the monthly reports.

Sheriff's Response: The sheriff did not respond.

BRECKINRIDGE COUNTY
TODD PATE, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period April 16, 2014 Through April 15, 2015
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-003 The Sheriff Does Not Have Sufficient Internal Controls Or Policies And Procedures In Place
For Reconciling And Settling The Tax Account

The sheriff's tax settlement and bank statements were reviewed and the following control deficiencies were noted:

- Credit card payments deposited into the bank account were not tracked, posted timely to the tax accounting system, or reconciled regularly to ensure all payments were posted accurately.
- The sheriff did not settle the 2013 tax account: 2013 tax refunds from districts were deposited into the 2014 fee account and \$22.15 was not paid to the City of Cloverport.
- The sheriff did not regularly reconcile the 2014 tax account, franchise account, and money market bank accounts.
- There are funds in the 2014 tax account from prior tax years.

The sheriff's office does not have policies and procedures in place to ensure all receipts are accounted for by reconciling the bank statements and credit card payments monthly to the tax accounting system. Without these policies and procedures, the risk of misstatements in reconciling of receipts and disbursements significantly increases due to error or fraud.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. County officials are provided guidelines for minimum accounting and reporting standards for the county receipts in the *County Budget Preparation and State Local Finance Officer Policy Manual*. Those standards include monthly bank reconciliations.

Strong internal controls and proper accounting procedures dictate that all receipts and disbursements should be accounted for, maintained with supporting documentation, and reconciled to the bank accounts. A sheriff's tax settlement account should balance to zero every year, as all funds received are paid out to districts or to the sheriff's fee account in the form of commissions, penalties, and interest. Monthly bank reconciliations are essential to detect any errors made the previous month, payments not posted to the tax accounting system, or credit card payment issues.

We recommend the sheriff implement the following procedures:

- Credit card payments should be processed timely, tracked, reconciled, and accurately maintained with supporting documentation.
- The 2013 tax account should be settled by paying the City of Cloverport the amount due from the 2013 settlement and depositing 2013 refunds from districts into an escrow account.
- All bank accounts should be reconciled monthly to the tax accounting system.
- Tax collections should be maintained separately for each tax year.

Sheriff's Response: The sheriff did not respond.

BRECKINRIDGE COUNTY
TODD PATE, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period April 16, 2014 Through April 15, 2015
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-004 The Sheriff Did Not Follow The Minimum Requirements For Handling Public Funds In The
2014 Tax Settlement

Daily receipt checkout reports were reviewed and the following control deficiencies were noted:

- Taxpayer overages are put into a petty cash drawer and used for stamps or if another taxpayer's payment is short.
- Deposits are not made intact daily.
- Cash and check totals per daily deposit report do not always agree to cash and check totals on the bank deposit ticket.
- The bookkeeper was not aware the franchise tax account was over-drafted, and once notified, she deposited her personal funds for the overdraft charge.
- Nonsufficient Funds (NSF) checks are not being accounted for properly.
- Personal funds were included in the bank deposit ticket, however were not included in the daily checkout sheets.
- County employees routinely cashed checks in the sheriff's office cash drawers.
- Tax bills are not marked unpaid when a taxpayer's check is returned for NSF.
- Cash was deposited into the bank with no supporting documentation.
- Taxpayer money was included in the bank deposit ticket but was not included on the daily deposit report.

The sheriff's office does not follow procedures to ensure all receipts are accounted for by balancing cash and checks collected to the accounting system and deposit tickets to the ledger. Personal funds were deposited to make up shortages. Without appropriate policies and procedures, the risk of misstatements in reporting of tax receipts due to error or fraud significantly increases. The risk of receipts being collected and not deposited also increases. KRS 64.850 states, "It shall be unlawful for any county official to deposit public funds with individual or private funds in any bank or other depository or for any such official to withdraw public funds for any purpose other than that for which they were received and deposited." Strong internal controls and proper accounting procedures dictate that all receipts collected should be accounted for with a supporting receipt ticket, an entry into the accounting system to the taxpayer's bill, and reconciliation to the deposit ticket and receipts ledger. Receipts collected should have adequate support maintained. We recommend the sheriff's office comply with KRS 64.850 and implement the following procedures:

- All money collected should be accounted for with receipt tickets being batched daily and reconciled to the cash and checks collected per the daily collection report and daily deposit ticket. After daily receipts are accounted for, all tax bill overages to be paid should be mailed back to the taxpayer by check, and tax bill shortages should be put on the tax bill as partially paid or the check should be sent back to the tax payer with a request for the correct payment amount.
- Deposits should be made intact daily.
- Cash and checks per the daily deposit report should be reconciled daily and agree to the system and the bank deposit ticket.

BRECKINRIDGE COUNTY
TODD PATE, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period April 16, 2014 Through April 15, 2015
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-004 The Sheriff Did Not Follow The Minimum Requirements For Handling Public Funds In The 2014 Tax Settlement (Continued)

- NSF checks should be accounted for properly and the corresponding tax bill should be marked unpaid.
- Personal funds should not be deposited into the tax bank accounts.
- The petty cash fund at the sheriff's office should be eliminated.
- County employees should not cash personal checks in the sheriff's office.

Sheriff's Response: The sheriff did not respond.

2014-005 The Form Provided To Taxpayers To Allow Opting Out Of Fire Dues Does Not Contain All Of The Required Information

The 2014 Fire Dues Opt Out Form mailed to taxpayers with their tax bill does not meet the criteria set out in the county's ordinance. The ordinance requires specific information about the taxpayer as well as a statement that the taxpayer understands that by not paying the fire dues subscription fee they will be charged for any fire protection service or emergency service as allowed by state law. The Sheriff's form includes only name, bill number, signature, and date. By not using a form that documents all of the required elements of the ordinance, the Sheriff is causing any taxpayer that did not pay the fire dues to be out of compliance with the ordinance. Further, taxpayers are not provided the statement that alerts them to the requirement that they must pay for fire protection and emergency services if they opt out of paying the fire dues subscription fee. This could lead to substantial cost to taxpayers that may not be aware of the consequences of opting out.

The fiscal court passed Ordinance Number 2011-0314 allowing fire dues, or annual membership charges and/or subscriber fees to be added to the property tax bills collected by the Sheriff. The Ordinance allows taxpayers to "opt out" of paying the fee if the property owner follows the procedures outlined in the ordinance. Section V of the ordinance reads, in part: "In order to delete any parcel(s) of property from membership charges/subscriber fees, the owner shall, upon payment of his property taxes, and no later than the date the Breckinridge County Sheriff files the delinquent tax claims in the Breckinridge County Clerk's Office, pursuant to Chapter 134 of KRS, for any particular tax year, provide a statement to the Breckinridge County Sheriff's Office (on form titled "Notice of Subscriber Fee Non Payment") that contains the following: a. Name of owner including mailing address. b. Name of the fire department servicing the parcel. c. Parcel number from tax bill. d. A statement will be provided on the form that in lieu of subscriber fees the owner will be responsible for charges for fire protection service or other emergency per state law. e. Signature of subscriber/property owner."

We recommend the Sheriff revise the opt out form to meet the requirements of the Notice of Subscriber Fee Nonpayment form as documented in Fiscal Court Ordinance 2011-0314.

Sheriff's Response: The sheriff did not respond.

Sheriff's Overall Response: We will do our best to make the necessary changes that are suggested in this audit to hopefully avoid future comments of this nature.

