

**REPORT OF THE AUDIT OF THE
FORMER BULLITT COUNTY
SHERIFF'S SETTLEMENT - 2015 TAXES**

**For The Period
April 16, 2015 Through April 15, 2016**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

**AUDIT OF THE
FORMER BULLITT COUNTY
SHERIFF'S SETTLEMENT - 2015 TAXES**

**For The Period
April 16, 2015 Through April 15, 2016**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2015 Taxes for the former Bullitt County Sheriff for the period April 16, 2015 through April 15, 2016. We have issued an unmodified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The former sheriff collected 2015 taxes of \$67,071,446 for the districts, retaining commissions of \$1,918,770 to operate the former sheriff's office. The former sheriff distributed 2015 taxes of \$65,054,863 to the districts. Taxes of \$26 are due to the districts from the former sheriff and refunds of \$965 are due to the former sheriff from the taxing districts.

Report Comments:

2015-001 The Former Sheriff Did Not Have A Written Agreement To Protect Deposits
2015-002 The Sheriff's Office Lacked Adequate Segregation Of Duties Over Disbursements

Deposits:

The former sheriff's deposits as of November 5, 2015 and April 15, 2016 were exposed to custodial credit risk due to no collateral security agreement as follows:

- Uncollateralized and Uninsured \$54,755,853 (November 5, 2015)
- Uncollateralized and Uninsured \$757,611 (April 15, 2016)

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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 Melanie Roberts, Bullitt County Judge/Executive
Honorable David Greenwell, Former Bullitt County Sheriff
Honorable Donnie Tinnell, Bullitt County Sheriff
Members of the Bullitt County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the former Bullitt County Sheriff's Settlement - 2015 Taxes for the period April 16, 2015 through April 15, 2016 - 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

Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Melanie Roberts, Bullitt County Judge/Executive
Honorable David Greenwell, Former Bullitt County Sheriff
Honorable Donnie Tinnell, Bullitt County Sheriff
Members of the Bullitt 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 former Bullitt 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 former Bullitt County Sheriff, for the period April 16, 2015 through April 15, 2016.

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 16, 2015 through April 15, 2016 of the former Bullitt 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 1, 2017 on our consideration of the former Bullitt 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 former Bullitt County Sheriff's internal control over financial reporting and compliance.

To the People of Kentucky

Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

Honorable Melanie Roberts, Bullitt County Judge/Executive

Honorable David Greenwell, Former Bullitt County Sheriff

Honorable Donnie Tinnell, Bullitt County Sheriff

Members of the Bullitt County Fiscal Court

Other Reporting Required by Government Auditing Standards (Continued)

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

2015-001 The Former Sheriff Did Not Have A Written Agreement To Protect Deposits

2015-002 The Sheriff's Office Lacked Adequate Segregation Of Duties Over Disbursements

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 1, 2017

BULLITT COUNTY
DAVID GREENWELL, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2015 TAXES

For The Period April 16, 2015 Through April 15, 2016

| <u>Charges</u> | <u>County Taxes</u> | <u>Special Taxing Districts</u> | <u>School Taxes</u> | <u>State Taxes</u> |
|--|---------------------|-------------------------------------|---------------------|--------------------|
| Real Estate | \$ 4,569,637 | \$ 9,706,231 | \$ 31,511,452 | \$ 5,810,823 |
| Tangible Personal Property | 613,232 | 6,943,959 | 4,062,941 | 2,140,015 |
| Fire Protection | 529 | | | |
| Increases Through Exonerations | 4,782 | 46,434 | 32,975 | 6,101 |
| Franchise Taxes | 94,722 | 162,971 | 616,911 | |
| Distilled Spirits Taxes | 230,355 | 369,272 | 1,526,476 | |
| Additional Billings | 1,584 | 3,302 | 10,866 | 2,537 |
| In Lieu of Taxes | 9,745 | 10,319 | 264,472 | |
| Clay Property | 82 | 174 | 568 | 105 |
| Limestone, Sand and Gravel Reserves | 775 | 2,365 | 5,341 | 984 |
| Bank Franchises | 151,621 | | | |
| Penalties | 12,777 | 37,257 | 88,034 | 16,674 |
| Adjusted to Sheriff's Receipt | 1 | | | |
| Gross Chargeable to Sheriff | <u>5,689,842</u> | <u>17,282,284</u> | <u>38,120,036</u> | <u>7,977,239</u> |
| <u>Credits</u> | | | | |
| Exonerations | 20,786 | 171,647 | 141,823 | 23,027 |
| Discounts | 96,147 | 264,312 | 639,442 | 141,823 |
| Delinquents: | | | | |
| Real Estate | 41,766 | 86,750 | 287,959 | 53,068 |
| Tangible Personal Property | 901 | 11,848 | 5,972 | 1,816 |
| Franchise Taxes | 915 | 1,870 | 6,083 | |
| Total Credits | <u>160,515</u> | <u>536,427</u> | <u>1,081,279</u> | <u>219,734</u> |
| Taxes Collected | 5,529,327 | 16,745,857 | 37,038,757 | 7,757,505 |
| Less: Commissions * | 234,996 | 539,227 | 814,853 | 329,694 |
| Taxes Due | 5,294,331 | 16,206,630 | 36,223,904 | 7,427,811 |
| Taxes Paid | 5,285,223 | 16,188,491 | 36,164,891 | 7,416,258 |
| Refunds (Current and Prior Year) | 9,115 | 18,728 | 59,356 | 11,553 |
| Due Districts or (Refunds Due Sheriff) as of Completion of Audit | <u>\$ (7)</u> | <u>\$ (589)</u> | <u>\$ (343)</u> | <u>\$ 0</u> |

**

* and ** See next page.

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

BULLITT COUNTY
 DAVID GREENWELL, FORMER SHERIFF
 SHERIFF'S SETTLEMENT - 2015 TAXES
 For The Period April 16, 2015 Through April 15, 2016
 (Continued)

* Commissions:

| | | |
|----------|----|------------|
| 4.25% on | \$ | 24,725,864 |
| 2.2% on | \$ | 37,038,757 |
| 1% on | \$ | 5,306,825 |

** Special Taxing Districts:

| | | |
|------------------------------|----|-------------|
| Library District | \$ | (39) |
| Health District | | (14) |
| Extension District | | (532) |
| Mt. Washington Fire District | | 26 |
| Zoneton Fire District | | (7) |
| City of Hillview | | <u>(23)</u> |

Due Districts or

(Refunds Due Sheriff)

\$ (589)

BULLITT COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2016

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 former Bullitt 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. These requirements were not met, as the Sheriff did not have a written agreement with the bank.

BULLITT COUNTY
 NOTES TO FINANCIAL STATEMENT
 April 15, 2016
 (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 former Bullitt County Sheriff did not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. On November 5, 2015 and April 15, 2016, the former sheriff's bank balances were exposed to custodial credit risk as the sheriff did not have a written security agreement, as follows:

- Uncollateralized and Uninsured \$54,755,853 (November 5, 2015)
- Uncollateralized and Uninsured \$757,611 (April 15, 2016)

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2015. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2016. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 11, 2015 through April 15, 2016.

Note 4. Interest Income

The former Bullitt County Sheriff earned \$1,403 as interest income on 2015 taxes. The former sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the former sheriff's office. As of April 15, 2016, the former sheriff owed \$97 in interest to the school district and \$38 in interest to his fee account.

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

The former Bullitt County Sheriff collected \$134,200 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the former sheriff's office.

Note 6. Unrefundable Duplicate Payments And Unexplained Receipts

The former sheriff deposited unrefundable duplicate payments and unexplained receipts in an interest-bearing account. The former sheriff's escrowed amount was as follows:

2014 \$6,072

KRS 393.090 states that after three years, if the funds have not been claimed, they are presumed abandoned. Abandoned funds are required to be sent to the Kentucky State Treasurer pursuant to KRS 393.110 and its accompanying regulations.

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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 Melanie Roberts, Bullitt County Judge/Executive
Honorable David Greenwell, Former Bullitt County Sheriff
Honorable Donnie Tinnell, Bullitt County Sheriff
Members of the Bullitt 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 former Bullitt County Sheriff's Settlement - 2015 Taxes for the period April 16, 2015 through April 15, 2016 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated March 1, 2017. The former Bullitt 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 former Bullitt 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 former Bullitt County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Bullitt 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 a certain deficiency in internal control that we consider to be a material weakness.

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 comments and recommendations as item 2015-002 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)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Bullitt 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying comments and recommendations as item 2015-001.

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,

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 1, 2017

COMMENTS AND RECOMMENDATIONS

BULLITT COUNTY
DAVID GREENWELL, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period April 16, 2015 Through April 15, 2016

STATE LAWS AND REGULATIONS:

2015-001 The Former Sheriff Did Not Have A Written Agreement to Protect Deposits

The former sheriff did not have a written agreement with one of his depository institutions. The former sheriff failed to get a written agreement with a depository institution when he opened multiple accounts with the depository institution. Even though the bank pledged sufficient collateral, by not having a written agreement, the former sheriff's deposits were uncollateralized and uninsured as of November 5, 2015 and April 15, 2016, by \$54,755,853 and \$757,611, respectively.

According to 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (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. We recommend the sheriff's office enter into a written agreement with the depository institution to adequately pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times.

Former Sheriff's Response: No response.

INTERNAL CONTROL - MATERIAL WEAKNESS:

2015-002 The Sheriff's Office Lacked Adequate Segregation Of Duties Over Disbursements

The sheriff's office lacked adequate segregation of duties over disbursements. These deficiencies were present because one employee's duties include accepting tax payments, recording taxes paid, preparing the daily deposit for her cash drawer, reconciling the bank account, preparing monthly tax reports, preparing monthly tax disbursements, and cosigning monthly tax disbursements. A lack of oversight could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as Department for Local Government and taxing districts. Proper segregation of duties over disbursements is essential to protect against asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the following compensating controls be implemented to offset this internal control weakness:

- An employee that does not accept tax payments should prepare the bank reconciliation. Another employee should then compare the bank reconciliation to the balance in the checkbook and any differences should be reconciled. This oversight should be documented by initialing the bank reconciliation and the balance in the checkbook.
- Total tax collections per the monthly reports should be compared 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.

Former Sheriff's Response: No response.

