

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

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



**MIKE HARMON
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EXECUTIVE SUMMARY
AUDIT OF THE
CALDWELL 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 Caldwell 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 sheriff collected 2015 taxes of \$4,157,858 for the districts, retaining commissions of \$154,100 to operate the sheriff's office. The sheriff distributed 2015 taxes of \$3,999,330 to the districts.

Report Comments:

- 2015-001 The Caldwell County Sheriff's Office Lacks Adequate Segregation Of Duties
- 2015-002 The Sheriff Failed To Distribute Interest On A Monthly Basis
- 2015-003 The Sheriff Failed To Require Deposits Be Made Intact And All Payments Be Made By Check

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 Ellen Dunning, Caldwell County Judge/Executive
Honorable Stan Hudson, Caldwell County Sheriff
Members of the Caldwell County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the Caldwell 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 Ellen Dunning, Caldwell County Judge/Executive
Honorable Stan Hudson, Caldwell County Sheriff
Members of the Caldwell 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 Caldwell 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 Caldwell 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 Caldwell 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 November 28, 2016 on our consideration of the Caldwell 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 Caldwell 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 Ellen Dunning, Caldwell County Judge/Executive

Honorable Stan Hudson, Caldwell County Sheriff

Members of the Caldwell 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 Caldwell County Sheriff's Office Lacks Adequate Segregation Of Duties
- 2015-002 The Sheriff Failed To Distribute Interest On A Monthly Basis
- 2015-003 The Sheriff Failed To Require Deposits Be Made Intact And All Payments Be Made By Check

Respectfully submitted,

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

Mike Harmon
Auditor of Public Accounts

November 28, 2016

CALDWELL COUNTY
STAN HUDSON, SHERIFF
SHERIFF'S SETTLEMENT - 2015 TAXES

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

<u>Charges</u>	Special			
	<u>County Taxes</u>	<u>Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 425,936	\$ 858,071	\$ 1,554,872	\$ 505,984
Tangible Personal Property	64,606	153,040	203,238	323,352
Fire Protection	496			
Franchise Taxes	27,169	54,985	92,586	
Additional Billings	123	236	450	146
Oil Property Taxes	71	135	257	83
Limestone, Sand and Gravel Reserves	2,677	5,146	9,771	3,171
Penalties	3,062	6,207	11,145	3,718
Adjusted to Sheriff's Receipt	(1,133)	2	(21)	(18)
Gross Chargeable to Sheriff	<u>523,007</u>	<u>1,077,822</u>	<u>1,872,298</u>	<u>836,436</u>
<u>Credits</u>				
Exonerations	11,560	6,047	11,305	3,668
Discounts	7,834	16,544	28,687	14,010
Delinquents:				
Real Estate	6,008	12,754	21,931	7,116
Tangible Personal Property	504	1,011	1,648	1,078
Total Credits	<u>25,906</u>	<u>36,356</u>	<u>63,571</u>	<u>25,872</u>
Taxes Collected	497,101	1,041,466	1,808,727	810,564
Less: Commissions *	<u>21,127</u>	<u>44,262</u>	<u>54,262</u>	<u>34,449</u>
Taxes Due	475,974	997,204	1,754,465	776,115
Taxes Paid	475,415	996,038	1,752,424	775,453
Refunds (Current and Prior Year)	<u>559</u>	<u>1,166</u>	<u>2,041</u>	<u>662</u>
Due Districts				
as of Completion of Audit	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

* Commissions:

4.25% on \$ 2,349,131
3% on \$ 1,808,727

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

CALDWELL 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 the following, including but not limited to, 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 Caldwell 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.

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 Caldwell 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, 2016, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

CALDWELL COUNTY
NOTES TO FINANCIAL STATEMENT
April 15, 2016
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

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 October 21, 2015 through April 15, 2016.

B. Oil Property Taxes

The tangible property tax assessments were levied as of January 1, 2015. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 13, 2015 through April 15, 2016.

C. Limestone, Sand, and Gravel Properties

The tangible property tax assessments on limestone, sand, and gravel properties were levied as of January 1, 2015. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 13, 2015 through April 15, 2016.

Note 4. Interest Income

The Caldwell County Sheriff earned \$266 as interest income on 2015 taxes. As of November 28, 2016, the sheriff owed \$13 in interest to the school district and \$12 in interest to his fee account.

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

The Caldwell County Sheriff collected \$21,005 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the sheriff's office. As of November 28, 2016, the sheriff owed \$88 in 10% add-on fees to his fee account.

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 Ellen Dunning, Caldwell County Judge/Executive
Honorable Stan Hudson, Caldwell County Sheriff
Members of the Caldwell 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 Caldwell 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 November 28, 2016. The Caldwell 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 Caldwell County Sheriff's internal control over financial reporting (internal control) to determine 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 Caldwell County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Caldwell 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 comments and recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 2015-001 and 2015-003 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)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Caldwell 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 2015-002 and 2015-003.

Sheriff's Responses to Findings

The Caldwell County Sheriff's responses to the findings identified in our audit are described in the accompanying comments and recommendations. The Caldwell 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

November 28, 2016

COMMENTS AND RECOMMENDATIONS

CALDWELL COUNTY
STAN HUDSON, SHERIFF
COMMENTS AND RECOMMENDATIONS

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

FINANCIAL STATEMENT FINDINGS:

2015-001 The Caldwell County Sheriff's Office Lacks Adequate Segregation Of Duties

The sheriff's office lacks segregation of duties. The sheriff's bookkeeper collects payments from customers, prepares deposits, writes checks, post transactions to the receipts and disbursement ledges, prepares monthly bank reconciliations, and prepares all monthly tax reports. The sheriff has not segregated incompatible accounting functions among office staff or implemented documented compensating controls to offset this internal control deficiency. A lack of oversight could result in the undetected misappropriation of assets and inaccurate financial reporting to external agencies, such as the Department of Revenue. The segregation of duties or the implementation of compensating controls, is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. The sheriff should separate the duties involved in receiving cash, preparing deposits, writing checks, posting to ledgers, preparing monthly bank reconciliations, and comparing financial reports to ledgers. If this is not feasible, cross-checking procedures should be implemented and documented by the individual performing the procedure.

Sheriff Stan Hudson's Response: We've always had one clerk get deposit ready, someone else takes deposit to bank.

2015-002 The Sheriff Failed To Distribute Interest On A Monthly Basis

The sheriff failed to turn over interest payments on a monthly basis. The sheriff made one payment to the school board and one payment to the sheriff's fee account for interest earned on tax collections. Because interest earnings were not paid to the school district or fee account on a monthly basis, the school and fiscal court were denied access to proceeds of interest from tax collections. KRS 134.140(2) states in part, "[a]s part of the monthly distribution of taxes to a district board of education . . . the sheriff shall pay to the board of education that part of the investment earnings for the month which are attributable to the investment of school taxes. . . ." Auditors recommend the sheriff turn all interest earnings over to the school and sheriff's fee account as part of the monthly distribution of taxes to the districts.

Sheriff Stan Hudson's Response: No response.

2015-003 The Sheriff Failed To Require Deposits Be Made Intact And All Payments Be Made By Check

The sheriff's bookkeeper made refunds in cash. The bookkeeper did not wish to write checks for small amounts of overpayments. Deposits were shorted by the amount of the cash refund. Refunds of the overpayments were made in cash. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. This uniform system of accounts, as outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual*, requires "Daily deposits intact into a federally insured banking institution" and "Disbursements by check only." Additionally, good internal controls dictate these requirements are essential and provide protection against fraud and errors. We recommend the sheriff require all daily collections be deposited intact and that checks be written for all disbursements.

Sheriff Stan Hudson's Response: No response.

