

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

**For The Period
April 16, 2014 Through December 31, 2014**



**MIKE HARMON
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EXECUTIVE SUMMARY

AUDIT OF THE FORMER CAMPBELL COUNTY SHERIFF'S SETTLEMENT - 2014 TAXES

**For The Period
April 16, 2014 Through December 31, 2014**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2014 Taxes for the former Campbell County Sheriff for the period April 16, 2014 through December 31, 2014. 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 2014 taxes of \$51,849,787 for the districts, retaining commissions of \$1,384,737 to operate the sheriff's office. The former sheriff distributed 2014 taxes of \$50,448,311 to the districts. Taxes of \$243 are due to the districts from the former sheriff and refunds of \$109 are due to the former sheriff from the taxing districts.

Report Comments:

- 2014-001 The Former Sheriff Lacked Controls Over The 911 Service Fee And Did Not Provide Adequate Oversight
- 2014-002 The Former Sheriff's Office Lacked Adequate Segregation Of Duties Over Tax Receipts And Disbursements

Deposits:

The former sheriff's deposits as of December 1, 2014, at one financial institution were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$240,151

The former sheriff's deposits as of December 2, 2014, at a different financial institution were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$560,995

The former sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the former sheriff's deposits in accordance with the security agreement.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
FORMER SHERIFF'S SETTLEMENT - 2014 TAXES	4
NOTES TO FINANCIAL STATEMENT	6
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 <i>GOVERNMENT AUDITING STANDARDS</i>	11
COMMENTS AND RECOMMENDATIONS	15



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 Steve Pendery, Campbell County Judge/Executive
Honorable Jeff Kidwell, Former Campbell County Sheriff
Honorable Mike Jansen, Campbell County Sheriff
Members of the Campbell County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the former Campbell County Sheriff's Settlement - 2014 Taxes for the period April 16, 2014 through December 31, 2014 - 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 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 former Campbell 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 financial position of each fund of the former Campbell County Sheriff, for the period April 16, 2014 through December 31, 2014.

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, 2014 through December 31, 2014 of the former Campbell 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 February 24, 2017, on our consideration of the former Campbell 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 former Campbell County Sheriff's 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 Campbell 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 Steve Pendery, Campbell County Judge/Executive
Honorable Jeff Kidwell, Former Campbell County Sheriff
Honorable Mike Jansen, Campbell County Sheriff
Members of the Campbell 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:

- 2014-001 The Former Sheriff Lacked Controls Over The 911 Service Fee And Did Not Provide Adequate Oversight
- 2014-002 The Former Sheriff's Office Lacked Adequate Segregation Of Duties Over Tax Receipts And 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

February 24, 2017

CAMPBELL COUNTY
JEFF KIDWELL, FORMER SHERIFF
FORMER SHERIFF'S SETTLEMENT - 2014 TAXES

For The Period April 16, 2014 Through December 31, 2014

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 8,112,302	\$ 11,147,780	\$ 22,915,120	\$ 6,426,629
Tangible Personal Property	718,959	719,517	1,430,979	1,225,760
Inventory In Transit		77,083		
Increases Through Exonerations	6,258	18,605	25,331	5,177
Franchise Taxes	502,481	534,228	1,086,272	
Additional Billings (911 Fee)	1,886,715			
Adjusted to Sheriff's Receipt	17,556	15,255	12	13,906
 Gross Chargeable to Sheriff	 <u>11,244,271</u>	 <u>12,512,468</u>	 <u>25,457,714</u>	 <u>7,671,472</u>
 <u>Credits</u>				
Exonerations	18,508	22,873	42,856	14,634
Discounts	155,666	211,356	430,501	135,684
Transferred to Incoming Sheriff				
Real Estate	428,265	553,040	1,172,832	339,275
Tangible	19,816	16,693	19,567	32,658
911 Fees	213,014			
Franchise Taxes Uncollected	294,514	286,818	627,568	
 Total Credits	 <u>1,129,783</u>	 <u>1,090,780</u>	 <u>2,293,324</u>	 <u>522,251</u>
 Taxes Collected	 10,114,488	 11,421,688	 23,164,390	 7,149,221
Less: Commissions *	<u>383,839</u>	<u>349,590</u>	<u>347,466</u>	<u>303,842</u>
 Taxes Due	 9,730,649	 11,072,098	 22,816,924	 6,845,379
Taxes Paid	9,727,680	11,068,114	22,809,987	6,842,530
Refunds (Current and Prior Year)	2,840	3,889	6,918	2,958
 Due Districts or (Refunds Due Sheriff) as of Completion of Audit	 <u>\$ 129</u>	 <u>\$ 95</u>	 <u>\$ 19</u>	 <u>\$ (109)</u>
		**	***	

*, **, and *** See next page.

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

CAMPBELL COUNTY
 JEFF KIDWELL, FORMER SHERIFF
 SHERIFF'S SETTLEMENT - 2014 TAXES
 For The Period April 16, 2014 Through December 31, 2014
 (Continued)

* Commissions:

4.25% on	\$ 22,832,251
1.5% on	\$ 24,838,092
1.% on	\$ 4,179,444

** Special Taxing Districts:

Library District	\$	54
Health District		13
Extension District		<u>28</u>

Due Districts		<u><u>95</u></u>
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*** School Districts:

Common School		<u>19</u>
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Due District	\$	<u><u>19</u></u>
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CAMPBELL COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2014

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 Campbell 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 former 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.

CAMPBELL COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2014

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 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 December 31, 2014, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, at Bank #1, on December 1, 2014, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the former sheriff's deposits in accordance with the security agreement. At Bank #2, on December 2, 2014, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the former sheriff's deposits in accordance with the security agreement.

- Bank #1 Uncollateralized and Uninsured \$240,151
- Bank #2 Uncollateralized and Uninsured \$560,995

Note 3. Tax Collection Period

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 6, 2014 through December 31, 2014.

Note 4. Interest Income

The former Campbell County Sheriff earned \$1,290 as interest income on 2014 taxes. The former 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. Unrefundable Duplicate Payments And Unexplained Receipts

The former sheriff deposited unrefundable duplicate payments and unexplained receipts in an interest-bearing accounts. The former sheriff's escrowed amounts were as follows:

2008	\$298
2009	\$662
2010	\$5,880

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 by 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 Steve Pendery, Campbell County Judge/Executive
Honorable Jeff Kidwell, Former Campbell County Sheriff
Honorable Mike Jansen, Campbell County Sheriff
Members of the Campbell 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 Campbell County Sheriff's Settlement - 2014 Taxes for the period April 16, 2014 through December 31, 2014 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated February 24, 2017. The former Campbell County Sheriff's financial statement is prepared on a 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 Campbell 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 Campbell County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Campbell 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.

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 2014-002 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 former Campbell 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Responses to Findings

The responses to the findings identified in our audit are described in the accompanying comments and recommendations. The 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

February 24, 2017

COMMENTS AND RECOMMENDATIONS

CAMPBELL COUNTY
JEFF KIDWELL, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period April 16, 2014 Through December 31, 2014

INTERNAL CONTROL - MATERIAL WEAKNESSES:

2014-001 The Former Sheriff's Office Lacked Controls Over The 911 Service Fee And Did Not Provide Adequate Oversight

The 911 service fee originated with the passing of ordinance O-04-13 for the purpose of providing additional funding for the operation of enhanced 911 emergency services. These 911 service fees were included on the Campbell County property tax bills, to be collected by the sheriff's office, and disbursed to the Campbell County Consolidated Dispatch Board.

During the audit, auditors determined the 911 service fee was not included on the former sheriff's official receipt or the 2014 outgoing tax settlement. This resulted in a material adjustment by the auditor on the former sheriff's 2014 outgoing tax settlement.

The sheriff's tax software did not maintain documentation for paid and unpaid 911 service fees. The finance director printed a report detailing the amount of 911 fees to be collected before collections began. He then kept a separate ledger on a daily basis accounting for the 911 fees actually collected.

We recommend the sheriff's office immediately implement controls over the handling of the 911 service fee. In addition we have the following recommendations:

- The sheriff's office should include all taxes and fees charged on the tax bills on the settlement.
- The sheriff's office/fiscal court should implement software adjustments to be able to provide all information related to the 911 service fee.

Additionally, we recommend the sheriff's office implement controls/procedures for handling of the 911 service fee when it comes to documenting charges, credits, collections, and distributions.

Finance Director's Response: Has been corrected with the implementation of the new tax collection software.

2014-02 The Former Sheriff's Office Lacked Adequate Segregation Of Duties Over Tax Receipts And Disbursements

The former sheriff's office had a lack of adequate segregation of duties over tax receipts and disbursements. The employee responsible for handling tax receipts also recorded the receipts in the ledger, prepared the bank deposits, and performed the monthly bank reconciliations. In addition, the employee prepared the disbursement checks and was an authorized signer on checks. With the same employee performing these functions, the risk that errors or fraud may go undetected increases. The following compensation controls should have been implemented to offset this internal control weakness:

- The former sheriff could have periodically compared a daily bank deposit to the daily checkout sheet and compared the daily checkout to the receipts ledger. Any difference should have been reconciled. The former sheriff could have documented this review by initialing and dating the bank deposit, daily checkout sheet, and receipts ledger.

CAMPBELL COUNTY
JEFF KIDWELL, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period April 16, 2014 Through December 31, 2014
(Continued)

INTERNAL CONTROL-MATERIAL WEAKNESSES: (Continued)

2014-02 The Former Sheriff's Office Lacked Adequate Segregation Of Duties Over Tax Receipts And Disbursements (Continued)

- The former sheriff could have periodically performed surprise cash counts and recounted cash. The former sheriff could have documented this by initialing the bank deposit ticket.
- The former sheriff could have periodically compared the bank reconciliation to the balance in the checkbook. Any difference should have been reconciled. The former sheriff could have documented this by initialing the bank reconciliation and the balance in the checkbook.

Finance Director's Response: Has been corrected-Sheriff now performs the above.

