

**REPORT OF THE AUDIT OF THE
CHRISTIAN COUNTY
SHERIFF'S SETTLEMENT - 2019 TAXES**

**For The Period
April 16, 2019 Through May 15, 2020**



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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
The Honorable Andy Beshear, Governor
Holly M. Johnson, Secretary
Finance and Administration Cabinet
The Honorable Steve Tribble, Christian County Judge/Executive
The Honorable Tyler DeArmond, Christian County Sheriff
Members of the Christian County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the Christian County Sheriff's Settlement - 2019 Taxes for the period April 16, 2019 through May 15, 2020 - Regulatory Basis, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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

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



To the People of Kentucky
The Honorable Andy Beshear, Governor
Holly M. Johnson, Secretary
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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 Christian 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 Christian County Sheriff, for the period April 16, 2019 through May 15, 2020.

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, 2019 through May 15, 2020 of the Christian 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 January 27, 2021, on our consideration of the Christian 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 Christian County Sheriff’s internal control over financial reporting and compliance.

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

2019-001 The Sheriff’s Office Had Weak Internal Controls Over The Tax Collection Process

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

January 27, 2021

CHRISTIAN COUNTY
TYLER DEARMOND, SHERIFF
SHERIFF'S SETTLEMENT - 2019 TAXES

For The Period April 16, 2019 Through May 15, 2020

	Special Taxing			
	County	Districts	School	State
<u>Charges</u>				
Real Estate	\$ 6,022,926	\$ 2,120,358	\$ 13,785,102	\$ 3,935,058
Tangible	766,041	322,916	1,753,291	2,267,410
Fire Dues		534,260		
Fire Protection	1,329			
Total Per Sheriff's Official Receipt	<u>6,790,296</u>	<u>2,977,534</u>	<u>15,538,393</u>	<u>6,202,468</u>
<u>Other Taxes & Charges</u>				
Court Ordered Increases	465	18,919	1,064	219
Omitted Taxes - Minimum Bills	25	8	57	26
Franchise Taxes	343,149	116,905	673,311	
Additional Billings	802	434	1,835	1,018
Bank Franchises	210,560			
Penalties	15,370	8,473	35,173	10,059
Gross Chargeable to Sheriff	<u>7,360,667</u>	<u>3,122,273</u>	<u>16,249,833</u>	<u>6,213,790</u>
<u>Credits</u>				
Exonerations	66,968	23,199	153,275	23,733
Discounts	113,996	48,797	261,018	107,477
Delinquent Real Estate	128,218	76,679	293,415	83,637
Delinquent Tangible	6,909	2,409	15,814	11,830
Franchise Tax - Billing Error				224
Franchise Taxes - Delinquent	238	83	545	
Total Credits	<u>316,329</u>	<u>151,167</u>	<u>724,067</u>	<u>226,901</u>
Taxes Collected	7,044,338	2,971,106	15,525,766	5,986,889
Less: Sheriff's Commissions*	<u>299,384</u>	<u>115,026</u>	<u>465,773</u>	<u>254,443</u>
Taxes Due Districts	6,744,954	2,856,080	15,059,993	5,732,446
Taxes Paid	6,742,288	2,838,069	15,053,677	5,730,997
Refunds (Current and Prior Year)	<u>9,000</u>	<u>2,887</u>	<u>20,521</u>	<u>5,871</u>
Taxes Due Districts (Refund Due Sheriff)	<u>\$ (6,334)</u>	<u>\$ 15,124</u>	<u>\$ (14,205)</u>	<u>\$ (4,422)</u>

**

* and ** See next page.

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

CHRISTIAN COUNTY
 TYLER DEARMOND, SHERIFF
 SHERIFF'S SETTLEMENT - 2019 TAXES
 For The Period April 16, 2019 Through May 15, 2020
 (Continued)

* Commissions:

4.25% on	\$	15,502,495
3% on	\$	15,525,766
2% on	\$	499,839

** Special Taxing Districts:

Health District	\$	7,735
Extension District		8,332
Soil Conservation District		(148)
Upper Trade Watershed District		(174)
Westfork Watershed District		(109)
Fire Departments-		
Crofton		(35)
Highland		(88)
Lacy		(44)
Northwest		(8)
Oak Grove		(278)
Cerulean		(59)

Due Districts or (Refunds Due Sheriff)	\$	<u>15,124</u>
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CHRISTIAN COUNTY
NOTES TO FINANCIAL STATEMENT

May 15, 2020

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

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

B. Basis of Accounting

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

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

C. Cash and Investments

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

D. Preparation of State Settlement

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

Note 2. Deposits

The Christian County Sheriff maintained deposits of public funds with federally insured banking institutions as required by the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*. The DLG Manual strongly recommends perfected pledges of securities covering all public funds except direct federal obligations and funds protected by federal insurance. In order to be perfected 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 fiscal court 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 met.

CHRISTIAN COUNTY
 NOTES TO FINANCIAL STATEMENT
 May 15, 2020
 (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 Christian County Sheriff does not have a deposit policy for custodial credit risk, but rather follows the requirements of the DLG *County Budget Preparation and State Local Finance Officer Policy Manual*. As of May 15, 2020, 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, 2019. Property taxes were billed to finance governmental services for the fiscal year ending June 30, 2020. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 30, 2019 through May 15, 2020.

B. Franchise Taxes

The franchise tax assessments were levied by the Department of Revenue for various tax years. Franchise taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was April 16, 2019 through June 30, 2020.

Note 4. Interest Income

The Christian County Sheriff earned \$1,598 as interest income on 2019 taxes. The sheriff was in substantial compliance with his statutory responsibilities.

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

The Christian County Sheriff collected \$48,087 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the sheriff's office. As of January 27, 2021, the sheriff owed \$5,166 in 10% add-on fees to his fee account.

Note 6. Escrow Account

The sheriff deposited unrefundable payments in a non-interest-bearing account. The sheriff's escrowed beginning balance was \$138. The sheriff received \$0 and disbursed \$0 resulting in a total ending balance as of May 15, 2020, of \$138. The ending balance consists of escrowed of:

2017	\$138
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When statutorily required, the sheriff will turn over the escrowed funds to the Kentucky State Treasurer as unclaimed property.

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

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Steve Tribble, Christian County Judge/Executive
The Honorable Tyler DeArmond, Christian County Sheriff
Members of the Christian 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 Christian County Sheriff's Settlement - 2019 Taxes for the period April 16, 2019 through May 15, 2020 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated January 27, 2021. The Christian 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 Christian 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 Christian County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Christian County Sheriff's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified a certain deficiency in internal control, which is described in the accompanying Schedule of Findings and Responses as item 2019-001 that we consider to be a significant deficiency.



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

Views of Responsible Official and Planned Corrective Action

The Christian County Sheriff's views and planned corrective action for the finding identified in our audit are described in the accompanying Schedule of Findings and Responses. The Christian County Sheriff's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

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

January 27, 2021

SCHEDULE OF FINDINGS AND RESPONSES

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CHRISTIAN COUNTY
TYLER DEARMOND, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Period April 16, 2019 Through May 15, 2020

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2019-001 The Sheriff's Office Had Weak Internal Controls Over The Tax Collection Process

Internal controls at the Christian County Sheriff's office were not working effectively. There was a lack of segregation of duties over the tax collection process and compensating controls do not appear to have been effective when accounting for tax collections. The sheriff's former bookkeeper collected taxes, prepared daily deposits and collection reports, prepared monthly tax reports, issued and signed tax distributions checks, posted transactions to the ledgers, and reconciled the tax account.

According to the sheriff, the former bookkeeper lacked sufficient understanding of all accounting concepts and responsibilities related to the tax collection process. Also, the former bookkeeper did not let the sheriff know she was struggling with accounting for the tax collections.

Due to the weakness in internal control the following issues were noted:

- Tax commissions due the sheriff's fee account were not remitted timely. The tax account owes the sheriff's fee account \$147,524 in tax commissions earned on October 2019 tax collections.
- Refunds were miscalculated; resulting in one taxpayer receiving overpayment of more than \$15,000. The sheriff filed a claim with the former bookkeeper's bond for \$15,000.
- The sheriff has a deficit of \$479 in his 2019 tax account.

Good internal controls dictate that procedures be in place to ensure tax collections are accurately accounted for and distributed.

We recommend that the Christian County Sheriff segregate duties over the tax collection process, to the extent possible, and implement compensating controls to ensure tax collections are accurately accounted for.

Sheriff's Response: With 2019 being the first year of my term, it proved to be both challenging and educational. The previous administration bookkeeper retired with the former Sheriff, leaving my administration with a lot of questions. Although we had cooperation and contacts with outside state and county offices, we were often faced with not knowing what questions to ask. Halfway through 2019 I discovered my bookkeeper was overwhelmed and under qualified to handle such a position. Fortunately, I was able to hire our current bookkeeper who has proven to be both capable and qualified to guide our office back to the correct path and keep us going in the right direction. My office has now implemented a 3-step internal process to ensure accurate accounting records are maintained, we properly account for tax commissions, ensure that we properly remit fees to the Christian County 75/25% Accounts, and ensure we have an internal control over disbursements. The process, which had already been implemented, includes myself, my bookkeeper, and my Chief Deputy. The 3 of us will continue to monitor, verify, oversee, and ensure that recommendations made in this audit report are followed to the best of our ability. We will continue to work with our Auditors and County Treasurer to ensure all areas of our office held, and kept, to the highest of standards.