

**REPORT OF THE AUDIT OF THE
CRITTENDEN COUNTY
SHERIFF'S SETTLEMENT - 2018 TAXES**

**For The Period
April 17, 2018 Through April 15, 2019**



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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 Perry Newcom, Crittenden County Judge/Executive

The Honorable Wayne Agent, Crittenden County Sheriff

Members of the Crittenden County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the Crittenden County Sheriff's Settlement - 2018 Taxes for the period April 17, 2018 through April 15, 2019 - 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
Finance and Administration Cabinet
The Honorable Perry Newcom, Crittenden County Judge/Executive
The Honorable Wayne Agent, Crittenden County Sheriff
Members of the Crittenden 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 Crittenden 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 Crittenden County Sheriff, for the period April 17, 2018 through April 15, 2019.

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 17, 2018 through April 15, 2019 of the Crittenden 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 December 13, 2019, on our consideration of the Crittenden 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 Crittenden County Sheriff's internal control over financial reporting and compliance.

To the People of Kentucky

The Honorable Andy Beshear, Governor

Holly M. Johnson, Secretary

Finance and Administration Cabinet

The Honorable Perry Newcom, Crittenden County Judge/Executive

The Honorable Wayne Agent, Crittenden County Sheriff

Members of the Crittenden County Fiscal Court

Other Reporting Required by *Government Auditing Standards* (Continued)

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

2018-001 The Crittenden County Sheriff's Office Lacks Adequate Segregation Of Duties

2018-002 The Crittenden County Sheriff's Tax Settlement Was Inaccurate

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

December 13, 2019

CRITTENDEN COUNTY
WAYNE AGENT, SHERIFF
SHERIFF'S SETTLEMENT - 2018 TAXES

For The Period April 17, 2018 Through April 15, 2019

	Special Taxing			
	County	Districts	School	State
<u>Charges</u>				
Real Estate	\$ 412,392	\$ 412,510	\$ 1,701,997	\$ 426,374
Tangible	19,563	117,042	76,833	78,672
Fire Dues	1,904			
Total Per Sheriff's Official Receipt	433,859	529,552	1,778,830	505,046
<u>Other Taxes & Charges</u>				
Franchise Taxes	59,212	94,378	237,426	
Additional Billings	72	72	298	93
Limestone, Sand, and Gravel	726	721	2,994	750
Penalties	2,236	3,045	9,166	2,372
Gross Chargeable to Sheriff	496,105	627,768	2,028,714	508,261
<u>Credits</u>				
Exonerations	1,629	1,734	6,596	1,522
Discounts	6,833	8,136	27,911	7,966
Delinquent Real Estate	6,434	10,066	26,470	6,631
Delinquent Tangible	259	287	1,017	905
Delinquent Intangible	249	242	898	
Minimum Bills	1	1	4	5
Total Credits	15,405	20,466	62,896	17,029
Taxes Collected	480,700	607,302	1,965,818	491,232
Less: Sheriff's Commissions*	20,495	23,661	78,571	20,878
Taxes Due Districts	460,205	583,641	1,887,247	470,354
Taxes Paid	459,009	548,870	1,882,153	468,382
Refunds (Current and Prior Year)	1,446	1,419	5,890	2,006
Taxes Due Districts (Refund Due Sheriff)	\$ (250)	\$ 33,352	\$ (796)	\$ (34)

**

* and ** See next page.

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

CRITTENDEN COUNTY
WAYNE AGENT, SHERIFF
SHERIFF'S SETTLEMENT - 2018 TAXES
For The Period April 17, 2018 Through April 15, 2019
(Continued)

* Commissions:

4.25% on	\$	1,488,155
4% on	\$	1,965,818
2% on	\$	91,079

** Special Taxing Districts:

Library District	\$	180
Health District		1,408
Extension District		1,814
Tradewater Watershed District		<u>29,950</u>
Due Districts	\$	<u>33,352</u>

CRITTENDEN COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2019

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 conducts 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 Crittenden County Sheriff maintained deposits of public funds with depository institutions insured by the 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 Crittenden 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, 2019, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

CRITTENDEN COUNTY
NOTES TO FINANCIAL STATEMENT
April 15, 2019
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2018. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2019. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 27, 2018 through April 15, 2019.

B. Limestone, Sand, and Gravel Reserves

The limestone, sand, and gravel property tax assessments were levied as of January 1, 2018. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 17, 2019 through April 15, 2019.

C. 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 17, 2018 through April 15, 2019.

Note 4. Interest Income

The Crittenden County Sheriff earned \$548 as interest income on 2018 taxes. The sheriff was in substantial compliance with his statutory responsibilities.

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

The Crittenden County Sheriff collected \$14,160 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the sheriff's office.

Note 6. Escrow Account

The sheriff deposited unrefundable payments in an escrow account. The sheriff's escrow account beginning balance was \$5,467. The sheriff deposited \$2,208 into the escrow account and disbursed \$3,626. The ending balance as of April 15, 2019, was \$4,049, of which \$2,196 was owed to the 2016 tax account to settle the 2016 taxes and \$1,853 was due to the county treasurer.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Perry Newcom, Crittenden County Judge/Executive
The Honorable Wayne Agent, Crittenden County Sheriff
Members of the Crittenden 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 Crittenden County Sheriff's Settlement - 2018 Taxes for the period April 17, 2018 through April 15, 2019 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated December 13, 2019. The Crittenden 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 Crittenden 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 Crittenden County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Crittenden 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 Schedule of Findings and Responses, we identified a certain deficiency in internal control that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

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 Schedule of Findings and Responses as item 2018-001 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)

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2018-002 to be a significant deficiency.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Crittenden 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 Crittenden County Sheriff's views and planned corrective action for the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Crittenden 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

December 13, 2019

SCHEDULE OF FINDINGS AND RESPONSES

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CRITTENDEN COUNTY
WAYNE AGENT, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Period April 17, 2018 Through April 15, 2019

INTERNAL CONTROL - MATERIAL WEAKNESS:

2018-001 The Crittenden County Sheriff's Office Lacks Adequate Segregation Of Duties

This is a repeat finding and was included in the prior year audit report as finding 2017-001. The Crittenden County Sheriff lacks segregation of duties and does not have proper internal controls in place over the tax collection process. The bookkeeper is required to perform multiple tasks such as the collection of taxes from customers, deposit preparation, the bookkeeping functions, bank reconciliations, the preparation of monthly reports, and the preparation of checks for disbursements. This is due to the sheriff failing to provide adequate personnel to segregate duties and failing to implement policies and procedures such as performing sufficient oversight of the bookkeeper's work.

A lack of internal control could create the opportunity for fraud to potentially take place. Segregation of duties or the implementation of compensating controls, when limited by the number of staff, is essential for providing protection against the misappropriation of assets and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To adequately protect against the misappropriation of assets and financial reporting, the sheriff should segregate the duties noted above by allowing different deputies to perform these functions. However, if those duties cannot be segregated due to a limited staff, we recommend the sheriff implement internal controls over the tax collection process such as documented management oversight of the daily checkout process, performing monthly reconciliations by comparing daily deposits and checkout sheets to bank statements and the monthly reports, documented management oversight of monthly reports and reconciliations, and comparing daily collection reports to the deposits.

Sheriff's Response: We are still making changes to get this off the audit findings we are a very small dept.

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2018-002 The Crittenden County Sheriff's Tax Settlement Was Inaccurate

The Crittenden County Sheriff's Tax Settlement was inaccurate and required multiple audit adjustments. The amount reported for taxes collected on the sheriff's settlement was misstated by \$18,036. The amount reported for taxes paid was misstated by \$17,163. Also, the fire acres portion of the settlement did not total correctly. This is a direct result of weak internal controls associated with a lack of segregation of duties and poor oversight.

As a result, the tax settlement presented to and approved by the fiscal court was inaccurate. Strong internal controls dictate the sheriff provide strong oversight to ensure that tax collections and distributions are reported accurately. Moreover, KRS 134.192(11) states, "[i]n counties containing a population of less than seventy thousand (70,000), the sheriff shall file annually with his or her settlement:

- a) A complete statement of all funds received by his or her office for official services, showing separately the total income received by his or her office for services rendered, exclusive of his or her commissions for collecting taxes, and the total funds received as commissions for collecting state, county, and school taxes[.]”

CRITTENDEN COUNTY
WAYNE AGENT, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Period April 17, 2018 Through April 15, 2019
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY: (Continued)

2018-002 The Crittenden County Sheriff's Tax Settlement Was Inaccurate (Continued)

We recommend the Crittenden County Sheriff strengthen internal controls to ensure that tax collections and distributions are reported accurately on the tax settlement.

Sheriff's Response: Error in formula that calculated the amounts. Already found error and corrected it.