

**REPORT OF THE AUDIT OF THE
DAVISS COUNTY
SHERIFF'S SETTLEMENT - 2017 TAXES**

**For The Period
April 18, 2017 Through April 16, 2018**



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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
The Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
The Honorable Al Mattingly, Daviess County Judge/Executive
The Honorable Keith Cain, Daviess County Sheriff
Members of the Daviess County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the Daviess County Sheriff's Settlement - 2017 Taxes for the period April 18, 2017 through April 16, 2018 - 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.

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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 Daviess 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 Daviess County Sheriff, for the period April 18, 2017 through April 16, 2018.

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 18, 2017 through April 16, 2018 of the Daviess 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 May 29, 2019, on our consideration of the Daviess 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 Daviess 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:

2017-001 The Sheriff Should Require All Tax Collections Be Distributed Monthly

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

May 29, 2019

DAVIESS COUNTY
KEITH CAIN, SHERIFF
SHERIFF'S SETTLEMENT - 2017 TAXES

For The Period April 18, 2017 Through April 16, 2018

<u>Charges</u>	County Taxes	Special Taxing Districts	School Taxes	State Taxes
Real Estate	\$ 7,507,633	\$ 7,102,538	\$ 30,885,477	\$ 6,784,676
Tangible Personal Property	966,537	785,503	3,186,687	2,102,657
Increases Through Exonerations	8,113	6,369	26,704	4,113
Franchise Taxes	363,363	268,319	1,022,029	
Distilled Spirits Taxes	77,024	110,444	317,183	
Additional Billings	3,818	3,119	18,290	4,923
Unmined Coal - 2016 Taxes	2,039	1,628	9,786	1,843
Oil Property Taxes	3,167	2,641	16,541	2,862
Limestone, Sand, and Gravel Reserves	305	255	1,594	276
Bank Franchises	570,796			
Penalties	25,493	24,903	95,184	24,677
Adjusted to Sheriff's Receipt	(10,445)	(6,207)	(814)	(1,628)
Gross Chargeable to Sheriff	9,517,843	8,299,512	35,578,661	8,924,399
<u>Credits</u>				
Exonerations	23,500	19,444	85,051	56,263
Discounts	166,349	144,056	621,328	158,395
Delinquents:				
Real Estate	54,593	59,372	204,479	49,336
Tangible Personal Property	5,024	3,785	17,483	10,652
Unmined Coal - 2016 Taxes	805	643	3,865	728
Total Credits	250,271	227,300	932,206	275,374
Taxes Collected	9,267,572	8,072,212	34,646,455	8,649,025
Less: Commissions *	393,872	324,919	519,697	367,583
Taxes Due	8,873,700	7,747,293	34,126,758	8,281,442
Taxes Paid	8,862,456	7,738,201	34,083,364	8,270,941
Refunds (Current and Prior Year)	11,244	9,092	43,371	10,501
Due District				
as of Completion of Audit	\$ 0	\$ 0	\$ 23	\$ 0

* Commissions:

 4.25% on \$ 25,328,797

 1.5% on \$ 35,306,467

DAVIESS COUNTY
NOTES TO FINANCIAL STATEMENT

April 16, 2018

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 Daviess 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 Daviess 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 16, 2018, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

DAVIESS COUNTY
NOTES TO FINANCIAL STATEMENT
April 16, 2018
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2017. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2017. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 7, 2017 through April 16, 2018.

B. Oil Property Taxes

The oil property tax assessments were levied as of January 1, 2016. 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, 2017 through April 16, 2018.

C. Limestone, Sand, and Gravel Reserves

The limestone, sand, and gravel property tax assessments were levied as of January 1, 2016. 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, 2017 through April 16, 2018.

D. 2016 Unmined Coal Property Taxes

The unmined coal property tax assessments were levied as of January 1, 2016. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was April 26, 2017 through October 16, 2017.

E. Franchise Taxes

The franchise tax assessments were levied by the Department of Revenue for various tax years. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was April 18, 2017 through April 16, 2018.

Note 4. Interest Income

The Daviess County Sheriff earned \$5,590 as interest income on 2017 taxes. The sheriff was in substantial compliance with his statutory responsibilities.

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

The Daviess County Sheriff collected \$129,397 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the sheriff's office.

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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*

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Al Mattingly, Daviess County Judge/Executive
The Honorable Keith Cain, Daviess County Sheriff
Members of the Daviess 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 Daviess County Sheriff's Settlement - 2017 Taxes for the period April 18, 2017 through April 16, 2018 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated May 29, 2019. The Daviess 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 Daviess 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 Daviess County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Daviess 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.

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 2017-001 to be a material weakness.

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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*
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Daviess County Sheriff's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2017-001.


Views of Responsible Official and Planned Corrective Action

The Daviess 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 Daviess 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

May 29, 2019

SCHEDULE OF FINDINGS AND RESPONSES

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DAVIESS COUNTY
KEITH CAIN, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Period April 18, 2017 Through April 16, 2018

FINANCIAL STATEMENT FINDING:

2017-001 The Sheriff Should Require All Tax Collections Be Distributed Monthly

Tax bills that receive penalty waivers are held until the month of April to be distributed to the taxing districts. The tax bills are marked paid and monies are deposited into the sheriff's tax account. These bills are assigned to a special drawer, which is not included on monthly reports until April. The April report is adjusted so that the penalties are not included on the monthly report, but the taxes collected are.

Tax bills that have penalties charged but waived by the sheriff must be accounted for separately so the penalty is not automatically put into the monthly report which would cause money, not collected, to be distributed. Monthly tax reports in which tax bills are collected and held for the waived penalty do not reflect the true amount of taxes collected and therefore the taxing districts do not receive all taxes due them for that period of collection. Additionally, the manipulation of tax reports could lead to fraudulent reporting or material errors if the omission of the special tax drawer was never recorded.

KRS 134.191 requires the sheriff to provide monthly reports that include the total amount of taxes collected and the disposition of such revenue or money collected. The statute provides, "At the time of making the report, the sheriff shall pay to the county treasurer or other officer designated by the governing body of a county, to the department, and to any other district for which the sheriff collects taxes, all funds belonging to the county, the state, or the district that were collected during the period covered by the report." Good internal controls also dictate monthly reports accurately account for all taxes collected for each taxing district for each period of tax collection.

We recommend the sheriff require monthly tax reports include all tax bills and eliminate omission of tax drawers on monthly reports, so all tax funds collected are properly distributed each month. Additionally, we recommend the sheriff discontinue the practice of report modification in order to provide better internal controls over taxes collected.

Sheriff's Response: Beginning with the collection of 2018 tax year, all collections have been distributed monthly.