

**REPORT OF THE AUDIT OF THE
FLOYD COUNTY
SHERIFF'S SETTLEMENT – 2014 UNMINED COAL TAXES**

**For The Period
September 16, 2014 Through July 15, 2015**



**MIKE HARMON
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FLOYD COUNTY SHERIFF'S SETTLEMENT – 2014 UNMINED COAL TAXES

**For The Period
September 16, 2014 Through July 15, 2015**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement – 2014 Unmined Coal Taxes for the Floyd County Sheriff for the period September 16, 2014 through July 15, 2015. We have issued an unmodified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The sheriff collected 2014 unmined coal taxes of \$1,541,424 for the districts, retaining commissions of \$41,992 to operate the sheriff's office. The sheriff distributed 2014 unmined coal taxes of \$1,499,432 to the districts.

Report Comment:

2014-001 The Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of \$955,517 And Enter Into A Written Agreement To Protect Deposits

Deposits:

The sheriff's deposits as of February 27, 2015 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$955,517

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Ben Hale, Floyd County Judge/Executive
Honorable John P. Hunt, Floyd County Sheriff
Members of the Floyd County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the Floyd County Sheriff's Settlement - 2014 Unmined Coal Taxes for the period September 16, 2014 through July 15, 2015 - 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 Floyd 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 Floyd County Sheriff, as of July 15, 2015, or changes in financial position or cash flows thereof for the year then ended.

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 September 16, 2014 through July 15, 2015 of the Floyd 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 September 1, 2016 on our consideration of the Floyd 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 Floyd 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 Floyd County Sheriff's internal control over financial reporting and compliance.

To the People of Kentucky
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Honorable John P. Hunt, Floyd County Sheriff
Members of the Floyd County Fiscal Court

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

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

2014-001 The Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of \$955,517 And Enter Into A Written Agreement To Protect Deposits

Respectfully submitted,

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

Mike Harmon
Auditor of Public Accounts

September 1, 2016

FLOYD COUNTY
JOHN P. HUNT, SHERIFF
SHERIFF'S SETTLEMENT – 2014 UNMINED COAL TAXES

For The Period September 16, 2014 Through July 15, 2015

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Unmined Coal Taxes	\$ 192,867	\$ 447,857	\$ 1,026,200	\$ 210,087
Penalties	100	231	530	108
Gross Chargeable to Sheriff	<u>192,967</u>	<u>448,088</u>	<u>1,026,730</u>	<u>210,195</u>
<u>Credits</u>				
Discounts	3,080	7,155	16,386	3,353
Delinquents:				
Unmined Coal - 2014 Taxes	30,767	71,186	163,726	33,514
Unmined Coal - 2013 Taxes	775	1,764	4,006	844
Total Credits	<u>34,622</u>	<u>80,105</u>	<u>184,118</u>	<u>37,711</u>
Taxes Collected	158,345	367,983	842,612	172,484
Less: Commissions *	<u>6,730</u>	<u>11,079</u>	<u>16,852</u>	<u>7,331</u>
Taxes Due	151,615	356,904	825,760	165,153
Taxes Paid	<u>151,615</u>	<u>356,904</u>	<u>825,760</u>	<u>165,153</u>
Due Districts as of Completion of Audit	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

* Commissions:

4.25% on	\$ 558,490
2% on	\$ 842,612
1% on	\$ 140,322

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

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENT

July 15, 2015

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

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

B. Basis of Accounting

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

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

C. Cash and Investments

KRS 66.480 authorizes the sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Floyd County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were not met, as the sheriff did not have a written agreement with the bank.

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENT
July 15, 2015
(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 Floyd 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. On February 27, 2015, the sheriff's bank balance was exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$955,517

Note 3. Tax Collection Period

The unmined coal tax assessments were levied as of January 1, 2014. Unmined coal taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 22, 2015 through July 15, 2015.

Note 4. Interest Income

The Floyd County Sheriff earned \$150 as interest income on 2014 UMC taxes. The 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. Sheriff's 10% Add-On Fee

The Floyd County Sheriff collected \$9 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the sheriff's office.

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 Ben Hale, Floyd County Judge/Executive
Honorable John P. Hunt, Floyd County Sheriff
Members of the Floyd 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 Floyd County Sheriff's Settlement - 2014 Unmined Coal Taxes for the period September 16, 2014 through July 15, 2015 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated September 1, 2016. The Floyd County Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Floyd 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 Floyd County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Floyd 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 over financial reporting was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



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)

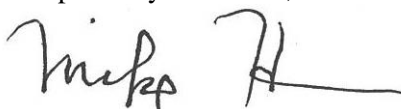
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Floyd 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 comment and recommendation as item 2014-001.

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

September 1, 2016

COMMENT AND RECOMMENDATION

FLOYD COUNTY
JOHN P. HUNT, SHERIFF
COMMENT AND RECOMMENDATION

For The Period September 16, 2014 Through July 15, 2015

STATE LAWS AND REGULATIONS:

2014-001 The Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of \$955,517 And Enter Into A Written Agreement To Protect Deposits

On February 27, 2015, the sheriff's deposits of public funds were uninsured and unsecured in the amount of \$955,517. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$250,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The sheriff should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the sheriff enter into a written agreement with the depository institution to secure the sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (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.

Sheriff's Response: No response.

