

**REPORT OF THE AUDIT OF THE
FLOYD COUNTY
SHERIFF'S SETTLEMENT - 2016 UNMINED COAL TAXES**

**For The Period
August 16, 2016 Through September 18, 2017**



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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 Benjamin L. Hale, Floyd County Judge/Executive
The 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 - 2016 Unmined Coal Taxes for the period August 16, 2016 through September 18, 2017 - 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 Matthew G. Bevin, Governor
 William M. Landrum III, Secretary
 Finance and Administration Cabinet
 The Honorable Benjamin L. Hale, Floyd County Judge/Executive
 The Honorable John P. Hunt, Floyd County Sheriff
 Members of the Floyd 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 Floyd 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 unmined coal taxes charged, credited and paid of the Floyd County Sheriff, for the period August 16, 2016 through September 18, 2017.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the unmined coal taxes charged, credited, and paid for the period August 16, 2016 through September 18, 2017 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 August 8, 2018, 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 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.

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:

2016-001 The Sheriff Transferred The Certifications Of Delinquency For Unmined Coal Tax Bills Prior To The End Of The Collection Period Required By Statute

Respectfully submitted,



Mike Harmon
 Auditor of Public Accounts

August 8, 2018

FLOYD COUNTY
JOHN P. HUNT, SHERIFF
SHERIFF'S SETTLEMENT - 2016 UNMINED COAL TAXES

For The Period August 16, 2016 Through September 18, 2017

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Unmined Coal - 2016 Taxes	\$ 37,169	\$ 80,366	\$ 183,389	\$ 37,476
Unmined Coal - 2015 Taxes	32	106	162	33
Penalties	144	311	712	145
	<hr/>	<hr/>	<hr/>	<hr/>
Gross Chargeable to Sheriff	37,345	80,783	184,263	37,654
	<hr/>	<hr/>	<hr/>	<hr/>
<u>Credits</u>				
Exonerations	2	5	12	2
Discounts	375	814	1,860	379
Delinquents:				
Unmined Coal - 2016 Taxes	12,398	26,807	61,169	12,500
Unmined Coal - 2015 Taxes	21	66	101	21
	<hr/>	<hr/>	<hr/>	<hr/>
Total Credits	12,796	27,692	63,142	12,902
	<hr/>	<hr/>	<hr/>	<hr/>
Taxes Collected	24,549	53,091	121,121	24,752
Less: Commissions *	1,043	1,598	2,422	1,052
	<hr/>	<hr/>	<hr/>	<hr/>
Taxes Due	23,506	51,493	118,699	23,700
Taxes Paid	23,506	51,493	118,699	23,700
	<hr/>	<hr/>	<hr/>	<hr/>
Due Districts				
as of Completion of Audit	\$ 0	\$ 0	\$ 0	\$ 0
	<hr/>	<hr/>	<hr/>	<hr/>

* Commissions:

4.25% on	\$ 82,128
2% on	\$ 121,121
1% on	\$ 20,264

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

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENT

September 18, 2017

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 Floyd 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 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. As of September 18, 2017, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENT
September 18, 2017
(Continued)

Note 3. Tax Collection Period

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 September 18, 2017.

Note 4. Interest Income

The Floyd County Sheriff earned \$16 as interest income on 2016 unmined coal taxes. The sheriff was in substantial compliance with his statutory responsibilities.

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

The Floyd County Sheriff collected \$23 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 Benjamin L. Hale, Floyd County Judge/Executive
The 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 - 2016 Unmined Coal Taxes for the period August 16, 2016 through September 18, 2017 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated August 8, 2018. The Floyd 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 Floyd County Sheriff's internal control over financial reporting (internal control) to determine 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 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. 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 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 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 2016-001.

Views of Responsible Official and Planned Corrective Action

The Floyd 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 Floyd 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

August 8, 2018

SCHEDULE OF FINDINGS AND RESPONSES

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FLOYD COUNTY
JOHN P. HUNT, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Period August 16, 2016 Through September 18, 2017

STATE LAWS AND REGULATIONS:

2016-001 The Sheriff Transferred The Certification Of Delinquency For Unmined Coal Tax Bills Prior To
The End Of The Collection Period Required By Statute

The sheriff transferred unmined coal tax bills as delinquent to the county clerk on September 18, 2017. However, the official receipt for unmined coal property was dated April 26, 2017. The tax collection period for these bills should have been May 1, 2017 through June 30, 2017 without a penalty. The collections may still occur after this date with a penalty for an additional 3 months and 15 days, or October 15, 2017, before being transferred as delinquent.

Due to lack of management's knowledge of the tax collection period requirements per statute, the sheriff turned over the unmined coal property tax bills as delinquent to the county clerk prior to the end of tax collection schedule.

The Floyd County Sheriff is not in compliance with KRS 134.122. The unmined coal property tax bills should have been collected for another 30 days. As a result, tax payers were prematurely subjected to additional fees and sale of the bills to third party purchasers once bills were turned over as delinquent to the county clerk.

KRS 134.122(1)(a) states, "[t]he sheriff shall, on April 15 or three (3) months and fifteen (15) days from the date the taxes were due under an alternative collection schedule, file all tax claims on real and personal property remaining in his or her possession with the county clerk[.]"

We recommend the sheriff's office comply with KRS 134.122(1)(a) for unmined coal property taxes.

Sheriff's Response: We will collect the appropriate time.