

**REPORT OF THE AUDIT OF THE
FORMER FULTON COUNTY
SHERIFF'S SETTLEMENT - 2015 TAXES**

**For The Period
April 17, 2015 Through April 15, 2016**



**MIKE HARMON
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EXECUTIVE SUMMARY
AUDIT OF THE
FORMER FULTON COUNTY
SHERIFF'S SETTLEMENT - 2015 TAXES

For The Period
April 17, 2015 Through April 15, 2016

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2015 Taxes for the former Fulton County Sheriff for the period April 17, 2015 through April 15, 2016. 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 former sheriff collected 2015 taxes of \$2,815,106 for the districts, retaining commissions of \$108,606 to operate the sheriff's office. The former sheriff distributed 2015 taxes of \$2,705,778 to the districts. Refunds of \$3,446 are due to the former sheriff from the taxing districts.

Report Comments:

2015-001 The Former Sheriff's Office Lacked Adequate Segregation Of Duties Over Tax Collections

Deposits:

The former sheriff's deposits were insured and collateralized by bank securities.

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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 Jim Martin, Fulton County Judge/Executive
Honorable Robert Hopper, Former Fulton County Sheriff
Honorable Robert Woods, Fulton County Sheriff
Members of the Fulton County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the former Fulton County Sheriff's Settlement - 2015 Taxes for the period April 17, 2015 through April 15, 2016 - 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

Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
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Honorable Robert Hopper, Former Fulton County Sheriff
Honorable Robert Woods, Fulton County Sheriff
Members of the Fulton 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 former Fulton 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 former Fulton Sheriff, for the period April 17, 2015 through April 15, 2016.

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, 2015 through April 15, 2016 of the former Fulton 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 3, 2017, on our consideration of the former Fulton 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 former Fulton County Sheriff's internal control over financial reporting and compliance.

To the People of Kentucky

Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

Honorable Jim Martin, Fulton County Judge/Executive

Honorable Robert Hopper, Former Fulton County Sheriff

Honorable Robert Woods, Fulton County Sheriff

Members of the Fulton 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:

2015-001 The Former Sheriff's Office Lacked Adequate Segregation Of Duties Over Tax Collections

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

May 3, 2017

FULTON COUNTY
ROBERT HOPPER, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2015 TAXES

For The Period April 17, 2015 Through April 15, 2016

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 265,966	\$ 450,943	\$ 1,108,067	\$ 233,438
Tangible Personal Property	55,599	83,446	253,118	170,601
Fire Protection	515			
Increases Through Exonerations	56	90	281	49
Franchise Taxes	35,438	54,600	153,141	
Additional Billings	192	383	669	168
Bank Franchises	39,513			
Penalties	1,522	2,476	6,462	1,481
Adjusted to Sheriff's Receipt	(1)	6		(3)
Gross Chargeable to Sheriff	<u>398,800</u>	<u>591,944</u>	<u>1,521,738</u>	<u>405,734</u>
 <u>Credits</u>				
Exonerations	1,158	1,929	4,392	1,016
Discounts	5,463	7,738	19,615	6,046
Delinquents:				
Real Estate	5,783	9,475	24,361	5,075
Tangible Personal Property	114	171	648	150
Unbilled Franchise Taxes	6,819	1,345		
Uncollected Franchise Taxes	294	440	1,078	
Total Credits	<u>19,631</u>	<u>21,098</u>	<u>50,094</u>	<u>12,287</u>
Taxes Collected	379,169	570,846	1,471,644	393,447
Less: Commissions *	<u>16,115</u>	<u>24,261</u>	<u>51,508</u>	<u>16,722</u>
Taxes Due	363,054	546,585	1,420,136	376,725
Taxes Paid	363,059	546,491	1,420,013	376,215
Refunds (Current and Prior Year)	<u>561</u>	<u>909</u>	<u>2,188</u>	<u>510</u>
Refunds Due Sheriff as of Completion of Audit	<u>\$ (566)</u>	<u>\$ (815)</u>	<u>\$ (2,065)</u>	<u>\$ 0</u>

**

* and ** See next page.

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

FULTON COUNTY
ROBERT HOPPER, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2015 TAXES
For The Period April 17, 2015 Through April 15, 2016
(Continued)

* Commissions:

4.25% on \$ 1,343,464

3.5% on \$ 1,471,643

** Special Taxing Districts:

Health District \$ (172)

Extension District (231)

Library District (331)

Mental Health District (81)

(Refunds Due Sheriff) \$ (815)

FULTON COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2016

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 former Fulton 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.

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 former Fulton County Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 66.480(1)(d) and KRS 41.240. As of April 15, 2016, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

FULTON COUNTY
 NOTES TO FINANCIAL STATEMENT
 April 15, 2016
 (Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2015. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2016. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 29, 2015 through April 15, 2016.

B. Franchise Taxes

The franchise tax assessments were levied by the Kentucky 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, 2015 through April 15, 2016.

Note 4. Interest Income

The former Fulton County Sheriff earned \$141 as interest income on 2015 taxes. The former sheriff was in substantial compliance with his statutory responsibility regarding interest.

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

The former Fulton County Sheriff collected \$11,058 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the sheriff's office.

Note 6. Unrefundable Duplicate Payments And Unexplained Receipts

The former sheriff deposited unrefundable duplicate payments and unexplained receipts in a non-interest-bearing account. The former sheriff's escrowed amounts were as follows:

2011	\$152
2014	\$155

KRS 393.090 states that after three years, if the funds have not been claimed, they are presumed abandoned. Abandoned funds are required to be sent to the Kentucky State Treasurer pursuant to KRS 393.110 and its accompanying regulations.

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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*



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jim Martin, Fulton County Judge/Executive
Honorable Robert Hopper, Former Fulton County Sheriff
Honorable Robert Woods, Fulton County Sheriff
Members of the Fulton 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 former Fulton County Sheriff's Settlement - 2015 Taxes for the period April 17, 2015 through April 15, 2016 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated May 3, 2017. The former Fulton 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 former Fulton 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 former Fulton County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Fulton County Sheriff's internal control over financial reporting.

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.



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)

However, material weaknesses may exist that have not been identified. We identified a certain deficiency in internal control, which is described in the accompanying comment and recommendation as item 2015-001 that we consider to be a significant deficiency.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Fulton 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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Sheriff's Response to Finding

The former Fulton County Sheriff's response to the finding identified in our audit is described in the accompanying comment and recommendation. The 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 3, 2017

COMMENT AND RECOMMENDATION

FULTON COUNTY
ROBERT HOPPER, FORMER SHERIFF
COMMENT AND RECOMMENDATION

For The Period April 17, 2015 Through April 15, 2016

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2015-001 The Former Sheriff's Office Lacked Adequate Segregation Of Duties Over Tax Collections

A review of internal controls at the former Fulton County Sheriff's office revealed an inadequate segregation of duties over tax collections. This significant deficiency was present because one employee's duties included processing tax payments, preparing daily deposits, recording tax transactions, preparing monthly tax reports, disbursing monthly tax distributions and completing monthly bank reconciliations with some oversight. By not properly segregating the accounting functions to account for tax collections, the risk of misappropriation of assets and inaccurate financial reporting increases.

Good internal controls dictate that certain accounting functions should be performed by more than one employee to provide reasonable assurance the financial activity is properly accounted for and accurately reported.

In order to achieve a proper segregation of duties, the former sheriff should have assigned different employees to be responsible for preparing daily deposits, disbursing tax collections, recording tax transactions and monthly bank reconciliations. If it is not feasible to segregate these duties, we recommend the sheriff's office implement and document compensating controls. All compensating controls should be documented with the date and initials of the employee performing the review.

Response of Fulton County Sheriff Robert Woods: We have implemented several procedures to eliminate these deficiencies in the future.

