

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

**For The Period  
March 1, 2019 Through April 15, 2019**



**MIKE HARMON  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**209 ST. CLAIR STREET  
FRANKFORT, KY 40601-1817  
TELEPHONE 502.564.5841  
FACSIMILE 502.564.2912**



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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 Jesse Perry, Graves County Judge/Executive  
The Honorable Jon Hayden, Graves County Sheriff  
Members of the Graves County Fiscal Court

Independent Auditor's Report

**Report on the Financial Statement**

We have audited the Graves County Sheriff's Settlement - 2018 Taxes for the period March 1, 2019 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 Jesse Perry, Graves County Judge/Executive  
The Honorable Jon Hayden, Graves County Sheriff  
Members of the Graves 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 Graves 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 Graves County Sheriff, for the period March 1, 2019 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 March 1, 2019 through April 15, 2019 of the Graves 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 November 26, 2019, on our consideration of the Graves 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 Graves 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 Jesse Perry, Graves County Judge/Executive  
The Honorable Jon Hayden, Graves County Sheriff  
Members of the Graves 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 comment:

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

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

November 26, 2019

GRAVES COUNTY  
JON HAYDEN, SHERIFF  
SHERIFF'S SETTLEMENT - 2018 TAXES

For The Period March 1, 2019 Through April 15, 2019

	Special Taxing			
	County	Districts	School	State
<u>Transfers From Outgoing Sheriff</u>				
Real Estate	\$ 73,644	\$ 164,305	\$ 269,065	\$ 93,591
Tangible	3,092	5,843	11,209	9,564
Omitted	500	786	2,259	635
Additional Bills	106	247	227	135
Franchise Taxes	163	312	656	
Total Transfers From Outgoing Sheriff	<u>77,505</u>	<u>171,493</u>	<u>283,416</u>	<u>103,925</u>
<u>Other Taxes &amp; Charges</u>				
Franchise Taxes	100,952	206,008	393,448	
Additional Billings	92	232	414	116
Penalties	5,210	10,774	19,043	6,900
Gross Chargeable to Sheriff	<u>183,759</u>	<u>388,507</u>	<u>696,321</u>	<u>110,941</u>
<u>Credits</u>				
Exonerations	408	758	1,844	519
Discounts	775	1,461	2,641	17
Delinquent Real Estate	22,646	54,934	80,570	28,760
Delinquent Tangible	1,753	3,314	7,024	5,006
Franchise Taxes - Delinquent	5,014	9,495	12,964	
Total Credits	<u>30,596</u>	<u>69,962</u>	<u>105,043</u>	<u>34,302</u>
Taxes Collected	153,163	318,545	591,278	76,639
Less: Sheriff's Commissions*	6,507	13,398	17,732	3,251
Taxes Due Districts	<u>146,656</u>	<u>305,147</u>	<u>573,546</u>	<u>73,388</u>
Taxes Paid	146,356	305,508	572,905	72,940
Refunds (Current and Prior Year)	242	490	769	307
Taxes Due Districts (Refund Due Sheriff)	<u>\$ 58</u>	<u>\$ (851)</u>	<u>\$ (128)</u>	<u>\$ 141</u>

\*\*

\* and \*\* See next page.

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



GRAVES COUNTY  
 JON HAYDEN, SHERIFF  
 SHERIFF'S SETTLEMENT - 2018 TAXES  
 For The Period March 1, 2019 Through April 15, 2019  
 (Continued)

\* Commissions:

4.25% on	\$	519,936
4% on	\$	25,585
3% on	\$	591,278
1% on	\$	2,826

\*\* Special Taxing Districts:

Library District	\$	(13)
Health District		(536)
J. U. Kevil District		(5)
Extension District		(114)
Watershed #1 District		(68)
Cuba Volunteer Fire Department		(38)
Melber Volunteer Fire Department		(38)
Wingo Volunteer Fire Department		(39)

Due Districts or

(Refunds Due Sheriff)	\$	<u>(851)</u>
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GRAVES 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 Graves 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 Graves 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.

GRAVES 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 March 1, 2019 through April 15, 2019. The former Graves County Sheriff, Dewayne Redmon passed away on February 16, 2019. Sheriff Jon Hayden was appointed on February 28, 2019 and began collecting taxes on March 1, 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 March 1, 2019 through April 15, 2019. Limestone, sand, and gravel property taxes are included in the "Omitted" line on the financial statement.

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 March 1, 2019 through April 15, 2019.

Note 4. Interest Income

The Graves County Sheriff earned \$31 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 Graves County Sheriff collected \$46,093 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's escrowed beginning balance was \$278 that was transferred from the former sheriff. This account did not have any receipts or disbursements during the audit period, therefore, the ending balance as of April 15, 2019, was \$278. These funds are 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  
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Jesse Perry, Graves County Judge/Executive  
The Honorable Jon Hayden, Graves County Sheriff  
Members of the Graves 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 Graves County Sheriff's Settlement - 2018 Taxes for the period March 1, 2019 through April 15, 2019 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated November 26, 2019. The Graves 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 Graves 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 Graves County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Graves 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 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)

**Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the Graves 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 Graves 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 Graves 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

November 26, 2019



## SCHEDULE OF FINDINGS AND RESPONSES

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GRAVES COUNTY  
JON HAYDEN, SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES

For The Period March 1, 2019 Through April 15, 2019

INTERNAL CONTROL - MATERIAL WEAKNESS:

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

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This is a repeat finding and was included in the prior year audit report as finding 2017-001. The Graves County Sheriff's office lacks adequate segregation of duties over the accounting and reporting functions of the sheriff's office. The sheriff's bookkeeper collects cash from customers, prepares monthly reports, prepares deposits, posts to the receipts and disbursements ledgers, and performs the monthly bank reconciliations.

Rather than segregate the accounting functions of the office, the sheriff placed reliance on his trust in the bookkeeper. A lack of segregation of duties or strong oversight increases the risk of undetected errors and fraud.

Good internal controls dictate that segregation of duties over these tasks, or the implementation of compensating controls, is essential for providing protection from asset misappropriation and helping to prevent 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 undetected misstatements, we recommend the Graves County Sheriff segregate the duties noted above by allowing different deputies to perform them. For those duties that cannot be segregated due to a limited number of staff, strong management oversight by the sheriff or designee could be a cost effective alternative. This oversight should include reviewing the daily deposits, comparing the daily checkout sheets to the monthly reports, and reviewing the monthly bank reconciliations. Documentation, such as the sheriff's or designee's initials or signature, should be provided on those items that are reviewed.

*Sheriff's Response: The sheriff and bookkeeper will work together on trying to remedy this issue which is caused by the lack of personnel. Review accompanied by initials of daily deposits, check out sheets and monthly reports, and bank reconciliations.*