

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

**For The Period
April 16, 2015 Through April 15, 2016**



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

For The Period
April 16, 2015 Through April 15, 2016

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2015 Taxes for the Green County Sheriff for the period April 16, 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 sheriff collected 2015 taxes of \$3,800,786 for the districts, retaining commissions of \$155,805 to operate the sheriff's office. The sheriff distributed 2015 taxes of \$3,648,021 to the districts. Refunds of \$4,294 are due to the sheriff from the taxing districts.

Report Comments:

- 2015-001 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts, Disbursements, And Reconciliations
2015-002 The Sheriff Did Not Deposit Funds Intact Daily

Deposits:

The sheriff's deposits as of December 1, 2015 and February 2, 2016 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured on December 1, 2015 \$264,008
- Uncollateralized and Uninsured on February 2, 2016 \$40,553

The sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement at one bank, but the bank did not adequately collateralize the sheriff's deposits in accordance with the security agreement. At the other bank, the sheriff's deposits were covered by FDIC insurance but there was not a properly executed collateral security agreement.

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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 John H. Frank, Green County Judge/Executive
Honorable Robert Beard, Green County Sheriff
Members of the Green County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the Green County Sheriff's Settlement - 2015 Taxes for the period April 16, 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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Members of the Green 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 Green 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 Green County Sheriff, for the period April 16, 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 16, 2015 through April 15, 2016 of the Green 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 December 22, 2016 on our consideration of the Green 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 Green 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 John H. Frank, Green County Judge/Executive
Honorable Robert Beard, Green County Sheriff
Members of the Green County Fiscal Court

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

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

- 2015-001 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts, Disbursements, And Reconciliations
- 2015-002 The Sheriff Did Not Deposit Funds Intact Daily

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon". The signature is written in a cursive style with a long horizontal stroke at the end.

Mike Harmon
Auditor of Public Accounts

December 22, 2016

GREEN COUNTY
ROBERT BEARD, SHERIFF
SHERIFF'S SETTLEMENT - 2015 TAXES

For The Period April 16, 2015 Through April 15, 2016

<u>Charges</u>	Special			
	<u>County Taxes</u>	<u>Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 339,192	\$ 849,564	\$ 1,604,027	\$ 386,742
Tangible Personal Property	14,945	52,868	70,676	41,483
Fire Protection	783			
Increases Through Exonerations	117	294	556	134
Franchise Taxes	63,038	196,646	297,110	
Additional Billings	365	913	1,724	416
Oil Property Taxes	1,595	3,995	7,544	1,819
Limestone, Sand and Gravel Reserve	141	352	665	160
Penalties	1,842	4,626	8,692	2,120
Adjusted to Sheriff's Receipt	333	(139)	(227)	(110)
Gross Chargeable to Sheriff	<u>422,351</u>	<u>1,109,119</u>	<u>1,990,767</u>	<u>432,764</u>
 <u>Credits</u>				
Exonerations	1,100	2,756	5,203	1,255
Discounts	5,625	14,344	26,552	6,802
Delinquents:				
Real Estate	9,571	23,929	45,180	10,893
Tangible Personal Property	62	221	295	388
Franchise Taxes	4	15	20	
Total Credits	<u>16,362</u>	<u>41,265</u>	<u>77,250</u>	<u>19,338</u>
Taxes Collected	405,989	1,067,854	1,913,517	413,426
Less: Commissions *	<u>17,255</u>	<u>44,438</u>	<u>76,541</u>	<u>17,571</u>
Taxes Due	388,734	1,023,416	1,836,976	395,855
Taxes Paid	389,063	1,024,810	1,838,447	395,701
Refunds (Current and Prior Year)	<u>135</u>	<u>337</u>	<u>628</u>	<u>154</u>
(Refunds Due Sheriff) as of Completion of Audit	<u>\$ (464)</u>	<u>\$ (1,731)</u>	<u>\$ (2,099)</u>	<u>\$ 0</u>

**

* and ** See next page.

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

GREEN COUNTY
ROBERT BEARD, SHERIFF
SHERIFF'S SETTLEMENT - 2015 TAXES
For The Period April 16, 2015 Through April 15, 2016
(Continued)

4.25% on \$ 1,508,902
4% on \$ 2,291,884

** Special Taxing Districts:

Library District	\$ (846)
Health District	(148)
Extension District	(302)
Ambulance District	<u>(435)</u>

(Refunds Due Sheriff)	<u>\$ (1,731)</u>
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GREEN 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 Green 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 one bank.

GREEN COUNTY
NOTES TO FINANCIAL STATEMENT
April 15, 2016
(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 Green 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, 2016, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, on December 1, 2015 and February 2, 2016, public funds were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured on December 1, 2015 \$264,008
- Uncollateralized and Uninsured on February 2, 2016 \$40,553

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 October 13, 2015 through April 15, 2016.

B. Oil and Limestone, Sand and Gravel Property Taxes

The real and tangible property tax assessments were levied as of January 1, 2015. Property taxes were billed to the finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 13, 2015 through April 15, 2016.

Note 4. Interest Income

The Green County Sheriff earned \$163 as interest income on 2015 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 Green County Sheriff collected \$13,555 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*



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable John H. Frank, Green County Judge/Executive
Honorable Robert Beard, Green County Sheriff
Members of the Green 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 Green County Sheriff's Settlement - 2015 Taxes for the period April 16, 2015 through April 15, 2016 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated December 22, 2016. The Green 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 Green 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 Green County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Green County Sheriff's internal control over financial reporting.

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 comments and recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 deficiencies described in the accompanying comments and recommendations as items 2015-001 and 2015-002 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)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Green 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 comments and recommendations as item 2015-002.

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,

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Mike Harmon
Auditor of Public Accounts

December 22, 2016

COMMENTS AND RECOMMENDATIONS

GREEN COUNTY
ROBERT BEARD, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period April 16, 2015 Through April 15, 2016

FINANCIAL STATEMENT FINDINGS:

2015-001 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts, Disbursements, And Reconciliations

The sheriff's bookkeeper collects payments from customers and prepares the daily tax collection journals, the monthly tax reports, the deposits, the receipts and disbursements ledgers, and the monthly bank reconciliations. The bookkeeper also takes the deposits to the bank, prepares checks for payment to districts, and signs the checks. No documented oversight was performed over these functions.

The lack of segregation occurs because the sheriff failed to segregate incompatible duties or implement oversight duties when duties cannot be segregated. A lack of segregation of duties increases the risk of misappropriation of assets, errors, and inaccurate financial reporting. Segregation of duties over collecting taxes, preparing daily deposits, preparing monthly reports, and preparing disbursements is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

The sheriff should separate the duties of collecting taxes, preparing daily deposits, preparing and mailing disbursements, preparing bank reconciliations, preparing receipts and disbursements ledgers, and preparing financial reports. If these duties cannot be segregated due to a limited number of staff or a limited budget, then strong oversight should be provided to the employee responsible for these duties. The sheriff should document these compensating controls by initialing the source documents and requiring two signatures on checks with one being the sheriff.

Sheriff's Response: No response.

2015-002 The Sheriff Did Not Deposit Funds Intact Daily

The sheriff did not prepare and print daily tax collection reports and make deposits daily. Based on the bank statement, only three deposits were made during the month of February 2016. On the date tested, the tax collection report included five days of tax receipts. Tax receipts are not entered into the tax software at the time of collection. Deputies maintain copies of paid tax bills and payment for the bookkeeper to enter when he prepares the deposit. This occurred because proper controls and oversight over the deposit process were not put in place by the sheriff. Failure to deposit taxes collected intact daily is a non-compliance with the uniform system of accounts required by the State Local Finance Officer and also increases the risk of fraud and misappropriation of cash. KRS 68.210 states the State Local Finance Officer "shall prescribe and shall install, by July 1, 1985, a system of uniform accounts for all counties and county officials." The *County Budget Preparation and State Local Finance Officer Policy Manual*, under "Handling Public Funds," dictates a minimum requirement of "Daily deposits intact into a federally insured banking institution."

We recommend the sheriff implement procedures to ensure tax receipts are entered into the tax software at the time of collection. The sheriff should then prepare daily collection reports and deposit these receipts intact daily.

Sheriff's Response: No response.

