

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

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



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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 Joe Choate, Hart County Judge/Executive
The Honorable Jeff Wilson, Hart County Sheriff
Members of the Hart County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the Hart County Sheriff's Settlement - 2018 Taxes for the period January 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
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The Honorable Jeff Wilson, Hart County Sheriff
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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 Hart 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 Hart County Sheriff, for the period January 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 January 1, 2019 through April 15, 2019 of the Hart 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 April 20, 2020, on our consideration of the Hart 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 Hart 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:

2018-001 The Hart County Sheriff’s Office Did Not Deposit Collections Daily

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

April 20, 2020

HART COUNTY
JEFF WILSON, SHERIFF
SHERIFF'S SETTLEMENT - 2018 TAXES

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

	Special Taxing			
	County	Districts	School	State
<u>Transfers From Outgoing Sheriff</u>				
Real Estate	\$ 102,465	\$ 233,448	\$ 615,929	\$ 119,051
Tangible	1,841	3,719	10,327	7,922
Fire Protection	231			
Total Transfers From Outgoing Sheriff	<u>104,537</u>	<u>237,167</u>	<u>626,256</u>	<u>126,973</u>
<u>Other Taxes & Charges</u>				
Franchise Taxes	37,007	70,606	201,365	
Oil Property Taxes	755	1,215	4,285	877
Limestone, Sand, and Gravel Reserves	212	340	1,438	245
Penalties	4,479	10,544	26,541	5,357
Gross Chargeable to Sheriff	146,990	319,872	859,885	133,452
<u>Credits</u>				
Exonerations	163	267	947	193
Discounts	68	131	350	21
Delinquent Real Estate	13,607	36,861	81,505	15,770
Delinquent Tangible	137	276	760	319
Delinquent Intangible	90	215	510	104
Total Credits	14,065	37,750	84,072	16,407
Taxes Collected	132,924	282,122	775,813	117,046
Less: Sheriff's Commissions*	5,649	11,712	24,078	4,974
Taxes Due Districts	127,275	270,410	751,735	112,072
Taxes Paid	126,882	269,663	749,620	111,608
Refunds (Current and Prior Year)	393	747	2,140	464
Taxes Due Districts (Refund Due Sheriff)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (25)</u>	<u>\$ 0</u>

**

* and ** See next page.

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

HART COUNTY
 JEFF WILSON, SHERIFF
 SHERIFF'S SETTLEMENT - 2018 TAXES
 For The Period January 1, 2019 Through April 15, 2019
 (Continued)

* Commissions:

4.25% on	\$	420,984
4% on	\$	111,108
3.5% on	\$	447,870
3% on	\$	152,704
2.25% on	\$	126,780
2% on	\$	48,459

** School Taxing Districts

County School District	\$	<u>(25)</u>
Refund Due Sheriff	\$	<u>(25)</u>

HART 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 Hart 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 Hart 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.

HART 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 January 1, 2019 through April 15, 2019.

B. Oil Property Taxes

The oil 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 January 17, 2019 through July 18, 2019.

C. 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 January 17, 2019 through July 18, 2019.

D. 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 January 1, 2019 through April 30, 2019.

Note 4. Interest Income

The Hart County Sheriff earned \$198 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 Hart County Sheriff collected \$37,610 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*

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Joe Choate, Hart County Judge/Executive
The Honorable Jeff Wilson, Hart County Sheriff
Members of the Hart 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 Hart County Sheriff's Settlement - 2018 Taxes for the period January 1, 2019 through April 15, 2019 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated April 20, 2020. The Hart 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 Hart 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 Hart County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hart 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 Hart 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 2018-001.

Views of Responsible Official and Planned Corrective Action

The Hart 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 Hart 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

April 20, 2020

SCHEDULE OF FINDINGS AND RESPONSES

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HART COUNTY
JEFF WILSON, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

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

FINANCIAL STATEMENT FINDING:

2018-001 The Hart County Sheriff's Office Did Not Deposit Collections Daily

During the 2018 tax year, the Hart County Sheriff's Office did not deposit receipts daily as indicated by five tested franchise tax deposits taking more than ten business days to clear the bank from the date of the taxpayer issuance. The sheriff did not maintain documentation of the date of receipt of franchise tax payments, and the sheriff batch deposited all franchise payments once per month for the audit period January 1, 2019 to April 15, 2019. The sum of deposits tested not made daily was \$241,346, which exceeds materiality.

This material deficiency in internal control over the deposit process was allowed to occur because proper controls and oversight over the deposit process was not put in place by the sheriff. The sheriff did not mark the date bills were paid nor retain proof of receipt of payments, such as post-marked envelopes, and only made once monthly deposits for franchise tax payments.

Failure to deposit taxes collected intact or delaying depositing taxes collected increases the risk of fraud and misappropriation of cash. Proper internal controls over the deposit process are important to ensure deposits are made intact daily. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The minimum requirement for handling public funds as stated in the *County Budget Preparation and State Local Finance Officer Policy Manual* require that deposits be made intact daily into a federally insured banking institution. The sheriff should implement controls and provide appropriate oversight over the deposit process in his office to assure all deposits are made intact daily to the proper account.

We recommend deposits be made intact daily to the correct accounts. We also recommend the sheriff document the date of receipt of all tax payments received through the mail.

Sheriff's Response: In reference to the Sheriff's Office not making deposits indicated by five tested Franchise tax deposits. During the month of January 2019, the deposits were not made on the day that the checks, thus creating a material deficiency and proper control over the deposit process.

Since that time, The Sheriff's Office has become more familiar with the process involved with the Franchise Account. The deposits are being made on the same date as receipt of payment. The deposits are being and payments are being marked as received, dated and marked paid.

Proper internal controls have been established to correct this issue from occurring in the future.