

**REPORT OF THE AUDIT OF THE
HENDERSON COUNTY
SHERIFF'S SETTLEMENT – 2015 SCHOOL TAXES
SECOND BILLING**

**For The Period
April 18, 2015 Through May 18, 2016**



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EXECUTIVE SUMMARY

AUDIT OF THE HENDERSON COUNTY SHERIFF'S SETTLEMENT – 2015 SCHOOL TAXES SECOND BILLING

**For The Period
April 18, 2015 Through May 18, 2016**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2015 School Taxes Second Billing for the Henderson County Sheriff for the period April 18, 2015 through May 18, 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 school taxes of \$13,191,708 for the districts, retaining commissions of \$263,834 to operate the sheriff's office. The sheriff distributed 2015 school taxes of \$12,891,241 to the school district.

Report Comments:

2015-001 Deposits Were Not Batched And Made Daily

Deposits:

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

CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT 1

SHERIFF’S SETTLEMENT - 2015 SCHOOL TAXES SECOND BILLING.....4

NOTES TO FINANCIAL STATEMENT5

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*.....9

COMMENT AND RECOMMENDATION 13



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 Brad Schneider, Henderson County Judge/Executive
Honorable Ed Brady, Henderson County Sheriff
Members of the Henderson County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the Henderson County Sheriff's Settlement - 2015 School Taxes Second Billing for the period April 18, 2015 through May 18, 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
Honorable Brad Schneider, Henderson County Judge/Executive
Honorable Ed Brady, Henderson County Sheriff
Members of the Henderson 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 Henderson 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 school taxes charged, credited and paid of the Henderson County Sheriff, for the period April 18, 2015 through May 18, 2016.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the school taxes charged, credited, and paid for the period April 18, 2015 through May 18, 2016 of the Henderson 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 February 20, 2017 on our consideration of the Henderson 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 Henderson 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 Brad Schneider, Henderson County Judge/Executive

Honorable Ed Brady, Henderson County Sheriff

Members of the Henderson 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 Deposits Were Not Batched And Made Daily

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal stroke extending to the right.

Mike Harmon
Auditor of Public Accounts

February 20, 2017

HENDERSON COUNTY
ED BRADY, SHERIFF
SHERIFF'S SETTLEMENT - 2015 SCHOOL TAXES SECOND BILLING

For The Period April 18, 2015 Through May 18, 2016

<u>Charges</u>	<u>School Taxes</u>
Real Estate	\$ 12,211,970
Tangible Personal Property	1,482,963
Increases Through Exonerations	8,482
Additional Billings	148
Minimum Bills Collected	40
Penalties	41,315
Adjusted to Sheriff's Receipt	<u>(5,653)</u>
Gross Chargeable to Sheriff	<u>13,739,265</u>
 <u>Credits</u>	
Exonerations	18,418
Discounts	238,797
Delinquents:	
Real Estate	247,647
Tangible Personal Property	42,588
Additional Billings	<u>107</u>
Total Credits	<u>547,557</u>
Taxes Collected	13,191,708
Less: Commissions *	<u>263,834</u>
Taxes Due	12,927,874
Taxes Paid	12,891,241
Refunds (Current and Prior Year)	<u>36,633</u>
Due District or (Refund Due Sheriff) as of Completion of Audit	<u>\$ 0</u>

* Commissions:
2% on \$ 13,191,708

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

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENT

May 18, 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 Henderson 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 Henderson 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 May 18, 2016, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENT
May 18, 2016
(Continued)

Note 3. School Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2015. Property taxes for the school district 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 November 19, 2015 through May 18, 2016.

Note 4. Second Billing School Taxes

During the 2015 tax year, Henderson County passed a nickel tax to be added to the property tax bills for the school district. Because the vote for this tax did not occur until November 2015, school taxes were not included on regular tax bills prepared in October 2015. When the tax passed in November, a separate official receipt and separate tax bills were prepared for the school property taxes pursuant to KRS 132.017(4). Therefore, the school property taxes have a different tax collection period than the other property taxes and are shown separately on this settlement.

Note 5. Interest Income

The Henderson County Sheriff earned \$11,661 as interest income on regular and second billing 2015 taxes. The sheriff was in substantial compliance with his statutory responsibility regarding interest.

Note 6. Sheriff's 10% Add-On Fee

The Henderson County Sheriff collected \$56,593 of 10% add-on fees allowed by KRS 134.119(7) on regular and second billing taxes. 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*



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Brad Schneider, Henderson County Judge/Executive
Honorable Ed Brady, Henderson County Sheriff
Members of the Henderson 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 Henderson County Sheriff's Settlement - 2015 School Taxes Second Billing for the period April 18, 2015 through May 18, 2016 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated February 20, 2017. The Henderson 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 Henderson 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 Henderson County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Henderson 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 Henderson 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 one instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying comment and recommendation as item 2015-001.

Sheriff's Response to Finding

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

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

February 20, 2017

COMMENT AND RECOMMENDATION

HENDERSON COUNTY
ED BRADY, SHERIFF
COMMENT AND RECOMMENDATION

For The Period May 19, 2015 Through May 18, 2016

2015-001 Deposits Were Not Batched And Made Daily

Deposits for the Henderson County Sheriff's office were not batched and deposited daily. Auditors tested deposits for the time period of January 15, 2016 through January 29, 2016. During this two week period, only two property tax and two oil tax deposits were made by the sheriff's office. During the slow collection period, deposits are only made one to two times per week. By not batching receipts and making deposits daily, the opportunity for misappropriation or theft of receipts is increased. KRS 68.210 gives the State Local Finance Officer the authority to prescribe minimum standards for fee officials. The minimum requirements for handling public funds as stated in the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* requires the sheriff to perform daily check-out procedures and make daily deposits intact into a federally insured banking institution. By following these procedures, the sheriff limits the opportunity for misappropriation or theft of receipts. We recommend the sheriff deposit receipts daily as required by the State Local Finance Officer.

Sheriff's Response: The Henderson County Sheriff's Office has implemented daily deposits and is currently and will continue to make daily deposits

