

**REPORT OF THE AUDIT OF THE
LAWRENCE COUNTY
SHERIFF'S SETTLEMENT – 2014 GAS AND OIL TAXES**

**For The Period
July 01, 2014 Through June 30, 2015**



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EXECUTIVE SUMMARY

AUDIT OF THE LAWRENCE COUNTY SHERIFF'S SETTLEMENT – 2014 OIL AND GAS TAXES

**For The Period
July 01, 2014 Through June 30, 2015**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2014 Oil and Gas Taxes for the Lawrence County Sheriff for the period July 01, 2014 through June 30, 2015. 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 2014 oil and gas taxes of \$425,598 for the districts, retaining commissions of \$15,587 to operate the sheriff's office. The sheriff distributed 2014 oil and gas taxes of \$408,344 to the districts. Taxes of \$1,667 are due to the districts from the sheriff.

Report Comments:

- 2014-001 Receipts Were Not Deposited Daily
- 2014-002 The Sheriff Did Not Remit Payments To Taxing Districts Timely
- 2014-003 The Sheriff Did Not Remit Interest Payments To The School And Fee Account Monthly
- 2014-004 The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The sheriff's deposits as of November 7, 2014 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$345,100

The sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the sheriff's deposits in accordance with the 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 Osborne, Lawrence County Judge/Executive
Honorable Garrett Roberts, Lawrence County Sheriff
Members of the Lawrence County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the Lawrence County Sheriff's Settlement - 2014 Oil and Gas Taxes for the period July 01, 2014 through June 30, 2015 - 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.



To the People of Kentucky
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Auditor's Responsibility (Continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 Lawrence County Sheriff on the basis of the 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 financial position of each fund of the Lawrence County Sheriff, as of June 30, 2015, or changes in financial position or cash flows thereof for the year then ended.

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 July 01, 2014 through June 30, 2015 of the Lawrence 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 July 12, 2016 on our consideration of the Lawrence 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 effectiveness of the Lawrence County Sheriff's 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 Lawrence 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 Osborne, Lawrence County Judge/Executive

Honorable Garrett Roberts, Lawrence County Sheriff

Members of the Lawrence 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 discuss the following report comments:

- 2014-001 Receipts Were Not Deposited Daily
- 2014-002 The Sheriff Did Not Remit Payments To Taxing Districts Timely
- 2014-003 The Sheriff Did Not Remit Interest Payments To The School And Fee Account Monthly
- 2014-004 The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,



Mike Harmon

Auditor of Public Accounts

July 12, 2016

LAWRENCE COUNTY
GARRETT ROBERTS, SHERIFF
SHERIFF'S SETTLEMENT – 2014 OIL AND GAS TAXES

For The Period July 01, 2014 Through June 30, 2015

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Oil Property - 2014 Taxes	\$ 47,291	\$ 81,031	\$ 143,810	\$ 33,740
Gas Property - 2014 Taxes	20,603	35,303	62,653	14,699
Penalties	28	48	86	20
Gross Chargeable to Sheriff	<u>67,922</u>	<u>116,382</u>	<u>206,549</u>	<u>48,459</u>
 <u>Credits</u>				
Discounts	1,173	2,010	3,567	837
Delinquent Real Estate	947	1,623	2,881	676
Total Credits	<u>2,120</u>	<u>3,633</u>	<u>6,448</u>	<u>1,513</u>
Taxes Collected	65,802	112,749	200,101	46,946
Less: Commissions *	<u>2,797</u>	<u>4,792</u>	<u>6,003</u>	<u>1,995</u>
Taxes Due	63,005	107,957	194,098	44,951
Taxes Paid	<u>62,749</u>	<u>107,518</u>	<u>193,308</u>	<u>44,769</u>
Due Districts as of Completion of Audit	<u>\$ 256</u>	<u>\$ 439</u>	<u>\$ 790</u>	<u>\$ 182</u>

**

* Commissions:

4.25% on \$ 225,497

3% on \$ 200,101

** Special Taxing Districts:

Library District	\$ 249
Health District	60
Extension District	99
Soil Conservation District	<u>31</u>

Due Districts \$ 439

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

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2015

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 the following, including but not limited to, 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 Lawrence 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.

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(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 Lawrence 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 June 30, 2015, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of November 7, 2014, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$345,100

Note 3. Tax Collection Period

The oil and gas property tax assessments were levied as of January 1, 2014. Oil and gas taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was December 10, 2014 through June 30, 2015.

Note 4. Interest Income

The Lawrence County Sheriff earned \$2,547 as interest income on 2014 oil and gas taxes. The sheriff distributed \$255 to the school district as required by statute, and \$325 to the fee account to operate the sheriff's office. As of July 12, 2016, the sheriff owed \$942 in interest to the school district and \$1,024 in interest to his fee account.

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

The Lawrence County Sheriff collected \$31,346 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*



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable John Osborne, Lawrence County Judge/Executive
Honorable Garrett Roberts, Lawrence County Sheriff
Members of the Lawrence 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 Lawrence County Sheriff's Settlement - 2014 Oil and Gas Taxes for the period July 01, 2014 through June 30, 2015 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated July 12, 2016. The Lawrence County Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Lawrence 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 Lawrence County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lawrence 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 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 comments and recommendations as item 2014-004 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 Lawrence 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying comments and recommendations as items 2014-001, 2014-002, and 2014-003.

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

July 12, 2016

COMMENTS AND RECOMMENDATIONS

LAWRENCE COUNTY
GARRETT ROBERTS, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period July 01, 2014 Through June 30, 2015

STATE LAWS AND REGULATIONS:

2014-001 Receipts Were Not Deposited Daily

Funds were not deposited daily. For example, during the month of January, deposits were made on five days of the month. Also, we discovered two instances of late unmined coal deposits. An unmined coal deposit in the amount of \$8,395 dated May 29, 2015 was not deposited until July 7, 2015, and another unmined coal deposit in the amount of \$86,013 dated October 16, 2015 was not deposited until November 3, 2015. It appears the sheriff often holds several daily deposits and then takes them to the bank rather than making daily deposits. Further, policies and procedures are not in place to ensure that tax receipts are deposited daily. Undeposited receipts are susceptible to misappropriation or theft. Such occurrences could materially affect the financial statement. Under the authority of KRS 68.210, the Department for Local Government has established requirements for all local government officials handling public funds. These requirements include "daily deposits intact into a federally insured banking institution." We recommend that the sheriff implement policies and procedures to ensure that tax receipts are deposited intact on a daily basis.

Sheriff's Response: No response.

2014-002 The Sheriff Did Not Remit Payments To Taxing Districts Timely

The sheriff did not remit payments to taxing districts timely. Unmined coal taxes collected totaling \$137,075 were collected beginning in April 2015. The sheriff collected unmined coal taxes through July 2015 and did not prepare monthly reports as required and did not distribute to the taxing districts until March 2016. Also, franchise taxes in the amount of \$447,392 collected in July 2015, were not paid out to the taxing districts until April 2016. In addition to these late payments mentioned, six out of seven months collections were not delivered to the districts on time. These checks were dated beyond the 10th of the month following the month of collections, and it appears they were held and not delivered or mailed until weeks later. By not preparing and delivering checks to the districts on time, the county, school, and other taxing districts were not able to use funds totaling \$584,467. These taxing districts rely on the timely receipt of tax revenues, and their budgets and cash flows were negatively affected. KRS 134.191(1) requires the sheriff to provide monthly reports by the tenth day of each month to the taxing districts. KRS 134.191(3) requires the sheriff to pay the taxing districts all funds that were collected during the period covered by the report. Pursuant to KRS 134.191, any sheriff failing to pay over taxes collected as required by law shall be subject to a penalty of one percent (1%) for each thirty (30) day period or fraction thereof that the payment is not made, plus interest at the tax interest rate provided in KRS 131.183 on such amounts. The governing body of a county, the department, or the other district for which the sheriff collects taxes, in its settlement with the sheriff, shall charge him or her with such penalties and interest. We recommend the sheriff prepare monthly reports for all taxes collected and pay the taxing districts timely in the future.

Sheriff's Response: No response.

LAWRENCE COUNTY
GARRETT ROBERTS, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period July 01, 2014 Through June 30, 2015
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2014-003 The Sheriff Did Not Remit Interest Payments To The School And Fee Account Monthly

The sheriff did not distribute interest earned on tax collections to the school or the fee account on a monthly basis. The sheriff earned \$2,547 of interest in his 2014 tax account, and only paid it to the school and fee account for the months October and November. Policies and procedures are not currently in place to ensure that interest earned from tax collection deposits are paid to the school district and fee account timely. Failure to distribute interest earnings monthly results in a noncompliance. Based on the amount of interest earned and after factoring in what the sheriff has already paid for October and November, the sheriff still owes \$942 to the school district and \$1,024 to the fee account. The sheriff should distribute the investment earnings at the same time as monthly tax collections. KRS 134.140(2) requires the sheriff to pay monthly "that part of the investment earnings for the month which are attributable to the investment of school taxes." According to KRS 134.140(4), the balance of the investment income should be paid to the sheriff's operating account. We recommend the sheriff comply with KRS 134.140 by remitting the interest due to the school and fee account on a monthly basis.

Sheriff's Response: No response.

INTERNAL CONTROL - MATERIAL WEAKNESS:

2014-004 The Sheriff's Office Lacks Adequate Segregation Of Duties

The sheriff's office lacks adequate segregation of duties. Inadequate segregation of duties allows one person to have a significant role in processing and recording receipts and disbursements which would increase the risk of undetected misappropriation of assets and inaccurate financial reporting. The sheriff's bookkeeper collects payments from customers, records transactions in the ledgers, prepares deposits, and reconciles the bank account. Internal control duties should be segregated to decrease the risk of misappropriation of assets, errors, and inaccurate financial reporting to external agencies. The sheriff could implement some compensating controls such as comparing the daily checkout sheet to the receipts ledger and the bank deposit. Although they do not eliminate the lack of adequate segregation of duties, compensating controls do decrease the risk present in the absence of proper segregation of duties. We recommend the same person not perform multiple accounting functions, and if the duties cannot be segregated, then strong oversight over the employee's work should be provided and documented.

Sheriff's Response: No response.

