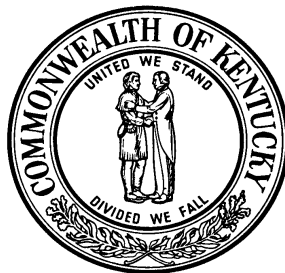


**REPORT OF THE AUDIT OF THE  
LAWRENCE COUNTY  
SHERIFF'S SETTLEMENT - 2016 GAS AND OIL TAXES**

**For The Period  
April 30, 2016 Through May 15, 2017**



**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 Matthew G. Bevin, Governor  
William M. Landrum III, Secretary  
Finance and Administration Cabinet  
The Honorable John Osborne, Lawrence County Judge/Executive  
The 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 - 2016 Gas and Oil Taxes for the period April 30, 2016 through May 15, 2017 - 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 Matthew G. Bevin, Governor  
William M. Landrum III, Secretary  
Finance and Administration Cabinet  
The Honorable John Osborne, Lawrence County Judge/Executive  
The Honorable Garrett Roberts, Lawrence County Sheriff  
Members of the Lawrence 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 Lawrence 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 Lawrence County Sheriff, for the period April 30, 2016 through May 15, 2017.

### **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 30, 2016 through May 15, 2017 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 February 8, 2018, 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 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

The Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

The Honorable John Osborne, Lawrence County Judge/Executive

The 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 Schedule of Findings and Responses, included herein, which discusses the following report findings:

- 2016-001 The Sheriff Did Not Report And Pay Taxes To Districts Timely
- 2016-002 The Lawrence County Sheriff's Office Did Not Make Deposits Timely
- 2016-003 The Sheriff Did Not Remit Interest Payments To The School And Fee Account Monthly
- 2016-004 The Sheriff's Office Lacks Adequate Segregation Of Duties And Internal Controls Over Tax Receipts And Disbursements

Respectfully submitted,



Mike Harmon  
Auditor of Public Accounts

February 8, 2018

LAWRENCE COUNTY  
GARRETT ROBERTS, SHERIFF  
SHERIFF'S SETTLEMENT - 2016 GAS AND OIL TAXES

For The Period April 30, 2016 Through May 15, 2017

<u>Charges</u>	Special			
	County Taxes	Taxing Districts	School Taxes	State Taxes
Oil Property Taxes	\$ 85,518	\$ 153,197	\$ 278,642	\$ 69,094
Gas Property Taxes	16,563	29,670	53,966	13,382
Penalties	710	1,272	2,313	574
Gross Chargeable to Sheriff	<u>102,791</u>	<u>184,139</u>	<u>334,921</u>	<u>83,050</u>
 <u>Credits</u>				
Exonerations	33,588	60,187	109,439	27,137
Discounts	866	1,552	2,822	700
Delinquents:				
Real Estate	5,021	8,996	16,358	4,056
Total Credits	<u>39,475</u>	<u>70,735</u>	<u>128,619</u>	<u>31,893</u>
Taxes Collected	63,316	113,404	206,302	51,157
Less: Commissions *	<u>2,691</u>	<u>4,820</u>	<u>6,189</u>	<u>2,174</u>
Taxes Due	60,625	108,584	200,113	48,983
Taxes Paid	<u>48,671</u>	<u>65,322</u>	<u>164,546</u>	<u>39,907</u>
Due Districts as of Completion of Audit	<u>\$ 11,954</u>	<u>\$ 43,262</u>	<u>\$ 35,567</u>	<u>\$ 9,076</u>

\*\*

\* Commissions:

4.25% on	\$	227,877
3% on	\$	206,302

\*\* Special Taxing Districts:

Library District	\$ 23,521
Health District	6,400
Extension District	10,301
Soil Conservation District	<u>3,040</u>
Due Districts	<u>\$ 43,262</u>

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



LAWRENCE COUNTY  
NOTES TO FINANCIAL STATEMENT

May 15, 2017

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 Lawrence 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 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 May 15, 2017, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

LAWRENCE COUNTY  
NOTES TO FINANCIAL STATEMENT  
May 15, 2017  
(Continued)

Note 3. Tax Collection Period

Gas and Oil Property Taxes

The oil and gas property tax assessments were levied as of January 1, 2016. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 16, 2016 through May 15, 2017.

Note 4. Interest Income

The Lawrence County Sheriff earned \$89 as interest income on 2016 gas and oil 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. As of February 8, 2018, the sheriff owed \$41 in interest to the school district and \$48 in interest to his fee account.

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

The Lawrence County Sheriff collected \$1,732 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the sheriff's office. As of February 8, 2018, the sheriff owed \$1,732 in 10% add-on fees to his fee account.

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 John Osborne, Lawrence County Judge/Executive  
The 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 - 2016 Gas and Oil Taxes for the period April 30, 2016 through May 15, 2017 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated February 8, 2018. The Lawrence 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 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.

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 2016-004 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 Schedule of Findings and Responses as items 2016-001, 2016-002, and 2016-003.

### **Views of Responsible Official and Planned Corrective Action**

The Lawrence County Sheriff's views and planned corrective action for the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The sheriff's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

### **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

February 8, 2018

SCHEDULE OF FINDINGS AND RESPONSES

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LAWRENCE COUNTY  
GARRETT ROBERTS, SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES

For The Period April 30, 2016 Through May 15, 2017

STATE LAWS AND REGULATIONS:

2016-001 The Sheriff Did Not Report And Pay Taxes To Districts Timely

The sheriff's monthly tax reports and payments were often late, depriving the taxing districts of timely receipt of their tax collections. This is a repeat finding and was included in the prior year audit report as finding 2015-002.

The following table illustrates when gas and oil tax payments were made:

Month	Date Payments Due Districts	Checks Dates	Dates Checks Cleared Bank
December	1/10/2017	1/10/2017	2/10/2017-2/23/2017
January	2/10/2017	9/11/2017	9/20/2017*
February	3/10/2017	9/11/2017	9/20/2017*
March	4/10/2017	9/11/2017	9/20/2017*
April	5/10/2017	9/11/2017	9/20/2017*
May	6/10/2017	9/11/2017	9/20/2017*

\*January through May distributions were paid with one check and only county and school checks were written.

Even though some checks were dated timely, several weeks passed before they cleared the bank, suggesting that they were given to the district late.

The sheriff did not ensure his office complied with the requirement to report and pay taxes collected to districts by the tenth of each month. The sheriff mails payments to the fire district and fire and rescue district. The sheriff delivers the payments to the other districts. It appears from the sheriff's records that the delivery date is often later than the day the reports were prepared, making the receipt of payments by the districts further delayed.

As indicated in the tables, some districts received their tax collections weeks after they were to be distributed. While the sheriff cannot control when districts deposit their checks, he can control when he distributes the checks.

KRS 134.191 requires the sheriff to provide monthly reports by the tenth day of each month. KRS 134.191(4) states "[a]ny 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[.]" Furthermore, the governing body of a county or taxing district shall charge the sheriff with penalties and interest. The county judge/executive may grant an extension of time, not to exceed 15 days, for filing the monthly reports. Penalties and interest would be suspended during an extension, but would apply at the expiration of the extension.

We recommend the sheriff ensure monthly tax reports are prepared and paid by the tenth of each month. There should be monthly reports for any month that regular, franchise, gas & oil, and unmined coal taxes are collected. We also recommend the sheriff consider mailing tax collection payments to the districts. As long as the payments are postmarked by the tenth of the month, the sheriff is in compliance with KRS 134.191. This would also give the districts a more consistent timeframe in which to expect their payments.

*Sheriff's Response: Computer program printed two months current & previous month's report. Did this on couple of occasions. Hopefully this is fixed.*

LAWRENCE COUNTY  
GARRETT ROBERTS, SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Period April 30, 2016 Through May 15, 2017  
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2016-002 The Lawrence County Sheriff's Office Did Not Make Deposits Timely

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This is a repeat finding and was included in the prior year audit report as finding 2015-003. Funds are not deposited daily. During the week tested in December, collections for December 15, 2016 and December 16, 2016 were not deposited until December 29, 2016.

It appears the sheriff often holds several daily deposits and then takes them to the bank rather than making daily deposits. Furthermore, policies and procedures are not in place to ensure that tax receipts are deposited daily.

Receipts not deposited daily are susceptible to misappropriation or theft. Such occurrences could materially affect the financial statements.

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 the sheriff implement policies and procedures to ensure that tax receipts are deposited intact daily.

*Sheriff's Response: OK.*

2016-003 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 monthly. The sheriff earned \$89 in interest on his 2016 gas and oil tax collections and none was distributed to the fee account or school. This is a repeat finding and was included in the prior year audit report as finding 2015-004.

Policies and procedures are not currently in place to ensure that interest earned from tax collection deposits is 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, the sheriff owes \$41 to the school district and \$48 to the fee account.

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 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 monthly.

*Sheriff's Response: OK.*

LAWRENCE COUNTY  
GARRETT ROBERTS, SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Period April 30, 2016 Through May 15, 2017  
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESS:

2016-004 The Sheriff's Office Lacks Adequate Segregation Of Duties And Internal Controls Over Tax Receipts And Disbursements

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The sheriff's office lacks adequate segregation of duties and internal controls over tax receipts and disbursements. This is a repeat finding and was included in the prior year audit report as finding 2015-005.

The bookkeeper, deputy clerk, and occasionally the sheriff all collect tax receipts. The bookkeeper and deputy clerk each prepare a daily checkout sheet and reconcile the daily receipts to the daily collection report. The bookkeeper posts items to the receipts ledger. There are no initials on the deposit ticket documenting who prepared and reviewed the deposit ticket.

The bookkeeper prepares the month-end tax reports. The bookkeeper prepares checks for tax distribution based on the month-end tax reports, and posts checks to the disbursements ledger. The bookkeeper and sheriff sign the tax distribution checks. The deputy clerk is also authorized to sign checks. All checks require a dual signature. The bookkeeper prepares the monthly bank reconciliation, although there is nothing documented to determine who prepared the reconciliation or that it was reviewed. Also, the reconciliation is only a re-statement of bank activity, and is not reconciled to the receipts ledger, disbursements ledger, or monthly financial statements. Reporting errors would have been found on a monthly basis if a true reconciliation had been performed by the sheriff's office.

Without internal controls in place, the risk of inaccurate tax account financial information increases. Internal controls should be implemented and duties should be segregated to decrease the risk of misappropriation of assets, errors, and inaccurate financial reporting to external agencies. By not segregating these duties, there is an increased risk of undetected misappropriation of assets either by error or fraud.

Internal controls and proper segregation of duties protect employees and the sheriff in the normal course of performing their daily responsibilities. Good internal controls dictate the same employee should not receive payments, prepare deposits, and post to the receipts ledger; the same employee should not prepare monthly reports, sign checks, and post to the disbursements ledger; and the same employee should not deposit funds, sign checks, post to ledgers, and prepare bank reconciliations and monthly reports.

We recommend the sheriff's office implement internal controls and segregate duties as much as possible. Employees receiving payments and preparing deposits should not be posting to the receipts ledger and preparing bank reconciliations. Employees preparing and signing checks should not be posting to the disbursements ledger and preparing bank reconciliations. A proper segregation of duties may not be possible with a limited number of employees, and in that case, the sheriff could implement compensating controls by helping to prepare or reviewing the daily deposits, receipts and disbursements ledgers, monthly reports, and bank reconciliations. These reviews must be documented in a way that indicates what was reviewed, by whom, and when.

*Sheriff's Response: OK would like to hire another office personnel, "no money".*

**Auditor's Reply:** In the absence of additional personnel, compensating controls, such as cross-checking by the official, should be implemented as recommended.