

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

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



**MIKE HARMON  
AUDITOR OF PUBLIC ACCOUNTS  
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**EXECUTIVE SUMMARY**  
**AUDIT OF THE**  
**MCCRACKEN COUNTY**  
**SHERIFF'S SETTLEMENT - 2015 TAXES**

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

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2015 Taxes for the McCracken County Sheriff for the period April 16, 2015 through April 15, 2016. We have issued an unmodified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The sheriff collected 2015 taxes of \$33,643,552 for the districts, retaining commissions of \$1,093,073 to operate the sheriff's office. The sheriff distributed 2015 taxes of \$32,295,935 to the districts. Refunds of \$141 are due to the sheriff from the taxing districts.

**Report Comment:**

2015-001 The McCracken County Sheriff Has Failed To Settle Taxes Associated With Prior Years

**Deposits:**

The sheriff's deposits as of December 31, 2015 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$68,641

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 Bob Leeper, McCracken County Judge/Executive  
Honorable Jon Hayden, McCracken County Sheriff  
Members of the McCracken County Fiscal Court

Independent Auditor's Report

**Report on the Financial Statement**

We have audited the McCracken County Sheriff's Settlement - 2015 Taxes for the period April 16, 2015 through April 15, 2016 - Regulatory Basis, and the related notes to the financial statement.

**Management's Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Audit Guide for Sheriff's Tax Settlements* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

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

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To the People of Kentucky  
Honorable Matthew G. Bevin, Governor  
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Members of the McCracken 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 McCracken 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 McCracken County Sheriff, for the period April 16, 2015 through April 15, 2016.

### **Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statement referred to above presents fairly, in all material respects, the taxes charged, credited, and paid for the period April 16, 2015 through April 15, 2016 of the McCracken 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 August 23, 2017, on our consideration of the McCracken 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 McCracken 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 Bob Leeper, McCracken County Judge/Executive

Honorable Jon Hayden, McCracken County Sheriff

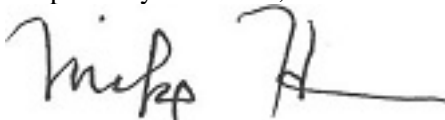
Members of the McCracken County Fiscal Court

**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 The McCracken County Sheriff Has Failed To Settle Taxes Associated With Prior Years

Respectfully submitted,

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

Mike Harmon

Auditor of Public Accounts

August 23, 2017

MCCRACKEN COUNTY  
JON HAYDEN, SHERIFF  
SHERIFF'S SETTLEMENT - 2015 TAXES

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

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 3,544,241	\$ 5,712,638	\$ 15,065,633	\$ 4,412,218
Tangible Personal Property	258,900	1,248,157	1,731,462	1,707,470
Increases Through Exonerations	1,368	2,515	6,006	1,912
Omitted Taxes	59	125	314	73
Franchise Taxes	207,146	411,532	771,511	
Additional Billings	4,726	22,354	18,288	10,998
Limestone, Sand, and Gravel Reserves	361	501	1,931	450
Penalties	14,119	23,856	55,328	19,649
Adjusted to Sheriff's Receipt	2	(5)	(3)	(2)
Gross Chargeable to Sheriff	<u>4,030,922</u>	<u>7,421,673</u>	<u>17,650,470</u>	<u>6,152,768</u>
 <u>Credits</u>				
Exonerations	52,113	73,122	226,996	65,726
Discounts	64,713	120,172	288,773	104,547
Delinquents:				
Real Estate	78,068	125,053	258,582	97,187
Tangible Personal Property	2,883	12,308	21,689	17,356
Omitted Limestone, Sand, and Gravel	59	125	314	73
Minimum Bills	427	577	436	665
Uncollected Bills	14	22	32	17
Master Commissioner Sales	11	22	51	14
Franchise Taxes	16	37	81	
Total Credits	<u>198,304</u>	<u>331,438</u>	<u>796,954</u>	<u>285,585</u>
Taxes Collected	3,832,618	7,090,235	16,853,516	5,867,183
Less: Commissions *	<u>162,886</u>	<u>259,494</u>	<u>421,338</u>	<u>249,355</u>
Taxes Due	3,669,732	6,830,741	16,432,178	5,617,828
Taxes Paid	3,641,443	6,779,201	16,293,147	5,582,144
Refunds (Current and Prior Year)	<u>28,289</u>	<u>51,540</u>	<u>139,172</u>	<u>35,684</u>
Due Districts or (Refunds Due Sheriff) as of Completion of Audit	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (141)</u>	<u>\$ 0</u>

\* See next page.

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

MCCRACKEN COUNTY  
JON HAYDEN, SHERIFF  
SHERIFF'S SETTLEMENT - 2015 TAXES  
For The Period April 16, 2015 Through April 15, 2016  
(Continued)

\* Commissions:

4.25% on	\$	15,110,873
4% on	\$	424,404
2.5% on	\$	16,853,516
1% on	\$	1,254,759

MCCRACKEN COUNTY  
NOTES TO FINANCIAL STATEMENT

April 15, 2016

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

KRS 66.480 authorizes the sheriff's office to invest in obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The McCracken 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.

MCCRACKEN COUNTY  
NOTES TO FINANCIAL STATEMENT  
April 15, 2016  
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the sheriff's deposits may not be returned. The McCracken County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of April 15, 2016, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of December 31, 2015, 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      \$68,641

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2015. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2016. Liens are effective when the tax bills become delinquent. The collection period for these assessments was December 10, 2015 through April 15, 2016.

B. Limestone, Sand, and Gravel Reserves

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

C. Franchise Taxes

The franchise tax assessments were levied by the Kentucky 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 April 16, 2015 through April 15, 2016.

Note 4. Interest Income

The McCracken County Sheriff earned \$1,448 as interest income on 2015 taxes. The sheriff was in substantial compliance with his statutory responsibilities.

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

The McCracken County Sheriff collected \$95,869 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the sheriff's office.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
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**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Bob Leeper, McCracken County Judge/Executive  
Honorable Jon Hayden, McCracken County Sheriff  
Members of the McCracken 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 McCracken County Sheriff's Settlement - 2015 Taxes for the period April 16, 2015 through April 15, 2016 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated August 23, 2017. The McCracken 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 McCracken 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 McCracken County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the McCracken County Sheriff's internal control over financial reporting.

*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. *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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 McCracken County Sheriff's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying comment and recommendation as item 2015-001.

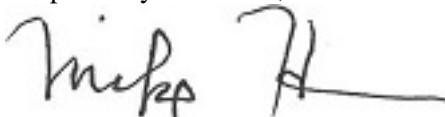
### **Sheriff's Response to Finding**

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

August 23, 2017

COMMENT AND RECOMMENDATION

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MCCRACKEN COUNTY  
JON HAYDEN, SHERIFF  
COMMENT AND RECOMMENDATION

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

STATE LAWS AND REGULATIONS:

2015-001 The McCracken County Sheriff Has Failed To Settle Taxes Associated With Prior Years

The McCracken County Sheriff has failed to settle the prior seven years of tax collections in a timely manner. At the conclusion of each audit, auditors provided the sheriff a detailed breakdown of the amounts due to the sheriff and amounts the sheriff owes in order to close out each tax year; however, the sheriff has not taken proper action to settle these accounts. The following table is a combined breakdown of receivables and liabilities associated with McCracken County Sheriff's tax collections for the years 2008, 2009, 2010, 2011, 2012, 2013, and 2014.

Assets

Reconciled Balance		\$ 80,679
Uncollected Receivables-		
Taxes Due from Districts-		
State	\$ 1,937	
County School	7,285	
Paducah Junior College	22,202	
West McCracken Fire District	39	
Other Receivables-		
Partial Payments	376	
Bank Charges due from Fee Account	4,080	
Add-on Fees due from Fee Account	75,474	
Commissions due from Fee Account	373	
Interest due from County School	17	111,783
Total Assets		192,462

Liabilities

Unpaid Obligations		
Taxes Due to Districts-		
County	\$ 58,318	
Concord Fire District	17	
City of Lone Oak (to be paid to County)	10,367	
Other Liabilities-		
Interest due Fee Account	867	
Duplicate Payments due Taxpayers	70,112	
Erroneous Payments due Taxpayers	710	
Overpayments due Taxpayers	40,470	
Refund due Taxpayers	1,572	
Second Notice Fees due Fee Account	10	182,443
Total Liabilities		182,443
Unrefunded Deposits and Unexplained Receipts		\$ 10,019

MCCRACKEN COUNTY  
JON HAYDEN, SHERIFF  
COMMENT AND RECOMMENDATION  
For The Period April 16, 2015 Through April 15, 2016  
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2015-001 The McCracken County Sheriff Has Failed To Settle Taxes Associated With Prior Years (Continued)

The proper distribution of prior years' taxes collected by the McCracken County Sheriff's office requires the collection of these receivables, including overpayments to some taxing districts, and the payment of these funds to the appropriate taxing districts, fee account, or other taxpayers. However, according to the sheriff's bookkeeper, due to the busy schedule of the sheriff's bookkeeping staff, prior years' tax receivables have not been collected and the payment of these funds to the appropriate taxing districts has not occurred.

KRS 134.192 requires the sheriff to settle his or her accounts annually with each taxing district for which he or she collects taxes. Because the sheriff has failed to settle property taxes associated with tax years 2008 through 2014, amounts due to taxpayers and taxing districts have not been paid and the sheriff is not in compliance with KRS 134.192.

We recommend the sheriff settle taxes associated with prior years by collecting all receivables and paying all amounts liabilities. After taxes associated with prior years have been settled, the sheriff should close the respective tax accounts and any surplus funds should be escrowed.

*Sheriff's Response:*

*As noted, this audit comment stems from tax collections dating back to 2009 and does not reflect upon any new change in our office policies and procedures. Our office is audited twice a year by the Kentucky Auditor of Public Accounts, and in that time, we have had some of the auditor's office's most knowledgeable and competent staff members reviewing our records and procedures.*

*This comment has never been included in any previous audit of the years mentioned, but is something that we are happy to correct and comply with. The issue that resulted in this comment is that we currently still have funds on hand from these past tax years in the form of duplicate and overpaid tax bills that we have not been successful in returning to the appropriate source. Overpayments make up a very small amount of these funds on hand, and often arise from taxpayers misreading the amount due for a specific collection period. However, the biggest reason there are still funds on hand from these tax years are tax bills that have been paid twice by multiple sources. This is often the result of a home owner refinancing, purchasing, or selling a piece of property. Closing agents are required to collect and pay any current taxes due, but may be unknown to the owner, who pays the taxes again. Another scenario is a mortgage escrow account paying taxes in addition to a closing agent or the owner. Yet the most problematic cause for duplicate payments is that a mortgage company can pay the incorrect tax bill for their home owner that has already been paid by the correct owner. While we settle the majority of these issues as we close out our tax years and perform our own internal audit, not all these duplicate and overpayments are as easy to refund. Duplicate payments caused by a home owner moving can pose a problem in locating their new address. Sadly, a homeowner might have also passed away and requires research into their estate and its executorship. Large mortgage companies that service tens of thousands of escrow accounts a year are also very difficult to contact and reach the appropriate department to return funds to the proper account. Our office goes to great lengths to study each duplicate and overpayment situation before returning funds so as to avoid a wrong party receiving them and causing an even bigger problem. Because of the time that goes into this research, some funds have not been returned because of the lack of time necessary to study each individual case, with a few cases that have resulted in no solution.*

MCCRACKEN COUNTY  
JON HAYDEN, SHERIFF  
COMMENT AND RECOMMENDATION  
For The Period April 16, 2015 Through April 15, 2016  
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2015-001 The McCracken County Sheriff Has Failed To Settle Taxes Associated With Prior Years (Continued)

*Sheriff's Response: (Continued)*

*Over the time period mentioned in this comment, our office has collected hundreds of millions of dollars in tax payments, and the immaterial amount of funds that have remained in our possession due to the circumstances noted above make up less than 0.1% of the payments that have been received and distributed during that time.*

*As a result of the auditor's office comments, we have spent significant time in efforts to return these funds to the correct party. As we completed these final effort, the funds that have been in our possession for more than three years, the length of time we are required to hold such funds in escrow, have been turned over to the Kentucky State Treasuries' Unclaimed Funds Division.*

*After the audit and our work to close these accounts out, a request was honored by the auditor's office to return and review what had been done by this office to complete the task.*

*We appreciate the Kentucky State Auditor's Office assistance in reviewing our tax collection records and offering suggestions, assistance and oversight.*