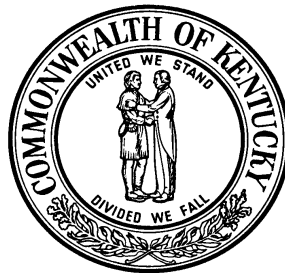


**REPORT OF THE AUDIT OF THE
MCCREARY COUNTY
SHERIFF'S SETTLEMENT - 2018 TAXES**

**For The Period
April 17, 2018 Through April 30, 2019**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
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 Andy Beshear, Governor
Holly M. Johnson, Secretary
Finance and Administration Cabinet
The Honorable Jimmie W. Greene II, McCreary County Judge/Executive
The Honorable Randy Waters, McCreary County Sheriff
Members of the McCreary County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the McCreary County Sheriff's Settlement - 2018 Taxes for the period April 17, 2018 through April 30, 2019 - Regulatory Basis, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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

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



To the People of Kentucky
The Honorable Andy Beshear, Governor
Holly M. Johnson, Secretary
Finance and Administration Cabinet
The Honorable Jimmie W. Greene II, McCreary County Judge/Executive
The Honorable Randy Waters, McCreary County Sheriff
Members of the McCreary 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 McCreary 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 McCreary County Sheriff, for the period April 17, 2018 through April 30, 2019.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the taxes charged, credited, and paid for the period April 17, 2018 through April 30, 2019 of the McCreary 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 November 7, 2019 on our consideration of the McCreary 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 McCreary County Sheriff’s internal control over financial reporting and compliance.

To the People of Kentucky
The Honorable Andy Beshear, Governor
Holly M. Johnson, Secretary
Finance and Administration Cabinet
The Honorable Jimmie W. Greene II, McCreary County Judge/Executive
The Honorable Randy Waters, McCreary County Sheriff
Members of the McCreary 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 comments:

- 2018-001 The McCreary County Sheriff's Office Lacks Adequate Segregation Of Duties
- 2018-002 The Sheriff Did Not Review Franchise Tax Bills Prepared By The County Clerk For Accuracy

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

November 7, 2019

MCCREARY COUNTY
 RANDY WATERS, SHERIFF
SHERIFF'S SETTLEMENT - 2018 TAXES

For The Period April 17, 2018 Through April 30, 2019

	Special Taxing			
	County	Districts	School	State
<u>Charges</u>				
Real Estate	\$ 336,336	\$ 987,693	\$ 1,474,883	\$ 439,941
Tangible	32,407	25,369	65,290	44,344
Total Per Sheriff's Official Receipt	368,743	1,013,062	1,540,173	484,285
<u>Other Taxes & Charges</u>				
Omitted Taxes		81		
Franchise Taxes	218,578	368,536	536,081	
Additional Billings	76	221	335	100
Unmined Coal Taxes	24	70	107	32
Gas Property Taxes	391	712	1,718	553
Oil Property Taxes	31	57	137	
Penalties	3,322	9,423	14,311	4,283
Gross Chargeable to Sheriff	591,165	1,392,162	2,092,862	489,253
<u>Credits</u>				
Exonerations	1,017	3,027	4,471	1,334
Discounts	5,808	15,223	23,221	7,156
Delinquent Real Estate	20,394	58,970	89,570	26,729
Delinquent Tangible	130	166	262	340
Delinquent Additional Bills	6	16	25	
Delinquent Oil Taxes	3	6	14	
Franchise Taxes - Delinquent	12,022	5,785		
Total Credits	39,380	83,193	117,563	35,559
Taxes Collected	551,785	1,308,969	1,975,299	453,694
Less: Sheriff's Commissions*	23,451	39,586	59,259	19,282
Taxes Due Districts	528,334	1,269,383	1,916,040	434,412
Taxes Paid	527,673	1,267,490	1,913,137	433,549
Refunds (Current and Prior Year)	661	1,893	2,903	863
Taxes Due Districts (Refund Due Sheriff)	\$ 0	\$ 0	\$ 0	\$ 0

* Commissions:

4.25% on	\$	1,820,757
3% on	\$	1,975,299
1% on	\$	493,691

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

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENT

April 30, 2019

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

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

B. Basis of Accounting

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

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

C. Cash and Investments

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

D. Preparation of State Settlement

The Kentucky Department of Revenue conducts the settlement relating to taxes collected for the state under the provision of KRS 134.192(2)(a). This is reported as the "State Taxes" column on the financial statement.

Note 2. Deposits

The McCreary 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.

MCCREARY COUNTY
 NOTES TO FINANCIAL STATEMENT
 April 30, 2019
 (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 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. On December 31, 2018 and April 30, 2019, the sheriff's bank balance was 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 on December 31, 2018 \$ 37,664
- Uncollateralized and Uninsured on April 30, 2019 \$151,168

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2018. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2019. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 16, 2018 through April 30, 2019.

B. Oil and Gas Property Taxes

The oil and gas property tax assessments were levied as of January 1, 2018. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 17, 2019 through May 28, 2019.

C. Unmined Coal Property Taxes

The unmined coal property tax assessments were levied as of January 1, 2018. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was February 27, 2019 through April 30, 2019.

D. Franchise Taxes

The franchise tax assessments were levied by the Department of Revenue for various tax years. Franchise taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was April 17, 2018 through June 18, 2019.

Note 4. Interest Income

The McCreary County Sheriff earned \$266 as interest income on 2018 taxes. The sheriff was in substantial compliance with his statutory responsibilities.

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

The McCreary County Sheriff collected \$26,053 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the sheriff's office.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENT
April 30, 2019
(Continued)

Note 6. Escrow Account

The sheriff deposited unrefundable payments in an interest-bearing account. The sheriff's escrowed beginning balance was \$171. The sheriff received \$181 resulting in a total ending balance as of April 30, 2019 of \$352. The ending balance consists of escrowed of:

2016 Taxes -\$171
2017 Taxes - \$130
2017 Fees - \$11
2018 Fees - \$40

KRS 393.090 states that if the funds have not been claimed after three years, they are presumed abandoned. Abandoned funds are required to be sent to the Kentucky State Treasurer pursuant to KRS 393.110 and its accompanying regulations.

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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 Jimmie W. Greene II, McCreary County Judge/Executive
The Honorable Randy Waters, McCreary County Sheriff
Members of the McCreary 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 McCreary County Sheriff's Settlement - 2018 Taxes for the period April, 17, 2018 through April 30, 2019 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated November 7, 2019. The McCreary 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 McCreary 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 McCreary County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the McCreary 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 and another deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2018-001 to be a material weakness.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards*
(Continued)

Internal Control Over Financial Reporting (Continued)

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. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2018-002 to be a significant deficiency.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the McCreary 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

November 7, 2019

SCHEDULE OF FINDINGS AND RESPONSES

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MCCREARY COUNTY
RANDY WATERS, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Period April 17, 2018 Through April 30, 2019

INTERNAL CONTROL - MATERIAL WEAKNESS:

2018-001 The McCreary County Sheriff's Office Lacks Adequate Segregation Of Duties

This is a repeat finding and was included in the prior year audit report as finding 2017-001. A lack of adequate segregation of duties existed over all accounting functions. The sheriff's bookkeeper opens incoming mail, collects tax payments, prepares deposits, prepares daily tax collection journals, prepares monthly tax reports, prepares tax disbursements, and signs those disbursements.

According to the sheriff, a limited budget placed restrictions on the number of employees which could have been hired. However, when faced with limited number of staff, strong compensating controls should have been in place to offset the lack of segregation of duties.

A lack of segregation of duties or strong compensating controls could have resulted in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the Department of Revenue and other taxing districts.

A segregation of duties over various accounting functions, such as collection of taxes, preparation of monthly reports, and preparation of tax disbursements to the districts or the implementation of compensating controls because the number of staff is limited, is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To adequately protect against misappropriation of assets and inaccurate financial reporting, we recommend the sheriff separate the duties involving the opening of mail, collecting and depositing of cash, preparation of the monthly tax reports, and preparation of tax disbursements. If this is not feasible due to lack of staff, then strong oversight over these areas should occur and involve an employee that wasn't currently performing any of those functions. Additionally, the sheriff could provide this oversight and show evidence of the oversight by initialing the appropriate source documents. For example, the sheriff could compare the daily checkout sheet to the receipts ledger and bank deposit slip then initial the checkout, deposit slip, and ledger. Also, the sheriff could compare the disbursement checks to the districts to the disbursements ledger and to the monthly report then initial the ledger and monthly report when he signs the checks.

Sheriff's Response: The official did not provide a response.

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2018-002 The Sheriff Did Not Review Franchise Tax Bills Prepared By The County Clerk For Accuracy

The McCreary County Sheriff mailed 12 franchise tax bills prepared by the county clerk without reviewing them for accuracy or correcting them with additional bills. This is a repeat finding and was included in the prior year audit report as finding 2017-002.

This occurred because the sheriff has not developed and implemented controls over the review of franchise tax bills prepared by the county clerk.

Franchise companies underpaid 2016, 2017, and 2018 tax year bills. One franchise company was undercharged \$387 due to incorrect assessments and one franchise company was undercharged by \$5,508 due to multiple incorrect rates.

MCCREARY COUNTY
RANDY WATERS, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Period April 17, 2018 Through April 30, 2019
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY: (Continued)

2018-002 The Sheriff Did Not Review Franchise Tax Bills Prepared By The County Clerk For Accuracy
(Continued)

The development and implementation of good internal controls over reviewing franchise bills prepared by the county clerk is essential to ensuring that franchise companies do not underpay or overpay taxes.

We recommend the sheriff review all franchise tax bills prepared by the county clerk for accuracy and make the necessary corrections before mailing to the franchise company. We also recommend corrected bills be issued for the undercharged bills due to incorrect rates and assessments.

Sheriff's Response: The official did not provide a response.