

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

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



**MIKE HARMON
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
NELSON 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 Nelson 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 taxes of \$27,438,401 for the districts for 2015 taxes, retaining commissions of \$831,074 to operate the sheriff's office. The sheriff distributed taxes of \$26,574,317 to the districts for 2015 taxes. Taxes of \$4,751 are due to the districts from the sheriff and refunds of \$272 are due to the sheriff from the taxing districts.

Report Comments:

- 2015-001 The Sheriff Lacks Adequate Segregation Of Duties In Accounting Functions
- 2015-002 The Sheriff Did Not Maintain Copies Of Receipts Issued For Tax Payments As Required By Statute

Deposits:

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

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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 Dean Watts, Nelson County Judge/Executive
Honorable Edwin Mattingly, Nelson County Sheriff
Members of the Nelson County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the Nelson 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.



To the People of Kentucky
Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
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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 opinions.

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 Nelson 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 taxes charged, credited, and paid of the Nelson 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 Nelson 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 January 31, 2017 on our consideration of the Nelson 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 solely 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 Nelson County Sheriff's internal control over financial reporting 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 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 Dean Watts, Nelson County Judge/Executive
Honorable Edwin Mattingly, Nelson County Sheriff
Members of the Nelson 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 discusses the following report comments:

- 2015-001 The Sheriff Lacks Adequate Segregation Of Duties In Accounting Functions
- 2015-002 The Sheriff Did Not Maintain Copies Of Receipts Issued For Tax Payments As Required By Statute

Respectfully submitted,

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

Mike Harmon
Auditor of Public Accounts

January 31, 2017

NELSON COUNTY
EDWIN MATTINGLY, 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	\$ 3,509,655	\$ 3,058,520	\$ 12,320,115	\$ 2,996,216
Tangible Personal Property	217,470	141,953	407,855	958,781
Fire Protection	574			
Increases Through Exonerations	6,971	4,703	33,415	6,360
Franchise Taxes	122,446	80,492	503,272	
Distilled Spirits Taxes	741,342	476,335	2,409,585	
Additional Billings	920	733	3,842	1,267
Limestone, Sand and Gravel Reserves	2,017	1,357	10,436	1,721
Bank Franchises	169,864			
Penalties	10,973	10,150	38,997	9,457
Gross Chargeable to Sheriff	<u>4,782,232</u>	<u>3,774,243</u>	<u>15,727,517</u>	<u>3,973,802</u>
 <u>Credits</u>				
Exonerations	15,638	11,752	66,997	13,342
Discounts	82,650	64,120	266,556	69,499
Delinquents:				
Real Estate	33,960	34,463	125,368	28,962
Tangible Personal Property	1,064	652	2,675	1,695
Total Credits	<u>133,312</u>	<u>110,987</u>	<u>461,596</u>	<u>113,498</u>
Taxes Collected	4,648,920	3,663,256	15,265,921	3,860,304
Less: Commissions *	<u>197,579</u>	<u>133,582</u>	<u>335,850</u>	<u>164,063</u>
Taxes Due	4,451,341	3,529,674	14,930,071	3,696,241
Taxes Paid	4,446,261	3,521,798	14,914,124	3,692,134
Refunds (Current and Prior Year)	<u>5,352</u>	<u>3,350</u>	<u>15,947</u>	<u>3,882</u>
Due Districts or (Refunds Due Sheriff) as of Completion of Audit	<u>\$ (272)</u>	<u>\$ 4,526</u>	<u>\$ 0</u>	<u>\$ 225</u>

**

* and ** See next page.

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

NELSON COUNTY
EDWIN MATTINGLY, SHERIFF
SHERIFF'S SETTLEMENT - 2015 TAXES
For The Period April 16, 2015 Through April 15, 2016
(Continued)

* Commissions:

4.25% on \$11,492,290

2.2% on \$15,265,921

1% on \$ 680,190

** Special Taxing Districts:

Library District	\$	41
Extension District		5
Northeast Nelson Fire Department		<u>4,480</u>

Due Districts	\$	<u><u>4,526</u></u>
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NELSON 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 Nelson 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.

NELSON 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 Nelson 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.

Note 3. Tax Collection Period

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 September 21, 2015 through April 15, 2016.

Note 4. Interest Income

The Nelson County Sheriff earned \$679 as interest income on 2015 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.

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

The Nelson County Sheriff collected \$51,523 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the sheriff's office.

Note 6. Unrefundable Duplicate Payments And Unexplained Receipts

The sheriff deposited unrefundable duplicate payments and unexplained receipts. The sheriff's escrowed amounts were as follows:

2015 \$455

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

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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*



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Dean Watts, Nelson County Judge/Executive
Honorable Edwin Mattingly, Nelson County Sheriff
Members of the Nelson 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 Nelson 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 January 31, 2017. The Nelson 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 Nelson 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 opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Nelson County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Nelson County Sheriff's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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. 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. We identified certain deficiencies in internal control, which are described in the accompanying comments and recommendations as item 2015-001 and 2015-002 that we consider to be significant deficiencies.



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 Nelson 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 comments and recommendations as item 2015-002.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

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

Mike Harmon
Auditor of Public Accounts

January 31, 2017

COMMENTS AND RECOMMENDATIONS

NELSON COUNTY
EDWIN MATTINGLY, SHERIFF
COMMENTS AND RECOMMENDATIONS

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

FINANCIAL STATEMENT FINDINGS:

2015-001 The Sheriff Lacks Adequate Segregation Of Duties In Accounting Functions

The sheriff's office lacks adequate segregation of duties in receipts, disbursements, and reconciliations. The bookkeeper collected taxes, prepared deposits and daily checkout sheets, posted to the ledgers, prepared monthly reports, wrote disbursement checks and performed the bank reconciliations. The sheriff's office has implemented the following compensating controls to offset this control deficiency:

- The sheriff examined tax distributions prepared by the bookkeeper.
- The sheriff occasionally made deposits.
- Two people, one being the sheriff, signed all checks.

By allowing the same employee to perform most of the necessary tax collection functions, the risk that errors or fraud may go undetected increases. Errors did occur during the 2015 tax settlement process, including underpayment of one taxing district and discounts and penalties granted without sufficient reason or supporting documentation. The sheriff has not become sufficiently involved in the tax settlement process to identify and address the control weaknesses. A segregation of duties over receipt procedures, disbursement processing, report preparation, and bank reconciliations is essential for providing protection from fraud or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the sheriff implement additional compensating controls to mitigate the risk caused by the lack of segregation of duties. Those controls could include the following, performed by the sheriff or another designated employee:

- Re-count and initial the deposit ticket before taking the deposit to the bank, and compare the deposit total to the daily checkout sheet and receipts ledger posting to ensure the deposit is posted correctly.
- Review the monthly bank reconciliation and compare to the ledgers.
- Review and approve adjustments made to monthly reports, the tax system, or the ledgers.
- Review tax rates and commission rates at the beginning of the tax collection period to ensure they have been entered into the tax software accurately.

The sheriff should also develop a policy addressing discounts and penalty waivers and communicate the policy to all office staff.

Sheriff's Response: None.

NELSON COUNTY
EDWIN MATTINGLY, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period April 16, 2015 Through April 15, 2016
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-002 The Sheriff Did Not Maintain Copies Of Receipts Issued For Tax Payments As Required By Statute

The sheriff could not provide auditors with copies of receipts issued for tax payments during the 2015 tax settlement period. The sheriff's bookkeeper told auditors the receipts must have been lost or destroyed. The sheriff was not able to reprint these receipts from the accounting system.

The lack of copies of receipts limits the audit trail required for each transaction and increases the work and time necessary to complete audit testing. KRS 64.840 requires receipts to be issued in triplicate for any fine, forfeiture, tax or fee paid in cash, in person, or if requested by mail. KRS 64.840(2) states "[o]ne (1) copy of the receipt shall be given to the person paying the fine, forfeiture, tax, or fee and one (1) copy shall be retained by the official for his own records. One (1) copy of the receipt shall be retained by the official to be placed with the daily bank deposit." We recommend the sheriff comply with KRS 64.840 by maintaining copies of each receipt issued. We further recommend the sheriff ensure that documents are maintained in a secure location and retained in accordance with the county's records retention policy.

Sheriff's Response: None.

