

**REPORT OF THE AUDIT OF THE
FORMER NELSON COUNTY
SHERIFF'S SETTLEMENT - 2017 TAXES**

**For The Period
January 1, 2018 Through April 16, 2018**



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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 Dean Watts, Nelson County Judge/Executive
The Honorable Mike Newton, Former Nelson County Sheriff
The Honorable Ramon Pineiroa, Jr., Nelson County Sheriff
Members of the Nelson County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the former Nelson County Sheriff's Settlement - 2017 Taxes for the period January 1, 2018 through April 16, 2018 - 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 Dean Watts, Nelson County Judge/Executive
The Honorable Mike Newton, Former Nelson County Sheriff
The Honorable Ramon Pineiroa, Jr., Nelson County Sheriff
Members of the Nelson 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 former Nelson 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 former Nelson County Sheriff, for the period January 1, 2018 through April 16, 2018.

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 January 1, 2018 through April 16, 2018 of the former 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 December 3, 2018, on our consideration of the former 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 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 former Nelson 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 Dean Watts, Nelson County Judge/Executive

The Honorable Mike Newton, Former Nelson County Sheriff

The Honorable Ramon Pineiroa, Jr., Nelson County Sheriff

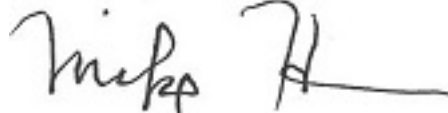
Members of the Nelson County Fiscal Court

Other Reporting Required by *Government Auditing Standards* (Continued)

Based on the results of our audit, we have presented the accompanying Schedule of Findings and Responses, included herein, which discusses the following report comment:

2017-001 The Former Nelson County Sheriff's County Tax Settlement Presented To The Fiscal Court Did Not Include Taxes Collected And Paid For Franchise, Distilled Spirits, And Limestone, Sand And Gravel Reserves As Required By Statute

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

December 3, 2018

NELSON COUNTY
MIKE NEWTON, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2017 TAXES

For The Period January 01, 2018 Through April 16, 2018

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Transfer From Outgoing Sheriff				
Per Official Receipt	\$ 211,322	\$ 172,484	\$ 635,754	\$ 163,442
Franchise Taxes	42,428	26,837	154,998	
Distilled Spirits Taxes	795,850	531,079	2,676,878	
Additional Billings	27	18	147	23
Limestone, Sand, and Gravel Reserves	1,628	1,076	8,695	1,389
Penalties	8,516	8,426	33,978	7,673
Gross Chargeable to Sheriff	<u>1,059,771</u>	<u>739,920</u>	<u>3,510,450</u>	<u>172,527</u>
<u>Credits</u>				
Exonerations	453	402	2,117	518
Discounts	16,126	10,746	54,075	
Delinquents:				
Real Estate	47,873	38,976	102,626	34,802
Tangible Personal Property	1,556	972	2,551	4,014
Total Credits	<u>66,008</u>	<u>51,096</u>	<u>161,369</u>	<u>39,334</u>
Taxes Collected	993,763	688,824	3,349,081	133,193
Less: Commissions *	<u>41,410</u>	<u>27,808</u>	<u>73,680</u>	<u>5,661</u>
Taxes Due	952,353	661,016	3,275,401	127,532
Taxes Paid	950,493	659,680	3,270,074	125,965
Refunds (Current and Prior Year)	<u>1,860</u>	<u>1,336</u>	<u>5,327</u>	<u>1,567</u>
Due Districts				
as of Completion of Audit	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

* Commissions:

4.25% on	\$	1,745,276
2.2% on	\$	3,349,081
1% on	\$	70,504

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

NELSON COUNTY
NOTES TO FINANCIAL STATEMENT

April 16, 2018

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 former Nelson 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, former the sheriff's deposits may not be returned. The former sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 66.480(1)(d) and KRS 41.240. As of April 16, 2018, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of February 28, 2018, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the former sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$1,173,337

NELSON COUNTY
NOTES TO FINANCIAL STATEMENT
April 16, 2018
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2017. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2018. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 23, 2018 through April 16, 2018.

B. Limestone, Sand, and Gravel Reserves

The limestone, sand, and gravel property tax assessments were levied as of January 1, 2017. 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 25, 2018 through April 16, 2018.

C. Franchise Taxes

The franchise tax assessments were levied by the Department of Revenue for various tax years. 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 1, 2018 through April 30, 2018.

Note 4. Interest Income

The former Nelson County Sheriff earned \$200 as interest income on 2017 taxes. The former sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the former sheriff's office.

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

The former Nelson County Sheriff collected \$41,370 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the former sheriff's office.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Dean Watts, Nelson County Judge/Executive
The Honorable Mike Newton, Former Nelson County Sheriff
The Honorable Ramon Pineiroa, Jr., 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 former Nelson County Sheriff's Settlement - 2017 Taxes for the period January 1, 2018 through April 16, 2018 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated December 3, 2018. The former 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 former 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 opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former Nelson County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Nelson 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 2017-001 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)

Compliance and Other Matters

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

Views of Responsible Official and Planned Corrective Action

The former Nelson County Sheriff's views and planned corrective action for the finding identified in our audit are described in the accompanying Schedule of Findings and Responses. The former Nelson County 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

December 3, 2018

SCHEDULE OF FINDINGS AND RESPONSES

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NELSON COUNTY
MIKE NEWTON, FORMER SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Period January 1, 2018 Through April 16, 2018

INTERNAL CONTROL - MATERIAL WEAKNESS:

2017-001 The Former Nelson County Sheriff's County Tax Settlement Presented To The Fiscal Court Did Not Include Taxes Collected And Paid For Franchise, Distilled Spirits, And Limestone, Sand And Gravel Reserves As Required By Statute

The former Nelson County Sheriff's county settlement presented to the fiscal court did not include \$4,240,856 in taxes collected for franchise, distilled spirits, and limestone, sand, and gravel reserves. This was an oversight by management. A county settlement was presented to the fiscal court; however, it did not include amounts collected and paid for franchise, distilled spirits, and limestone, sand and gravel reserves. The amounts were readily available and will be presented to the fiscal court as a separate report for taxes omitted.

The former sheriff's office did not present a complete and accurate county tax settlement to the fiscal court as required by statute. The amount omitted was material to the financial statement. According to KRS 134.192(1), "[e]ach sheriff shall annually settle his or her accounts with the department, the county, and any district for which the sheriff collects taxes on or before September 1 of each year." KRS 134.192(5) states, "[t]he report of the state and local settlement shall be filed in the county clerk's office and approved by the governing body of the county no later than September 1 of each year."

We recommend the sheriff's office prepare a complete and accurate county settlement that includes taxes collected and paid for franchise, distilled spirits, limestone, sand, and gravel reserves before presenting to fiscal court for approval.

Former Sheriff's Response: The corrected settlement has been corrected by fiscal court.