

**REPORT OF THE AUDIT OF THE  
OHIO COUNTY  
SHERIFF'S SETTLEMENT - 2015 UNMINED COAL TAXES**

**For The Period  
July 1, 2015 Through August 15, 2016**



**MIKE HARMON  
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## EXECUTIVE SUMMARY

### AUDIT OF THE OHIO COUNTY SHERIFF'S SETTLEMENT - 2015 UNMINED COAL TAXES

For The Period  
July 1, 2015 Through August 15, 2016

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2015 Unmined Coal Taxes for the Ohio County Sheriff for the period July 1, 2015 through August 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 unmined coal taxes of \$440,558 for the districts, retaining commissions of \$13,458 to operate the sheriff's office. The sheriff distributed 2015 unmined coal taxes of \$426,962 to the districts. Taxes of \$138 are due to the districts from the sheriff.

#### **Report Comments:**

2015-001 The Sheriff's Office Lacks Adequate Segregation Of Duties  
2015-002 The Sheriff Did Not Properly Account For And Distribute Add-On Fees

#### **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 David Johnston, Ohio County Judge/Executive  
Honorable Tracy Beatty, Ohio County Sheriff  
Members of the Ohio County Fiscal Court

Independent Auditor's Report

**Report on the Financial Statement**

We have audited the Ohio County Sheriff's Settlement - 2015 Unmined Coal Taxes for the period July 1, 2015 through August 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.



To the People of Kentucky  
Honorable Matthew G. Bevin, Governor  
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### **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 Ohio 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 unmined coal taxes charged, credited and paid of the Ohio County Sheriff, for the period July 1, 2015 through August 15, 2016.

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

In our opinion, the financial statement referred to above presents fairly, in all material respects, the unmined coal taxes charged, credited, and paid for the period July 1, 2015 through August 15, 2016 of the Ohio 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 March 1, 2017 on our consideration of the Ohio 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 Ohio 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 David Johnston, Ohio County Judge/Executive  
Honorable Tracy Beatty, Ohio County Sheriff  
Members of the Ohio 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's Office Lacks Adequate Segregation Of Duties
- 2015-002 The Sheriff Did Not Properly Account For And Distribute Add-On Fees

Respectfully submitted,



Mike Harmon  
Auditor of Public Accounts

March 1, 2017

OHIO COUNTY  
TRACY BEATTY, SHERIFF  
SHERIFF'S SETTLEMENT - 2015 UNMINED COAL TAXES

For The Period July 1, 2015 Through August 15, 2016

<u>Charges</u>	Special			
	<u>County Taxes</u>	<u>Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Unmined Coal - 2015 Taxes	\$ 42,914	\$ 85,764	\$ 305,445	\$ 76,992
Penalties	38	76	269	68
Gross Chargeable to Sheriff	<u>42,952</u>	<u>85,840</u>	<u>305,714</u>	<u>77,060</u>
<u>Credits</u>				
Discounts	746	1,490	5,307	1,338
Delinquents:				
Unmined Coal - 2015 Taxes	<u>5,216</u>	<u>10,425</u>	<u>37,127</u>	<u>9,359</u>
Total Credits	<u>5,962</u>	<u>11,915</u>	<u>42,434</u>	<u>10,697</u>
Taxes Collected	36,990	73,925	263,280	66,363
Less: Commissions *	<u>1,572</u>	<u>3,142</u>	<u>5,924</u>	<u>2,820</u>
Taxes Due	35,418	70,783	257,356	63,543
Taxes Paid	<u>35,406</u>	<u>70,760</u>	<u>257,273</u>	<u>63,523</u>
Due Districts				
as of Completion of Audit	<u>\$ 12</u>	<u>\$ 23</u>	<u>\$ 83</u>	<u>\$ 20</u>

\*\*

\* Commissions:

4.25% on \$ 177,278

2.25% on \$ 263,280

\*\* Special Taxing Districts:

Library District	\$ 12
Health District	6
Extension District	4
Soil Conservation Districts	<u>1</u>

Due Districts \$ 23

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

OHIO COUNTY  
NOTES TO FINANCIAL STATEMENT

August 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 Ohio 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.

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 Ohio 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 August 15, 2016, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

OHIO COUNTY  
NOTES TO FINANCIAL STATEMENTS  
August 15, 2016  
(Continued)

Note 3. Tax Collection Period

The unmined coal tax assessments were levied as of January 1, 2016. Property taxes were billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was March 3, 2016 through August 15, 2016.

Note 4. Interest Income

The Ohio County Sheriff earned \$20 as interest income on 2015 unmined coal taxes. The sheriff was in substantial compliance with his statutory responsibilities.

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

The Ohio County Sheriff collected \$496 of 10% add-on fees allowed by KRS 134.119(7). As of March 1, 2017, the sheriff owed \$496 in 10% add-on fees to his fee account.

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





**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable David Johnston, Ohio County Judge/Executive  
Honorable Tracy Beatty, Ohio County Sheriff  
Members of the Ohio 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 Ohio County Sheriff's Settlement - 2015 Unmined Coal Taxes for the period July 1, 2015 through August 15, 2016 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated March 1, 2017. The Ohio 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 Ohio 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 Ohio County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Ohio County Sheriff's internal control over financial reporting.

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 comments and recommendations, 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 comments and recommendations as item 2015-001 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 Ohio 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.

### **Sheriff's Responses to Findings**

The Ohio County Sheriff's responses to the findings identified in our audit are described in the accompanying comments and recommendations. The Ohio County Sheriff's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

### **Purpose of this Report**

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

Respectfully submitted,

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

March 1, 2017



COMMENTS AND RECOMMENDATIONS



OHIO COUNTY  
TRACY BEATTY, SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Period July 1, 2015 Through August 15, 2016

INTERNAL CONTROL - MATERIAL WEAKNESS:

2015-001 The Sheriff's Office Lacks Adequate Segregation Of Duties

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The Ohio County Sheriff's office lacks adequate segregation of duties. The bookkeeper is required to perform multiple tasks such as the collection of cash from customers, deposit preparation, bookkeeping, bank reconciliations, and the preparation of checks for disbursements. The lack of segregation of duties in the sheriff's office is due to a limited number of staff and the diversity of operations. Segregation of duties over these tasks and cross-training deputies, when needed because the number of staff is limited, is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties and cross-training deputies protects employees in the normal course of performing their daily responsibilities. Good internal controls dictate that the collection of receipts, disbursing of cash, purchasing authority, recording of transactions, and back reconciling duties be segregated.

To adequately protect against the misappropriation of assets and inaccurate financial reporting, we recommend the sheriff segregate the duties noted above and cross-train deputies to accommodate the rotation of these functions. Proper segregation of duties includes separating the duties of collecting cash, depositing receipts, posting to receipts and disbursements ledgers, bank reconciliations, and preparing reports. If segregation of these duties is not feasible, the sheriff should designate another person to provide knowledgeable oversight of the employee responsible for the incompatible duties and to document oversight. Knowledgeable oversight would necessitate an understanding of and ability to perform those same duties if the bookkeeper were absent.

*Sheriff's Response: Additional measures have been implemented to ensure oversight of the tax office including installation of a camera system. The system included cameras over each cash drawer and the safe. Each clerk is responsible for their own drawer, including locking it when unattended. These measures will help security in the office.*

*The bookkeeper has cross-trained two other clerks in the office to do the daily reconciliation and preparation of deposits to help with the segregation of duties.*

*Unfortunately, the only method to resolve this issue is to hire additional personnel in the tax office. As this is not financially feasible, every effort is made to ensure controls are in place to limit the risks identified.*

STATE LAWS AND REGULATIONS:

2015-002 The Sheriff Did Not Properly Account For And Distribute Add-On Fees

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The Ohio County Sheriff did not properly account for and distribute \$496 in sheriff's add-on fees. The bookkeeper stated that she forgot to account for and distribute add-on fees for the unmined coal collections. Per KRS 134.119(7), the sheriff is entitled to a 10 percent add-on fee for all delinquent taxes paid by the person paying the tax claim. Failure to account for and distribute add-on fees could lead to failure to meet budgeted revenue or require supplemental revenue from the fiscal court or other sources where fee revenue is available to the sheriff. We recommend the sheriff comply with KRS 134.119(7) and pay add-on fees collected to the sheriff's fee account.

*Sheriff's Response: The bookkeeper did not realize the add-on fees were not included in the totals on the report. This has been corrected and all add-on fees will be distributed on a monthly basis.*

