

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

**For The Period
April 18, 2017 Through April 16, 2018**



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CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT 1

SHERIFF'S SETTLEMENT - 2017 TAXES4

NOTES TO FINANCIAL STATEMENT6

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* 11

SCHEDULE OF FINDINGS AND RESPONSES 15

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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 David Johnston, Ohio County Judge/Executive
The 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 - 2017 Taxes for the period April 18, 2017 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 David Johnston, Ohio County Judge/Executive
The Honorable Tracy Beatty, Ohio County Sheriff
Members of the Ohio 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 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 taxes charged, credited, and paid of the Ohio County Sheriff, for the period April 18, 2017 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 April 18, 2017 through April 16, 2018 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 August 14, 2018, 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
The Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
The Honorable David Johnston, Ohio County Judge/Executive
The 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 Schedule of Findings and Responses, included herein, which discusses the following report comments:

- 2017-001 The Ohio County Sheriff Did Not Make Daily Deposits
- 2017-002 The Ohio County Sheriff Did Not Maintain Documentation For All Penalties Waived
- 2017-003 The Ohio County Sheriff's Office Lacks Adequate Segregation Of Duties

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

August 14, 2018

OHIO COUNTY
TRACY BEATTY, SHERIFF
SHERIFF'S SETTLEMENT - 2017 TAXES

For The Period April 18, 2017 Through April 16, 2018

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 508,918	\$ 1,097,040	\$ 3,639,110	\$ 850,520
Tangible Personal Property	92,401	233,895	660,731	637,833
Fire Protection	6,765			
Franchise Taxes	86,081	198,309	614,970	
Additional Billings	148	338	1,055	181
Oil Property Taxes	2,145	4,588	15,343	3,586
Limestone, Sand, and Gravel Reserves	262	561	1,876	438
Bank Franchises	81,841			
Penalties	4,097	6,438	21,182	5,028
Adjusted to Sheriff's Receipt	(267)	(415)	(265)	(108)
Gross Chargeable to Sheriff	<u>782,391</u>	<u>1,540,754</u>	<u>4,954,002</u>	<u>1,497,478</u>
 <u>Credits</u>				
Exonerations	2,945	6,494	21,061	7,311
Discounts	9,912	19,485	63,172	19,377
Delinquents:				
Real Estate	10,255	21,999	72,794	17,013
Tangible Personal Property	119	291	850	498
Total Credits	<u>23,231</u>	<u>48,269</u>	<u>157,877</u>	<u>44,199</u>
Taxes Collected	759,160	1,492,485	4,796,125	1,453,279
Less: Commissions *	<u>32,264</u>	<u>63,431</u>	<u>107,913</u>	<u>61,764</u>
Taxes Due	726,896	1,429,054	4,688,212	1,391,515
Taxes Paid	725,480	1,426,159	4,680,173	1,389,071
Refunds (Current and Prior Year)	<u>1,397</u>	<u>2,875</u>	<u>9,949</u>	<u>2,411</u>
Due Districts or (Refund Due Sheriff) as of Completion of Audit	<u>\$ 19</u>	<u>\$ 20</u>	<u>\$ (1,910)</u>	<u>\$ 33</u>
		**		

* and ** See next page.

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

OHIO COUNTY
TRACY BEATTY, SHERIFF
SHERIFF'S SETTLEMENT - 2017 TAXES
For The Period April 18, 2017 Through April 16, 2018
(Continued)

* Commissions:

4.25% on	\$	3,704,924
2.25% on	\$	4,796,125

** Special Taxing Districts:

Library District	\$	<u>20</u>
Due District	\$	<u>20</u>

OHIO 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 Ohio 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, 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 April 16, 2018, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

OHIO 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 October 2, 2017 through April 16, 2018.

B. Oil Property Taxes

The oil 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 November 13, 2017 through May 15, 2018.

C. 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 November 13, 2017 through May 15, 2018.

D. Franchise Taxes

The franchise tax assessments were levied by the Department of Revenue for various 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 18, 2017 through April 16, 2018.

Note 4. Interest Income

The Ohio County Sheriff earned \$800 as interest income on 2017 taxes. The sheriff was in substantial compliance with his statutory responsibilities.

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

The Ohio County Sheriff collected \$30,108 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the sheriff's office. As of August 14, 2018, the sheriff overpaid \$26 in 10% add-on fees to his fee account.

Note 6. Unrefundable Duplicate Payments And Unexplained Receipts

The sheriff deposited unrefundable duplicate payments and unexplained receipts in an interest-bearing account. The sheriff's escrowed amounts were as follows:

2015	\$549
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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 David Johnston, Ohio County Judge/Executive
The 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 - 2017 Taxes for the period April 18, 2017 through April 16, 2018 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated August 14, 2018. 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.

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 certain deficiencies in internal control that we consider to be material weaknesses.

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 deficiencies described in the accompanying Schedule of Findings and Responses as items 2017-002 and 2017-003 to be material weaknesses.



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 Schedule of Findings and Responses as item 2017-001.

Views of Responsible Official and Planned Corrective Action

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



Mike Harmon
Auditor of Public Accounts

August 14, 2018

SCHEDULE OF FINDINGS AND RESPONSES

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OHIO COUNTY
TRACY BEATTY, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Period April 18, 2017 Through April 16, 2018

STATE LAWS AND REGULATIONS:

2017-001 The Ohio County Sheriff Did Not Make Daily Deposits

This is a repeat finding and was included in the prior year audit report as finding 2016-006. The Ohio County Sheriff's office did not make daily deposits. For the daily collections on November 14, 2017, auditors noted the deposit was not made until November 16, 2017. For the daily collections on November 17, 2017, auditors noted the deposit was not made until November 21, 2017. According to the sheriff, the former bookkeeper was not diligent about making sure deposits were accurate or complete. By not making daily deposits the sheriff's office could create the opportunity for undetected misappropriation of assets to occur. Additionally, the sheriff was not in compliance with the uniform system of accounts prescribed by the State Local Finance Officer pursuant to KRS 68.210. This uniform system of accounts, as outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual*, includes performing daily check-out procedures and making daily deposits intact into a federal insured banking institution.

We recommend the sheriff's office make daily deposits in accordance with the *County Budget Preparation and State Local Finance Officer Policy Manual*.

Sheriff's Response: The previous bookkeeper failed to make daily deposits. The new bookkeeper has been instructed by the sheriff to make daily deposits.

INTERNAL CONTROL - MATERIAL WEAKNESSES:

2017-002 The Ohio County Sheriff Did Not Maintain Documentation For All Penalties Waived

This is a repeat finding and was included in the prior year audit report as finding 2016-005. The Ohio County Sheriff's office waived penalties on a total of 39 tax bills. Supporting documentation was maintained for most of the waived penalties; however, auditors noted 10 tax bills in which penalties were waived and no supporting documentation was maintained. According to the sheriff, the former bookkeeper was not diligent about maintaining proper documentation. Without maintaining proper documentation, the sheriff's office has no way to show these penalties were waived for legitimate reasons and taxpayers could avoid paying the appropriate penalties. Good internal controls dictate that the sheriff complete a penalty waiver form or maintain supporting documentation for any penalties waived in order to prevent abuse of the system and to ensure that taxes are received and disbursed properly. We recommend that the Sheriff maintain the appropriate documentation to support all penalties waived.

Sheriff's Response: The previous bookkeeper failed to maintain documentation for penalties waived. The new bookkeeper now has all waived penalties approved by the Sheriff. A second tax clerk reviews all waived penalties to insure all documentation is correct.

2017-003 The Ohio 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 2016-001. The Ohio County Sheriff's office lacks 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. According to the sheriff, the lack of segregation of duties is due to a small budget which limits staff size. Segregation of duties over these tasks and cross-training deputies, when needed because the number of staff is limited, are 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. Good internal controls dictate that the collection of receipts, disbursing of cash, purchasing authority, recording of transactions, and back reconciling duties be segregated. A lack of segregation of duties or strong oversight could result in undetected misappropriation of assets or incorrect financial reporting.

OHIO COUNTY
TRACY BEATTY, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Period April 18, 2017 Through April 16, 2018
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES: (Continued)

2017-003 The Ohio County Sheriff's Office Lacks Adequate Segregation Of Duties (Continued)

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: The Ohio County Sheriff's office works on a small budget which limits our staff size. Sheriff Beatty has implemented internal controls which includes cross training and reviewing all financial statements and reports by at least two staff members. All bank statements, monthly reports and checks are reviewed by Sheriff Beatty and one other tax clerk. The sheriff has installed a camera system in the tax office for monitoring transactions between the public and the employees during the sheriff's office collection process.