

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

**For The Period
April 16, 2015 Through April 18, 2016**



**MIKE HARMON
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EXECUTIVE SUMMARY

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

**For The Period
April 15, 2015 Through April 18, 2016**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2015 Taxes for the Owsley County Sheriff for the period April 16, 2015 through April 18, 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 taxes of \$1,001,926 for the districts, retaining commissions of \$41,667 to operate the sheriff's office. The sheriff distributed 2015 taxes of \$958,767 to the districts. Refunds of \$128 are due to the sheriff from the taxing districts.

Report Comments:

- 2015-001 The Owsley County Sheriff's Office Lacks Adequate Segregation Of Duties
2015-002 The Owsley County Sheriff Should Ensure The County Clerk Prepares Franchise Bills Timely

Deposits:

The sheriff's deposits as of November 10, 2015, were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$57,352

The sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the sheriff's deposits in accordance with the security agreement.

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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 Cale Turner, Owsley County Judge/Executive
Honorable Kelly Shouse, Owsley County Sheriff
Members of the Owsley County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the Owsley County Sheriff's Settlement - 2015 Taxes for the period April 16, 2015 through April 18, 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
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Cale Turner, Owsley County Judge/Executive
Honorable Kelly Shouse, Owsley County Sheriff
Members of the Owsley 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 Owsley 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 Owsley County Sheriff, for the period April 16, 2015 through April 18, 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 18, 2016 of the Owsley 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 May 9, 2017, on our consideration of the Owsley 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 Owsley 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 Cale Turner, Owsley County Judge/Executive

Honorable Kelly Shouse, Owsley County Sheriff

Members of the Owsley 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 Owsley County Sheriff's Office Lacks Adequate Segregation Of Duties

2015-002 The Owsley County Sheriff Should Ensure The County Clerk Prepares Franchise Bills Timely

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

May 9, 2017

OWSLEY COUNTY
KELLY SHOUSE, SHERIFF
SHERIFF'S SETTLEMENT - 2015 TAXES

For The Period April 16, 2015 Through April 18, 2016

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 118,893	\$ 415,166	\$ 374,264	\$ 102,147
Tangible Personal Property	4,856	22,747	14,022	9,550
Fire Protection	1,512			
Increases Through Exonerations	414	1,337	1,305	356
Franchise Taxes - Billed	2,924	8,573	8,284	
Unbilled Franchise Taxes	54,266	171,941	157,155	
Unmined Coal - 2015 Taxes	505	1,630	1,591	434
Gas Property Taxes	105	339	331	90
Penalties	1,425	5,366	4,446	1,250
Adjusted to Sheriff's Receipt	(534)	(1,759)	(1,497)	(414)
Gross Chargeable to Sheriff	<u>184,366</u>	<u>625,340</u>	<u>559,901</u>	<u>113,413</u>
 <u>Credits</u>				
Exonerations	2,895	10,656	9,113	2,487
Discounts	1,522	5,280	4,710	1,349
Delinquents:				
Real Estate	7,001	22,823	21,768	5,941
Unmined Coal - 2015 Taxes	261	841	821	224
Gas - 2015 Taxes	5	16	15	4
Unbilled Franchise Taxes	<u>54,266</u>	<u>171,941</u>	<u>157,155</u>	
Total Credits	<u>65,950</u>	<u>211,557</u>	<u>193,582</u>	<u>10,005</u>
Taxes Collected	118,416	413,783	366,319	103,408
Less: Commissions *	<u>5,033</u>	<u>17,586</u>	<u>14,653</u>	<u>4,395</u>
Taxes Due	113,383	396,197	351,666	99,013
Taxes Paid	113,184	395,629	351,048	98,906
Refunds (Current and Prior Year)	<u>199</u>	<u>635</u>	<u>618</u>	<u>168</u>
(Refunds Due Sheriff) as of Completion of Audit	<u>\$ 0</u>	<u>\$ (67)</u>	<u>\$ 0</u>	<u>\$ (61)</u>

**

* and ** See next page.

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

OWSLEY COUNTY
KELLY SHOUSE, SHERIFF
SHERIFF'S SETTLEMENT - 2015 TAXES
For The Period April 16, 2015 Through April 18, 2016
(Continued)

* Commissions:

4.25% on \$ 635,607

4% on \$ 366,319

** Special Taxing Districts:

Library District \$ (67)

(Refunds Due Sheriff) \$ (67)

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENT

April 18, 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 Owsley 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.

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENT
April 18, 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 Owsley 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 18, 2016, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of November 10, 2015, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$57,352

Note 3. Tax Collection Period

A. Property Taxes

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 October 1, 2015 through April 18, 2016.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2015. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was February 19, 2016 through August 15, 2016.

C. Gas Taxes

The tangible property tax assessments were levied as of January 1, 2015. 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, 2015 through May 16, 2016.

Note 4. Interest Income

The Owsley County Sheriff earned \$45 as interest income on 2015 taxes. As of May 9, 2017, the sheriff owed \$16 in interest to the school district and \$29 in interest to his fee account.

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

The Owsley County Sheriff collected \$10,755 of 10% add-on fees allowed by KRS 134.119(7). As of May 9, 2017, the sheriff owed \$10,755 in 10% add-on fees to his fee account.

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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 Cale Turner, Owsley County Judge/Executive
Honorable Kelly Shouse, Owsley County Sheriff
Members of the Owsley 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 Owsley County Sheriff's Settlement - 2015 Taxes for the period April 16, 2015 through April 18, 2016 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated May 9, 2017. The Owsley 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 Owsley 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 Owsley County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Owsley 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 Owsley 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 Owsley County Sheriff's responses to the findings identified in our audit are described in the accompanying comments and recommendations. The 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

May 9, 2017

COMMENTS AND RECOMMENDATIONS

OWSLEY COUNTY
KELLY SHOUSE, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period April 16, 2015 Through April 18, 2016

INTERNAL CONTROL - MATERIAL WEAKNESS:

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

The sheriff's office lacks adequate segregation of duties because the sheriff's bookkeeper maintains the ledgers, deposits the collections, collects funds from customers and prepares checks. The sheriff indicated that due to limited staff size, the sheriff cannot segregate the duties over receipts, disbursements, and reconciliations. Because only one person performs most of these functions, there is no assurance that financial transactions are accurate, complete, and free of errors or misstatements. Good internal controls dictate that the functions of receiving, recording, depositing, and reconciling cash should be separated whenever possible in order to decrease the risk of undetected errors, misstatements, and fraud. We recommend the sheriff either segregate these duties or implement steps to strengthen internal controls, such as:

- The sheriff should periodically compare daily bank deposit to the daily tax collection printout. Any differences should be reconciled. The sheriff should document this by initialing the bank deposit and the daily tax collection printout.
- The sheriff should compare his daily tax collection printouts for each month to his monthly tax collection report for each district. Any differences should be reconciled. The sheriff should document this by initialing this district's monthly tax collection report for the month being examined.
- The sheriff should periodically compare payments made to the taxing districts per the monthly tax collection reports to the checks that were actually written. The sheriff should document this by initialing the monthly tax collection report noting that the payment amount agreed with the check.
- The sheriff should periodically compare the bank reconciliation to the checkbook balance. Any differences should be reconciled. The sheriff should document this by initialing the bank reconciliation and the balance in the checkbook.
- The sheriff should personally sign each check paid out of his office.
- The sheriff should personally mail or deliver tax payments to the districts.

Sheriff's Response: We do the best we can with limited staff.

Auditor's Reply: Even with limited staff, the sheriff could implement the compensating controls above in an attempt to offset the lack of segregation of duties where segregation is not possible.

STATE LAWS AND REGULATIONS:

2015-002 The Owsley County Sheriff Should Ensure The County Clerk Prepares Franchise Bills Timely

The county clerk did not prepare franchise tax bills for 2015 tax collections. This was also a reportable finding in the prior year audit. The county clerk failed to perform this duty. Upon inquiry, the clerk gave no reason why franchise bills were not prepared. Including franchise bills not prepared in the prior tax settlement, 36 franchise bills totaling \$383,362 were not billed as of April 18, 2016. As a result, taxing districts may experience revenue shortfalls needed to meet annual budget expenses. The county clerk should prepare franchise bills upon receipt of the state assessment certification and promptly deliver the bills to the sheriff to mail. KRS 133.220(2) requires the county clerk to prepare tax bills and states, in part, "the county clerk shall prepare for the use of the sheriff or collector a correct tax bill for each taxpayer in the county[.]" The sheriff should work with the county clerk to ensure that franchise bills are prepared and mailed timely.

Sheriff's Response: We mail the Franchise Tax bills as soon as we receive them.

