

**REPORT OF THE AUDIT OF THE
PENDLETON COUNTY
SHERIFF'S SETTLEMENT - 2016 TAXES**

**For The Period
April 16, 2016 Through April 17, 2017**



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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 Fields, Pendleton County Judge/Executive
The Honorable Charles Peoples, Pendleton County Sheriff
Members of the Pendleton County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the Pendleton County Sheriff's Settlement - 2016 Taxes for the period April 16, 2016 through April 17, 2017 - 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

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The Honorable Charles Peoples, Pendleton County Sheriff

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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 Pendleton 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 Pendleton County Sheriff, for the period April 16, 2016 through April 17, 2017.

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, 2016 through April 17, 2017 of the Pendleton 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 November 9, 2017, on our consideration of the Pendleton 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 Pendleton 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 Fields, Pendleton County Judge/Executive

The Honorable Charles Peoples, Pendleton County Sheriff

Members of the Pendleton 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:

2016-001 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Tax Receipts, Disbursements, And Reconciliations

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

November 9, 2017

PENDLETON COUNTY
CHARLES PEOPLES, SHERIFF
SHERIFF'S SETTLEMENT - 2016 TAXES

For The Period April 16, 2016 Through April 17, 2017

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 829,051	\$ 2,130,174	\$ 3,331,750	\$ 632,152
Tangible Personal Property	58,251	220,675	231,346	254,443
Increases Through Exonerations	58	141	232	44
Franchise Taxes	148,649	413,193	597,517	
Additional Billings	91	223	367	70
Supplemental Billings	305	1,851	1,984	692
Limestone, Sand, and Gravel Reserves	5,252	14,277	21,107	4,005
Bank Franchises	31,466			
Penalties	3,700	9,393	14,870	2,902
Adjusted to Sheriff's Receipt	(8)	(15)	(31)	(20)
Gross Chargeable to Sheriff	1,076,815	2,789,912	4,199,142	894,288
 <u>Credits</u>				
Exonerations	2,017	5,151	8,108	1,538
Discounts	15,556	39,908	59,944	15,256
Delinquents:				
Real Estate	10,808	27,605	43,433	8,241
Tangible Personal Property	405	1,339	1,344	864
Additional Bills - Real Estate	91	223	367	70
Total Credits	28,877	74,226	113,196	25,969
Taxes Collected	1,047,938	2,715,686	4,085,946	868,319
Less: Commissions *	44,537	104,417	122,578	36,904
Taxes Due	1,003,401	2,611,269	3,963,368	831,415
Taxes Paid	1,002,732	2,616,607	3,960,839	830,840
Refunds (Current and Prior Year)	873	2,243	3,498	665
(Refunds Due Sheriff) as of Completion of Audit	\$ (204)	\$ (7,581)	\$ (969)	\$ (90)

**

* and ** See next page.

PENDLETON COUNTY
 CHARLES PEOPLES, SHERIFF
 SHERIFF'S SETTLEMENT - 2016 TAXES
 For The Period April 16, 2016 Through April 17, 2017
 (Continued)

* Commissions:

4.25% on \$ 3,887,094
 4% on \$ 440,262
 3% on \$ 4,085,946
 1% on \$ 304,587

** Special Taxing Districts:

Library District	\$	(421)
Health District		(124)
Extension District		(1,286)
Mental Health District		(56)
Ambulance		(214)
NPFD District		<u>(5,481)</u>
(Refunds Due Sheriff)	\$	<u>(7,581)</u>

PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENT

April 17, 2017

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 Pendleton 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 Pendleton 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 17, 2017, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of November 3, 2016, 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 \$27,433

PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENT
April 17, 2017
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2016. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2017. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 26, 2016 through April 17, 2017.

B. Limestone, Sand, and Gravel Property Taxes

The limestone, sand, and gravel property tax assessments were levied as of January 1, 2016. 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 16, 2016 through May 15, 2017.

C. Franchise Taxes

The franchise tax assessments were levied by the Kentucky Department of Revenue for various tax years. Franchise taxes are billed to finance governmental services. The collection period for these assessments was April 16, 2016 through April 17, 2017.

Note 4. Interest Income

The Pendleton County Sheriff earned \$35 as interest income on 2016 taxes. The sheriff was in substantial compliance with his statutory responsibilities.

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

The Pendleton County Sheriff collected \$26,041 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the sheriff's office.

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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 Fields, Pendleton County Judge/Executive
Honorable Charles Peoples, Pendleton County Sheriff
Members of the Pendleton 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 Pendleton County Sheriff's Settlement - 2016 Taxes for the period April 16, 2016 through April 17, 2017 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated November 9, 2017. The Pendleton 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 Pendleton 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 Pendleton County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Pendleton County Sheriff's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified a certain deficiency in internal control, which is described in the accompanying Schedule of Findings and Responses as item 2016-001 that we consider to be a significant deficiency.



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 Pendleton 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 Pendleton County Sheriff's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. The Pendleton 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

November 9, 2017

SCHEDULE OF FINDINGS AND RESPONSES

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PENDLETON COUNTY
CHARLES PEOPLES, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Period April 16, 2016 Through April 17, 2017

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2016-001 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Tax Receipts, Disbursements, And Reconciliations

This is a repeat finding and was included in the prior year audit report as finding 2015-001. The sheriff's office lacks adequate segregation of duties over receipts, disbursements, and reconciliations. All employees of the sheriff's office collect receipts. The office manager prepares the daily bank deposit and daily checkout sheet and then posts items to the receipts ledger. The office manager prepares the quarterly financial report and bank reconciliations that are agreed to the receipts and disbursement ledgers. The office manager prepares checks for all disbursements and posts to the disbursements ledger. The sheriff and office manager are the only authorized check signers. The sheriff does not require dual signatures on checks; the office manager generally signs checks.

According to the sheriff, due to his office having a small staff composed of three full-time employees, it is very difficult to segregate duties over receipts and disbursements. The lack of segregation of duties over receipts and disbursements creates an opportunity for misappropriation of assets. By having the same employee perform these functions, there is an increased risk that undetected errors or fraud could occur, such as misappropriation of assets and inaccurate financial reporting to external agencies such as Department for Local Government. Good internal controls dictate that the same employee should not handle, record, and reconcile receipts and disbursements.

We recommend the sheriff implement compensating controls to offset this internal control weakness. The sheriff should periodically compare the daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger when prepared by another employee. The sheriff should document this review process by initialing the daily checkout sheets and deposit slips. The sheriff should also review the quarterly financial report and compare amounts reported on the receipts and disbursements ledgers. Bank statements should be reconciled regularly and reviewed by another person. This review process should be documented by dating and initialing the bank statement, along with the reconciliation sheets.

Sheriff's Response: We make good faith attempts to review deposits and bank statements and do it from time to time just not on a regular basis.