

**REPORT OF THE AUDIT OF THE  
MONTGOMERY COUNTY  
SHERIFF'S SETTLEMENT - 2013 TAXES**

**For The Period  
April 16, 2013 Through April 15, 2014**



**ADAM H. EDELEN  
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**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**MONTGOMERY COUNTY**  
**SHERIFF'S SETTLEMENT - 2013 TAXES**

**For The Period**  
**April 16, 2013 Through April 15, 2014**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2013 Taxes for the Montgomery County Sheriff for the period April 16, 2013 through April 15, 2014. 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 taxes of \$12,871,468 for the districts for 2013 taxes, retaining commissions of \$439,370 to operate the Sheriff's office. The Sheriff distributed taxes of \$12,415,379 to the districts for 2013 taxes. Taxes of \$306 are due to the districts from the Sheriff.

**Report Comment:**

2013-01 The Sheriff's Office Lacks Adequate Segregation Of Duties

**Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities or bonds.



CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT.....	1
SHERIFF'S SETTLEMENT - 2013 TAXES.....	4
NOTES TO FINANCIAL STATEMENT .....	6
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
COMMENT AND RECOMMENDATION .....	15





**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable Wallace Johnson, Montgomery County Judge/Executive

Honorable Fred Shortridge, Montgomery County Sheriff

Members of the Montgomery County Fiscal Court

Independent Auditor's Report

**Report on the Financial Statement**

We have audited the Montgomery County Sheriff's Settlement - 2013 Taxes for the period April 16, 2013 through April 15, 2014 - 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.



To the People of Kentucky

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Lori H. Flanery, Secretary

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### **Auditor's Responsibility (Continued)**

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **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 County Sheriff on the basis of the 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 financial position of each fund of the County Sheriff, as of April 15, 2014, or changes in financial position or cash flows thereof for the year then ended.

### **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, 2013 through April 15, 2014 of the Montgomery 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 07, 2014 on our consideration of the Montgomery 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 solely 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 effectiveness of the Montgomery County Sheriff's internal control over financial reporting 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 over financial reporting and compliance.

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

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Honorable Fred Shortridge, Montgomery County Sheriff

Members of the Montgomery County Fiscal Court

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

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

2013-01 The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,



Adam H. Edelen  
Auditor of Public Accounts

November 07, 2014

MONTGOMERY COUNTY  
 FRED SHORTRIDGE, SHERIFF  
SHERIFF'S SETTLEMENT - 2013 TAXES

For The Period April 16, 2013 Through April 15, 2014

<u>Charges</u>	Special			
	<u>County Taxes</u>	<u>Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 827,610	\$ 3,304,636	\$ 5,600,542	\$ 1,386,092
Tangible Personal Property	83,181	434,935	496,077	516,468
Fire Protection	98			
Increases Through Exonerations	53	197	356	88
Franchise Taxes	50,892	249,244	315,164	
Additional Billings	179	791	1,210	299
Limestone, Sand and Gravel Reserves	97	429	656	162
Penalties	3,482	14,383	23,456	6,229
Adjusted to Sheriff's Receipt	(331)	(1,070)	(2,570)	(635)
Gross Chargeable to Sheriff	<u>965,261</u>	<u>4,003,545</u>	<u>6,434,891</u>	<u>1,908,703</u>
<u>Credits</u>				
Exonerations	1,009	4,143	6,831	1,688
Discounts	14,321	58,820	95,782	30,512
Delinquents:				
Real Estate	16,228	66,670	109,797	27,116
Tangible Personal Property	497	2,136	2,963	2,419
Total Credits	<u>32,055</u>	<u>131,769</u>	<u>215,373</u>	<u>61,735</u>
Taxes Collected	933,206	3,871,776	6,219,518	1,846,968
Less: Commissions *	<u>39,661</u>	<u>134,627</u>	<u>186,586</u>	<u>78,496</u>
Taxes Due	893,545	3,737,149	6,032,932	1,768,472
Taxes Paid	892,464	3,731,904	6,026,198	1,764,813
Refunds (Current and Prior Year)	<u>1,047</u>	<u>5,119</u>	<u>6,588</u>	<u>3,659</u>
Due Districts as of Completion of Audit	<u>\$ 34</u>	<u>\$ 126</u>	<u>\$ 146</u>	<u>\$ 0</u>

\*\*

\* and \*\* See next page.

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

MONTGOMERY COUNTY  
 FRED SHORTRIDGE, SHERIFF  
 SHERIFF'S SETTLEMENT - 2013 TAXES  
 For The Period April 16, 2013 Through April 15, 2014  
 (Continued)

\* Commissions:

4.25% on \$4,920,643  
 4% on \$ 878,122  
 3% on \$6,219,518  
 1% on \$ 853,185

\*\* Special Taxing Districts:

Library District	\$	31
Health District		9
Extension District		48
Ambulance District		17
Fire Department District		<u>21</u>

Due Districts	\$	<u><u>126</u></u>
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MONTGOMERY COUNTY  
NOTES TO FINANCIAL STATEMENT

April 15, 2014

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 the following, including but not limited to, 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 Montgomery 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(4), 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.

MONTGOMERY COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 April 15, 2014  
 (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 Montgomery County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 15, 2014, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2013. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2014. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 26, 2013 through April 15, 2014.

Note 4. Interest Income

The Montgomery County Sheriff earned \$651 as interest income on 2013 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

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

The Montgomery County Sheriff collected \$36,005 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the Sheriff's office.

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:

2013	\$1,637
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KRS 393.090 states that after three years, if the funds have not been claimed, they are presumed abandoned and abandoned funds are required to be sent to the Kentucky State Treasurer by KRS 393.110.

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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**





**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Wallace Johnson, Montgomery County Judge/Executive  
Honorable Fred Shortridge, Montgomery County Sheriff  
Members of the Montgomery 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 Montgomery County Sheriff's Settlement - 2013 Taxes for the period April 16, 2013 through April 15, 2014 - regulatory basis and the related notes to the financial statement and have issued our report thereon dated November 07, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statement, we considered the Montgomery County Sheriff's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Montgomery County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Montgomery 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 comment and recommendation as item 2013-01 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 Montgomery 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.

### **Sheriff's Response to Finding**

The Montgomery County Sheriff's response to the finding identified in our audit is included in the accompanying comment and recommendation. The Montgomery 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,



Adam H. Edelen  
Auditor of Public Accounts

November 07, 2014

COMMENT AND RECOMMENDATION



MONTGOMERY COUNTY  
FRED SHORTRIDGE, SHERIFF  
COMMENT AND RECOMMENDATION

For The Period April 16, 2013 Through April 15, 2014

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2013-01 The Sheriff's Office Lacks Adequate Segregation Of Duties

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The Sheriff's office has a lack of segregation of duties because the employees that collect taxes also prepare the daily checkout sheets and make deposits. Also, the bookkeeper prepares all monthly reports, prepares checks, and reconciles the bank account. Good internal controls dictate the same employee should not handle and record receipts and disbursements. We recommend the Sheriff segregate these duties or put the following compensating controls in place to offset this significant deficiency:

- An independent person should periodically compare the daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. This individual could document this by initialing the bank deposit, daily checkout sheet, and the receipts ledger.
- An independent person should compare the monthly financial report to the receipts and disbursements ledgers for accuracy. Any difference should be reconciled. This individual could document this by initialing the monthly financial reports.
- An independent person should compare the monthly bank reconciliation to the balance in the checkbook. Any differences should be reconciled. This individual could document this by initialing the bank reconciliation and the balance in the checkbook.

*Sheriff's Response: We are improving this issue from year to year.*

