

**REPORT OF THE AUDIT OF THE
CRITTENDEN COUNTY
SHERIFF'S SETTLEMENT - 2014 TAXES**

**For The Period
April 17, 2014 Through April 15, 2015**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**

EXECUTIVE SUMMARY
AUDIT OF THE
CRITTENDEN COUNTY
SHERIFF'S SETTLEMENT - 2014 TAXES

For The Period
April 17, 2014 Through April 15, 2015

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2014 Taxes for the Crittenden County Sheriff for the period April 17, 2014 through April 15, 2015. 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 2014 taxes of \$3,016,913 for the districts, retaining commissions of \$121,972 to operate the Sheriff's office. The Sheriff distributed 2014 taxes of \$2,888,864 to the districts. Taxes of \$4,496 are due to the districts from the Sheriff and refunds of \$325 are due to the Sheriff from the taxing districts.

Report Comments:

- 2014-001 The Sheriff's Office Lacks Adequate Segregation Of Duties
- 2014-002 The Sheriff Did Not Distribute Taxes By The 10th Of Each Month
- 2014-003 The Sheriff Failed To Settle Tax Collections For The 2012 And 2013 Tax Years
- 2014-004 The Sheriff's Office Did Not Properly Distribute Interest Earned On Tax Accounts

Deposits:

The Sheriff's deposits as of November 12, 2014 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$1,775,182

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.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT.....	1
SHERIFF'S SETTLEMENT - 2014 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 <i>GOVERNMENT AUDITING STANDARDS</i>	11
COMMENTS AND RECOMMENDATIONS.....	15



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 Perry Newcom, Crittenden County Judge/Executive
Honorable Wayne Agent, Crittenden County Sheriff
Members of the Crittenden County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the Crittenden County Sheriff's Settlement - 2014 Taxes for the period April 17, 2014 through April 15, 2015 - 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
Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Perry Newcom, Crittenden County Judge/Executive
Honorable Wayne Agent, Crittenden County Sheriff
Members of the Crittenden County Fiscal Court

Auditor's Responsibility (Continued)

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

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, 2015, 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 17, 2014 through April 15, 2015 of the Crittenden County Sheriff, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2016 on our consideration of the Crittenden 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 Crittenden 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 Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

Honorable Perry Newcom, Crittenden County Judge/Executive

Honorable Wayne Agent, Crittenden County Sheriff

Members of the Crittenden 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:

- 2014-001 The Sheriff's Office Lacks Adequate Segregation Of Duties
- 2014-002 The Sheriff Did Not Distribute Taxes By The 10th Of Each Month
- 2014-003 The Sheriff Failed To Settle Tax Collections For The 2012 And 2013 Tax Years
- 2014-004 The Sheriff's Office Did Not Properly Distribute Interest Earned On Tax Accounts

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal flourish extending to the right.

Mike Harmon

Auditor of Public Accounts

March 31, 2016

CRITTENDEN COUNTY
WAYNE AGENT, SHERIFF
SHERIFF'S SETTLEMENT - 2014 TAXES

For The Period April 17, 2014 Through April 15, 2015

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 359,639	\$ 448,699	\$ 1,432,562	\$ 365,903
Tangible Personal Property	25,201	26,407	97,146	87,228
Fire Protection	1,917			
Increases Through Exonerations	34	33	136	35
Franchise Taxes	40,070	40,228	154,494	
Omitted Bills	251	332	997	255
Limestone, Sand and Gravel Reserves	571	551	2,273	580
Penalties	2,247	3,120	8,906	2,367
Adjusted to Sheriff's Receipt	(1)	18	2	(2)
Gross Chargeable to Sheriff	<u>429,929</u>	<u>519,388</u>	<u>1,696,516</u>	<u>456,366</u>
 <u>Credits</u>				
Exonerations	1,057	1,532	4,211	1,075
Discounts	5,943	7,110	23,506	6,919
Delinquents:				
Real Estate	4,295	7,685	17,079	4,359
Tangible Personal Property	4	4	14	14
Franchise Taxes	<u>32</u>	<u>33</u>	<u>414</u>	
Total Credits	<u>11,331</u>	<u>16,364</u>	<u>45,224</u>	<u>12,367</u>
Taxes Collected	418,598	503,024	1,651,292	443,999
Less: Commissions *	<u>17,790</u>	<u>19,260</u>	<u>66,052</u>	<u>18,870</u>
Taxes Due	400,808	483,764	1,585,240	425,129
Taxes Paid	399,765	482,772	1,581,270	425,057
Refunds (Current and Prior Year)	<u>275</u>	<u>266</u>	<u>1,085</u>	<u>280</u>
Due Districts or (Refund Due Sheriff) as of Completion of Audit	<u>\$ 768</u>	<u>\$ 726</u>	<u>\$ 2,885</u>	<u>\$ (208)</u>

**

* and ** See next page.

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

CRITTENDEN COUNTY
WAYNE AGENT, SHERIFF
SHERIFF'S SETTLEMENT - 2014 TAXES
For The Period April 17, 2014 Through April 15, 2015
(Continued)

* Commissions:

4.25% on	\$ 1,271,460
4% on	\$ 1,651,291
2% on	\$ 94,162

** Special Taxing Districts:

Library	\$ 343
Health	184
Extension	316
Crittenden VFD	(59)
Mattoon VFD	(29)
Tolu VFD	<u>(29)</u>
Due Districts	<u>\$ 726</u>

CRITTENDEN COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2015

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 Crittenden 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.

CRITTENDEN COUNTY
NOTES TO FINANCIAL STATEMENT
April 15, 2015
(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 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, 2015, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of November 12, 2014, 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 \$1,775,182

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2014. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2015. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 15, 2014 through April 15, 2015.

B. Limestone, Sand, And Gravel Taxes

The tangible property tax assessments on limestone, sand, and gravel properties were levied as of January 1, 2014. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was December 10, 2014 through April 15, 2015.

Note 4. Interest Income

The Crittenden County Sheriff earned \$554 as interest income on 2014 taxes. As of March 31, 2016, the Sheriff owed \$291 in interest to the school district and \$263 in interest to his fee account.

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

The Crittenden County Sheriff collected \$13,242 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:

CRITTENDEN COUNTY
NOTES TO FINANCIAL STATEMENT
April 15, 2015
(Continued)

Note 6. Unrefundable Duplicate Payments And Unexplained Receipts (Continued)

2011	\$1,237
2012	\$235
2013	\$1,526
2014	\$639

KRS 393.090 states that after three years, if the funds have not been claimed, they are presumed abandoned. Abandoned funds are required to be sent to the Kentucky State Treasurer pursuant to KRS 393.110.

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 Perry Newcom, Crittenden County Judge/Executive
Honorable Wayne Agent, Crittenden County Sheriff
Members of the Crittenden 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 Crittenden County Sheriff's Settlement - 2014 Taxes for the period April 17, 2014 through April 15, 2015 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated March 31, 2016. The County Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Crittenden 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 Crittenden County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Crittenden 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 2014-001 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 Crittenden 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying comments and recommendations as items 2014-002, 2014-003, and 2014-004.

Sheriff's Responses to Findings

The Crittenden 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,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a horizontal line extending to the right.

Mike Harmon
Auditor of Public Accounts

March 31, 2016

COMMENTS AND RECOMMENDATIONS

CRITTENDEN COUNTY
WAYNE AGENT, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period April 17, 2014 Through April 15, 2015

INTERNAL CONTROL - MATERIAL WEAKNESS:

2014-001 The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office lacks adequate segregation of duties. Inadequate segregation of duties allows one person to have a significant role in processing and recording receipts, disbursements, and cash which includes reconciling bank accounts.

Segregation of duties over these tasks and cross-training deputies, when needed because the number of staff is limited, is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties and cross-training deputies protects employees in the normal course of performing their daily responsibilities.

The Sheriff's bookkeeper collected payments from customers, recorded transactions in the ledgers, prepared deposits, and reconciled the bank account. Due to the lack of adequate segregation of duties or compensating controls, misappropriation of assets, errors, and inaccurate financial reporting to external agencies could occur and not be detected.

We recommend the Sheriff segregate the duties noted above, cross-train deputies to accommodate the rotation of these duties, or implement compensating controls such as designating another employee to provide knowledgeable oversight. Knowledgeable oversight would necessitate an understanding of and ability to perform those same duties if the bookkeeper were absent.

Sheriff Wayne Agent's Response: Official did not respond.

STATE LAWS AND REGULATIONS:

2014-002 The Sheriff Did Not Distribute Taxes By The 10th Of Each Month

The Sheriff did not ensure that tax collections were disbursed by 10th of each month in accordance with KRS 134.191(1).

KRS 134.191(1) states that, "The sheriff shall provide monthly reports by the tenth day of each month to the chief executive of the county, the department, and any other district for which the sheriff collects taxes." Additionally, KRS 134.191(3) states, "At the time of making the report, the sheriff shall pay to the county treasurer or . . . to any other district for which the sheriff collects taxes, all funds belonging to the county, the state, or the district that were collected during the period covered by the report."

The Sheriff collected \$5,434 in January 2015 and \$492 in April 2015 for franchises that have yet to be distributed. Additionally, the Sheriff collected \$25,185 in franchise taxes for May 2015 that were not distributed until July 2015. Since the taxing districts rely on these tax collections to provide public services, those services could suffer as a result of not receiving the proper amount of tax collections.

We recommend that the sheriff comply with KRS 134.191 by distributing all tax collections to the appropriate taxing districts by the 10th of each month.

Sheriff Wayne Agent's Response: We are going to implement new procedures to make sure this doesn't happen again.

CRITTENDEN COUNTY
WAYNE AGENT, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period April 17, 2014 Through April 15, 2015
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2014-003 The Sheriff Failed To Settle Tax Collections For The 2012 And 2013 Tax Years

The 2012 and the 2013 tax collections have not yet been settled according to the determination of fund balances for those years. KRS 134.192(2)(b) states, "The sheriff shall settle his or her accounts with the county, the school district, and any other taxing district for which he or she collects taxes." The Sheriff failed to ensure that tax collections for the 2012 and 2013 tax years were properly settled. Amounts due to/from taxing districts were not collected or paid. The taxing districts rely on these tax collections to provide services, and these services could suffer as a result of not receiving the correct tax collections. We recommend that the Sheriff settle his 2012 and 2013 as required by paying amounts as itemized on the attached determination of fund balance for those prior tax years.

Sheriff Wayne Agent's Response: This has now been resolved.

2014-004 The Sheriff's Office Did Not Properly Distribute Interest Earned On Tax Accounts

The Sheriff's office did not distribute any interest earned on the 2014 tax collections. KRS 134.140 requires the sheriff to pay monthly "that part of the investment earnings for the month which are attributable to the investment of school taxes." KRS 134.140 requires the remaining monthly interest to be transferred to the Sheriff's fee account.

During the 2014 tax year, the Sheriff's office earned \$554 in interest. The Sheriff did not pay the interest owed to the school of \$291 nor did the Sheriff pay the \$263 interest owed to the Sheriff's fee account. The Sheriff's office and school district rely on these investment earnings to provide services, and these services could suffer as a result of not receiving the correct tax collections. Additionally funds could be misappropriated if not distributed properly.

We recommend the Sheriff comply with KRS 134.140 by remitting interest due to the Sheriff's fee account and school taxing district on a monthly basis.

Sheriff Wayne Agent's Response: We are now in compliance with this finding.

