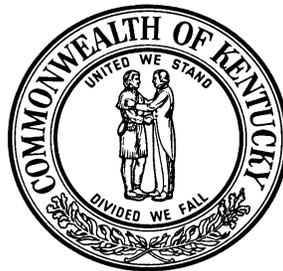


**REPORT OF THE AUDIT OF THE
POWELL COUNTY
SHERIFF'S SETTLEMENT - 2017 TAXES**

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



**MIKE HARMON
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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 James Anderson, Powell County Judge/Executive
The Honorable Danny Rogers, Powell County Sheriff
Members of the Powell County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the Powell County Sheriff's Settlement - 2017 Taxes for the period April 18, 2017 through April 16, 2018 - Regulatory Basis, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Audit Guide for Sheriff's Tax Settlements*, issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

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



To the People of Kentucky
The Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
The Honorable James Anderson, Powell County Judge/Executive
The Honorable Danny Rogers, Powell County Sheriff
Members of the Powell 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 Powell 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 Powell County Sheriff, for the period April 18, 2017 through April 16, 2018.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the taxes charged, credited, and paid for the period April 18, 2017 through April 16, 2018 of the Powell 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 April 10, 2019, on our consideration of the Powell 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 Powell 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 James Anderson, Powell County Judge/Executive

The Honorable Danny Rogers, Powell County Sheriff

Members of the Powell 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 discuss the following report comments:

- 2017-001 The Sheriff's Annual Tax Settlement Did Not Include The Amount Of Franchise Taxes Disbursed
- 2017-002 The Sheriff's Office Lacks Adequate Segregation Of Duties
- 2017-003 The Sheriff Did Not Have Proper Controls Over Bank Reconciliations
- 2017-004 The Sheriff Did Not Settle The 2016 Tax Account
- 2017-005 The Sheriff Did Not Settle The 2015 Tax Account

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

April 10, 2019

POWELL COUNTY
DANNY ROGERS, SHERIFF
SHERIFF'S SETTLEMENT - 2017 TAXES

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

| <u>Charges</u> | County Taxes | Special Taxing Districts | School Taxes | State Taxes |
|--------------------------------------|----------------|-----------------------------|------------------|----------------|
| Real Estate | \$ 394,515 | \$ 570,875 | \$ 1,601,496 | \$ 476,543 |
| Tangible Personal Property | 22,941 | 29,592 | 83,016 | 86,139 |
| Fire Protection | 1,261 | | | |
| Franchise Taxes | 54,964 | 71,659 | 200,045 | |
| Additional Billings | 85 | 114 | 315 | 47 |
| Oil Property Taxes | 228 | 331 | 927 | 276 |
| Clay Property Taxes | 60 | 87 | 244 | 73 |
| Limestone, Sand, and Gravel Reserves | 696 | 1,007 | 2,826 | 841 |
| Penalties | 3,821 | 5,506 | 15,446 | 4,681 |
| Adjusted to Sheriff's Receipt | (106) | 60 | 160 | (118) |
| Gross Chargeable to Sheriff | <u>478,465</u> | <u>679,231</u> | <u>1,904,475</u> | <u>568,482</u> |
| <u>Credits</u> | | | | |
| Exonerations | 2,195 | 3,175 | 8,908 | 2,651 |
| Discounts | 6,183 | 8,830 | 24,768 | 7,604 |
| Delinquents: | | | | |
| Real Estate | 21,482 | 31,011 | 86,996 | 25,887 |
| Tangible Personal Property | 40 | 52 | 145 | 836 |
| Total Credits | <u>29,900</u> | <u>43,068</u> | <u>120,817</u> | <u>36,978</u> |
| Taxes Collected | 448,565 | 636,163 | 1,783,658 | 531,504 |
| Less: Commissions * | <u>19,064</u> | <u>27,037</u> | <u>71,346</u> | <u>22,589</u> |
| Taxes Due | 429,501 | 609,126 | 1,712,312 | 508,915 |
| Taxes Paid | 428,989 | 608,406 | 1,710,309 | 508,578 |
| Refunds (Current and Prior Year) | <u>382</u> | <u>526</u> | <u>1,466</u> | <u>337</u> |
| Due Districts | | | | |
| as of Completion of Audit | <u>\$ 130</u> | <u>\$ 194</u> | <u>\$ 537</u> | <u>\$ 0</u> |

**

* and ** See next page.

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

POWELL COUNTY
DANNY ROGERS, SHERIFF
SHERIFF'S SETTLEMENT - 2017 TAXES
For The Period April 18, 2017 Through April 16, 2018
(Continued)

* Commissions:

| | | |
|----------|----|-----------|
| 4.25% on | \$ | 1,616,232 |
| 4% on | \$ | 1,783,658 |

** Special Taxing Districts:

| | | |
|--------------------|----|-------------------|
| Library District | \$ | 75 |
| Health District | | 72 |
| Extension District | | <u>47</u> |
| Due Districts | \$ | <u><u>194</u></u> |

POWELL COUNTY
NOTES TO FINANCIAL STATEMENT

April 16, 2018

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

KRS 66.480 authorizes the sheriff's office to invest in obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Powell 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 Powell County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of April 16, 2018, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

POWELL COUNTY
NOTES TO FINANCIAL STATEMENT
April 16, 2018
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2017. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2017. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 30, 2017 through April 16, 2018.

B. Oil Property Taxes

The oil property tax assessments were levied as of January 1, 2017. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 13, 2017 through May 15, 2018.

C. Clay Property Taxes

The clay property tax assessments were levied as of January 1, 2017. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 13, 2017 through May 15, 2018.

D. Limestone, Sand, and Gravel Reserves

The limestone, sand, and gravel property tax assessments were levied as of January 1, 2017. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 13, 2017 through May 15, 2018.

E. Franchise Taxes

The franchise tax assessments were levied by the Department of Revenue for various tax years. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was April 18, 2017 through April 16, 2018.

Note 4. Interest Income

The Powell County Sheriff earned \$101 as interest income on 2017 taxes. The sheriff was in substantial compliance with his statutory responsibilities.

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

The Powell County Sheriff collected \$23,226 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the sheriff's office. As of April 10, 2019, the Sheriff owed \$6,570 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*

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable James Anderson, Powell County Judge/Executive
The Honorable Danny Rogers, Powell County Sheriff
Members of the Powell 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 Powell County Sheriff's Settlement - 2017 Taxes for the period April 18, 2017 through April 16, 2018 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated April 10, 2019. The Powell 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 Powell 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 Powell County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Powell County Sheriff's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2017-001 and 2017-002 to be material weaknesses.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards*
(Continued)

Internal Control Over Financial Reporting (Continued)

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. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2017-003 to be a significant deficiency.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Powell 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 Schedule of Findings and Responses as items 2017-001, 2017-004, and 2017-005.

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

April 10, 2019

SCHEDULE OF FINDINGS AND RESPONSES

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POWELL COUNTY
DANNY ROGERS, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

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

FINANCIAL STATEMENT FINDINGS:

2017-001 The Sheriff's Annual Tax Settlement Did Not Include The Amount Of Franchise Taxes Disbursed

This is a repeat finding and was included in the prior year audit report as finding 2016-001. The sheriff presented his annual tax settlement to the fiscal court on October 9, 2018, for regular tax collections along with a receipts ledger for franchise taxes collected. However, for franchise taxes there were no amounts listed as being paid to the taxing districts and for commissions retained by the sheriff's office. The sheriff was unaware that his settlement should include all taxes collected and disbursed for the tax collection period. As a result, the sheriff's annual tax settlement was materially misstated. Material audit adjustments were recommended to correct the sheriff's annual settlement to include amounts paid to the taxing districts. Proper controls over franchise tax disbursements and the preparation of the sheriff's annual tax settlement would ensure franchise tax disbursements are included on the sheriff's annual tax settlement. Furthermore, KRS 134.192(5) states in part, "[t]he settlement shall show the amount of ad valorem tax collected for the county, the school district, and all taxing districts, and an itemized statement of the money disbursed to or on behalf of the county, the school district, and all taxing districts." We recommend the sheriff implement controls to ensure that all taxes collected and disbursed are included on his annual tax settlement in the future.

Sheriff's Response: The sheriff did not provide a response.

2017-002 The Sheriff's Office Lacks Adequate Segregation Of Duties

This is a repeat finding and was included in the prior year audit report as finding 2016-002. The sheriff's office lacks adequate segregation of duties. The sheriff's bookkeeper collects payments from customers, prepares deposits, writes checks, posts transactions to the receipts ledger, posts checks to the disbursements ledger, and prepares monthly and quarterly reports. The sheriff or another employee did not document oversight of any of these activities. A lack of oversight could result in misappropriation of assets or inaccurate financial reporting to external agencies such as the Department of Revenue. The segregation of duties over various accounting functions such as opening mail, preparing deposits, recording receipts and disbursements, and preparing monthly reports, or the implementation of compensating controls is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. The sheriff should separate the duties involved in receiving cash, preparing deposits, writing checks, posting to ledgers, preparing monthly bank reconciliations, and comparing financial reports to ledgers. If this is not feasible due to budgetary constraints, cross checking procedures could be implemented and documented by the individual performing the procedure.

Sheriff's Response: The sheriff did not provide a response.

2017-003 The Sheriff Did Not Have Proper Controls Over Bank Reconciliations

This is a repeat finding and was included in the prior year audit report as finding 2016-003. The sheriff did not have proper controls over bank reconciliations. The sheriff does not have procedures in place to ensure that the bank account is reconciled each month and reviewed. This could result in taxes being collected and not paid timely to the taxing districts. Good internal controls dictate that the bank statement be reconciled monthly and reviewed by a person independent of making deposits and writing checks. Bank reconciliations are a tool that can be used to determine that all deposits have been made and that taxes have been properly paid. We recommend that monthly bank reconciliations be prepared and reviewed by the sheriff to determine that all taxes collected have been paid to the taxing districts properly.

Sheriff's Response: The sheriff did not provide a response.

POWELL COUNTY
 DANNY ROGERS, SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Period April 18, 2017 Through April 16, 2018
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-004 The Sheriff Did Not Settle The 2016 Tax Account

The sheriff should collect and pay the amounts listed below in order to properly settle his 2016 tax account.

| <u>Due From:</u> | | <u>Due To:</u> | |
|------------------|-----------------|---|------------------|
| School | \$ 1,024 | Tax Commissions Due Sheriff's Fee Account | \$ 10,261 |
| Total Due From | <u>\$ 1,024</u> | Total Due To | <u>\$ 10,261</u> |

This is caused by errors made during tax collections. As a result, the sheriff is required to collect and pay the amounts listed above. Once this is done, there will be a surplus of \$604 in the bank account which should be escrowed for three years and if not claimed, sent to the Kentucky State Treasurer. KRS 134.192 requires each sheriff to "annually settle his or her accounts with the department, the county, and any district for which the sheriff collects taxes on or before September 1 of each year." We recommend the sheriff collect and pay the amounts listed above as soon as possible.

Sheriff's Response: The sheriff did not provide a response.

2017-005 The Sheriff Did Not Settle The 2015 Tax Account

The sheriff should collect and pay the amounts listed below in order to properly settle his 2015 tax account:

| <u>Due From:</u> | | <u>Due To:</u> | |
|------------------|------------------|--|------------------|
| State | \$ 1,125 | Add-on Fees Due Sheriff's Fee Account (2016) | \$ 8,612 |
| County | 9,732 | Tax Commissions Due Sheriff's Fee Account (2015) | 2,609 |
| Extention | <u>3,305</u> | | |
| Total Due From | <u>\$ 14,162</u> | Total Due To | <u>\$ 11,221</u> |

These errors were caused by the sheriff not having procedures in place to ensure that monthly reports are accurate which were used to pay the taxing districts. As a result, the sheriff is required to collect and pay the amounts listed above. Once this is done, there will be a surplus of \$309 in the account which should be escrowed for three years and if not claimed, sent to the Kentucky State Treasurer. KRS 134.192 requires each sheriff to "annually settle his or her accounts with the department, the county, and any district for which the sheriff collects taxes on or before September 1 of each year." We recommend the sheriff collect and pay the amounts listed above as soon as possible.

Sheriff's Response: The sheriff did not provide a response.