

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

**For The Period  
May 16, 2015 Through May 15, 2016**



**MIKE HARMON  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://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 LEE COUNTY SHERIFF'S SETTLEMENT - 2015 OIL TAXES**

**For The Period  
May 16, 2015 Through May 15, 2016**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2015 Oil Taxes for the Lee County Sheriff for the period May 16, 2015 through May 15, 2016. We have issued an unmodified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

#### **Financial Condition:**

The sheriff collected 2015 oil taxes of \$383,602 for the districts, retaining commissions of \$16,037 to operate the sheriff's office. The sheriff distributed 2015 oil taxes of \$367,565 to the districts.

#### **Report Comment:**

2015-001 The Sheriff Did Not Segregate Accounting Duties

#### **Deposits:**

The sheriff's deposits as of November 4, 2015, were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$222,606

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 - 2015 OIL TAXES.....4

NOTES TO FINANCIAL STATEMENT .....5

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*.....9

COMMENT AND RECOMMENDATION ..... 13





**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 Steve Mays, Jr., Lee County Judge/Executive  
Honorable Wendell Childers, Jr., Lee County Sheriff  
Members of the Lee County Fiscal Court

Independent Auditor's Report

**Report on the Financial Statement**

We have audited the Lee County Sheriff's Settlement - 2015 Oil Taxes for the period May 16, 2015 through May 15, 2016 - Regulatory Basis, and the related notes to the financial statement.

**Management's Responsibility for the Financial Statement**

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

**Auditor's Responsibility**

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

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

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



To the People of Kentucky

Honorable Matthew G. Bevin, Governor  
William M. Landrum III, Secretary  
Finance and Administration Cabinet  
Honorable Steve Mays, Jr., Lee County Judge/Executive  
Honorable Wendell Childers, Jr., Lee County Sheriff  
Members of the Lee 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 Lee 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 Lee County Sheriff, for the period May 16, 2015 through May 15, 2016.

### **Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statement referred to above presents fairly, in all material respects, the taxes charged, credited, and paid for the period May 16, 2015 through May 15, 2016 of the Lee County Sheriff, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 5, 2017, on our consideration of the Lee 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 Lee County Sheriff's internal control over financial reporting and compliance.



To the People of Kentucky

Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

Honorable Steve Mays, Jr., Lee County Judge/Executive

Honorable Wendell Childers, Jr., Lee County Sheriff

Members of the Lee 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:

2015-001 The Sheriff Did Not Segregate Accounting Duties

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

May 5, 2017

LEE COUNTY  
WENDELL CHILDERS, JR., SHERIFF  
SHERIFF'S SETTLEMENT - 2015 OIL TAXES

For The Period May 16, 2015 Through May 15, 2016

<u>Charges</u>	Special			
	<u>County Taxes</u>	<u>Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Oil Property Taxes	\$ 220,797	\$ 144,442	\$ 163,895	\$ 59,333
Penalties	392	257	292	105
Gross Chargeable to Sheriff	<u>221,189</u>	<u>144,699</u>	<u>164,187</u>	<u>59,438</u>
<u>Credits</u>				
Exonerations	66,750	43,667	49,548	17,937
Discounts	1,525	998	1,132	410
Delinquent Oil Property Taxes	8,984	5,877	6,669	2,414
Total Credits	<u>77,259</u>	<u>50,542</u>	<u>57,349</u>	<u>20,761</u>
Taxes Collected	143,930	94,157	106,838	38,677
Less: Commissions *	<u>6,117</u>	<u>4,002</u>	<u>4,274</u>	<u>1,644</u>
Taxes Due	137,813	90,155	102,564	37,033
Taxes Paid	<u>137,813</u>	<u>90,155</u>	<u>102,564</u>	<u>37,033</u>
Due Districts				
as of Completion of Audit	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

\* Commissions:

4.25% on \$ 276,764

4% on \$ 106,838

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

LEE COUNTY  
NOTES TO FINANCIAL STATEMENT

May 15, 2016

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

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

B. Basis of Accounting

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

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

C. Cash and Investments

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

Note 2. Deposits

The Lee County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

LEE COUNTY  
NOTES TO FINANCIAL STATEMENT  
May 15, 2016  
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the sheriff's deposits may not be returned. The 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 May 15, 2016, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of November 4, 2015, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured      \$222,606

Note 3. Tax Collection Period

The oil property tax assessments were levied as of January 1, 2015. Oil property taxes were billed to finance governmental services for the fiscal year ended June 30, 2016. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 13, 2015 through May 15, 2016.

Note 4. Sheriff's 10% Add-On Fee

The Lee County Sheriff collected \$526 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the sheriff's office.

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 Steve Mays, Jr., Lee County Judge/Executive  
Honorable Wendell Childers, Jr., Lee County Sheriff  
Members of the Lee 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 Lee County Sheriff's Settlement - 2015 Oil Taxes for the period May 16, 2015 through May 15, 2016 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated May 5, 2017. The Lee 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 Lee 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 Lee County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lee 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 comment and recommendation, 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 comment and recommendation as item 2015-001 to be a material weakness.



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

### Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Lee 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*.

### 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 long horizontal line extending to the right.

Mike Harmon  
Auditor of Public Accounts

May 5, 2017



COMMENT AND RECOMMENDATION



LEE COUNTY  
WENDELL CHILDERS, JR., SHERIFF  
COMMENT AND RECOMMENDATION

For The Period May 16, 2015 Through May 15, 2016

INTERNAL CONTROL - MATERIAL WEAKNESS:

2015-001 The Sheriff Did Not Segregate Accounting Duties

---

The bookkeeper and part-time deputy clerk both collect and deposit tax receipts, record transactions, prepare the monthly reports, issue disbursements to the taxing districts, and authorize those disbursements. The sheriff instituted compensating controls to offset the lack of segregation such as reviewing and initialing bank reconciliations, agreeing daily tax collections to the bank deposit ticket, and agreeing tax reports to the disbursements prepared. However, one of these controls was not designed properly. The bank statement was reconciled to the checkbook instead of a receipts and disbursements ledger. The sheriff's office also lacked controls over additional tax bills. There was no second level review of additional bills after they were entered into the computer system.

The lack of segregation is due to the sheriff having a limited budget for hiring office personnel. Having one person responsible for the complete accounting cycle resulted in inaccurate financial reporting to the Lee County Fiscal Court and to the taxing districts and allowed a tax bill to be collected for less than the certification.

Proper segregation of accounting duties is essential for preventing asset misappropriation and inaccurate financial reporting. In addition, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the sheriff segregate accounting duties or institute properly designed compensating controls. This could be accomplished by the sheriff reviewing and authorizing all tax disbursements along with another individual who did not prepare the disbursements. The review should be documented by initialing the report used to prepare the disbursements. Additionally, the sheriff, or an individual who does not post deposits and checks to the ledgers, could compare the receipts and disbursements ledgers with the monthly and yearly reports to ensure accuracy. This review should be documented by initialing the ledgers and reports. We also recommend the additional tax bills be reviewed by someone other than the person who enters them into the computer system.

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

