

**REPORT OF THE AUDIT OF THE
MENIFEE COUNTY
SHERIFF'S SETTLEMENT - 2022 TAXES**

**For The Period
September 1, 2022 Through August 31, 2023**



**ALLISON BALL
AUDITOR OF PUBLIC ACCOUNTS
auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE 502.564.5841
FACSIMILE 502.564.2912**

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ALLISON BALL
AUDITOR OF PUBLIC ACCOUNTS

Independent Auditor's Report

To the People of Kentucky
The Honorable Andy Beshear, Governor
Holly M. Johnson, Secretary
Finance and Administration Cabinet
The Honorable Rick Stiltner, Menifee County Judge/Executive
The Honorable Roger Smallwood, Menifee County Sheriff
Members of the Menifee County Fiscal Court

Report on the Audit of the Financial Statement

Opinions

We have audited the accompanying Menifee County Sheriff's Settlement - 2022 Taxes for the period September 1, 2022 through August 31, 2023 - Regulatory Basis, and the related notes to the financial statement.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the accompanying financial statement presents fairly, in all material respects, the taxes charged, credited, and paid for the period September 1, 2022 through August 31, 2023 of the Menifee County Sheriff, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

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 section of our report, the financial statement 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 Menifee County Sheriff, for the period September 1, 2022 through August 31, 2023.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Audit Program for Sheriffs' Tax Settlements*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statement section of our report. We are required to be independent of the Menifee County Sheriff and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



To the People of Kentucky
 The Honorable Andy Beshear, Governor
 Holly M. Johnson, Secretary
 Finance and Administration Cabinet
 The Honorable Rick Stiltner, Menifee County Judge/Executive
 The Honorable Roger Smallwood, Menifee County Sheriff
 Members of the Menifee County Fiscal Court

Basis for Opinions (Continued)

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 Menifee 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 and budget laws, 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 and pervasive.

Responsibilities of Management 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 and budget laws. 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 Responsibilities for the Audit of the Financial Statement

Our objectives are to obtain reasonable assurance about whether the financial statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not an absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statement.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement.
- Obtain an understanding of internal control relevant to the audit 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 Menifee County Sheriff's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statement.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Menifee County Sheriff's ability to continue as a going concern for a reasonable period of time.

To the People of Kentucky
The Honorable Andy Beshear, Governor
Holly M. Johnson, Secretary
Finance and Administration Cabinet
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The Honorable Roger Smallwood, Menifee County Sheriff
Members of the Menifee County Fiscal Court

Auditor's Responsibilities for the Audit of the Financial Statement (Continued)

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2023, on our consideration of the Menifee 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 effectiveness of 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 Menifee County Sheriff's internal control over financial reporting and compliance.

Based on the results of our audit, we have presented the accompanying Schedule of Findings and Responses, included herein, which discusses the following report findings:

- 2022-001 The Sheriff's Office Does Not Have Adequate Segregation Of Duties
- 2022-002 The Sheriff's Annual Settlement Was Materially Misstated
- 2022-003 The Sheriff Did Not Sign The Official Receipt Timely

Respectfully submitted,



Allison Ball
Auditor of Public Accounts
Frankfort, Ky

November 29, 2023

MENIFEE COUNTY
 ROGER SMALLWOOD, SHERIFF
SHERIFF'S SETTLEMENT - 2022 TAXES

For The Period September 1, 2022 Through August 31, 2023

	County	Special Taxing Districts	School	State
<u>Charges</u>				
Real Estate	\$ 208,433	\$ 827,497	\$ 919,465	\$ 196,907
Tangible	7,972	29,595	31,267	26,668
Total Per Sheriff's Official Receipt	216,405	857,092	950,732	223,575
<u>Other Taxes & Charges</u>				
Franchise Taxes	70,992	265,246	281,680	
Additional Billings	155	617	687	147
Penalties	975	3,876	4,307	921
Gross Chargeable to Sheriff	288,527	1,126,831	1,237,406	224,643
<u>Credits</u>				
Exonerations	4,781	19,041	21,214	4,543
Discounts	3,212	12,688	14,071	3,253
Delinquent Real Estate	10,035	39,883	44,269	9,480
Delinquent Tangible	2	7	7	6
Total Credits	18,030	71,619	79,561	17,282
Taxes Collected	270,497	1,055,212	1,157,845	207,361
Less: Sheriff's Commissions*	11,496	38,103	46,314	8,813
Taxes Due Districts	259,001	1,017,109	1,111,531	198,548
Taxes Paid	258,065	1,013,524	1,110,002	198,148
Refunds (Current and Prior Year)	257	1,023	1,127	247
Taxes Due Districts	<u>\$ 679</u>	<u>\$ 2,562</u>	<u>\$ 402</u>	<u>\$ 153</u>
		**		

* and ** See next page.

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

MENIFEE COUNTY
ROGER SMALLWOOD, SHERIFF
SHERIFF'S SETTLEMENT - 2022 TAXES
For The Period September 1, 2022 Through August 31, 2023
(Continued)

* Commissions:

4.25% on \$ 1,145,300

4% on \$ 1,353,139

1% on \$ 192,476

** Special Taxing Districts:

Library District \$ 691

Health District 402

Extension District 398

Soil Conservation District 92

Ambulance District 493

Fire Protection District 486

Due Districts \$ 2,562

MENIFEE COUNTY
NOTES TO FINANCIAL STATEMENT

August 31, 2023

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).

D. Preparation of State Settlement

The Kentucky Department of Revenue prepares the settlement relating to taxes collected for the state under the provision of KRS 134.192(2)(a). This is reported as the "State Taxes" column on the financial statement.

Note 2. Deposits

The Menifee County Sheriff maintained deposits of public funds with federally insured banking institutions as required by the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*. The DLG Manual strongly recommends perfected pledges of securities covering all public funds except direct federal obligations and funds protected by federal insurance. In order to be perfected 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. These requirements were met.

MENIFEE COUNTY
NOTES TO FINANCIAL STATEMENT
August 31, 2023
(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 Menifee County Sheriff does not have a deposit policy for custodial credit risk, but rather follows the requirements of the DLG *County Budget Preparation and State Local Finance Officer Policy Manual*. As of August 31, 2023, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2022. Property taxes were billed to finance governmental services for the fiscal year ending June 30, 2022. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 1, 2022 through April 17, 2023.

B. Franchise Taxes

The franchise tax assessments were levied by the Department of Revenue for various tax years. Franchise taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was June 1, 2022 through April 30, 2023.

Note 4. Interest Income

The Menifee County Sheriff earned \$16 as interest income on 2022 taxes. As of November 29, 2023, the sheriff owed \$1 in interest to the school district and \$15 in interest to his fee account.

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

The Menifee County Sheriff collected \$7,514 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the sheriff's office.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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ALLISON BALL
AUDITOR OF PUBLIC ACCOUNTS

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

The Honorable Rick Stiltner, Menifee County Judge/Executive
The Honorable Roger Smallwood, Menifee County Sheriff
Members of the Menifee County Fiscal Court

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 Menifee County Sheriff's Settlement - 2022 Taxes for the period September 1, 2022 through August 31, 2023 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated November 29, 2023. The Menifee 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.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Menifee County Sheriff's internal control over financial reporting (internal control) as a basis for designing 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 Menifee County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Menifee 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 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.

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 Schedule of Findings and Responses as items 2022-001, 2022-002, and 2022-003 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)

Report on Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Menifee County Sheriff's financial statement is free from 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 financial statement. 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and is described in the accompanying Schedule of Findings and Responses as item 2022-003.

Views of Responsible Official and Planned Corrective Action

The Menifee County Sheriff's views and planned corrective action for the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Menifee County 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,



Allison Ball
Auditor of Public Accounts
Frankfort, Ky

November 29, 2023

SCHEDULE OF FINDINGS AND RESPONSES

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MENIFEE COUNTY
ROGER SMALLWOOD, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Period September 1, 2022 Through August 31, 2023

FINANCIAL STATEMENT FINDINGS:

2022-001 The Sheriff's Office Does Not Have Adequate Segregation Of Duties

This is a repeat finding and was included in the prior year audit report as finding 2021-002. The sheriff's office does not have adequate segregation of duties. The employee responsible for handling tax receipts also records the receipts in the ledger and prepares the bank deposits.

The sheriff indicated that this was caused by a limited number of employees that were available to segregate these job duties. Inadequate segregation of duties allows for one person to have a significant role in processing and recording receipts and disbursements, which increases the risk of undetected misappropriation of assets and inaccurate financial reporting.

Good internal controls dictate the same employee should not handle, record, and reconcile receipts. Further, the same employee should not be responsible for preparing, recording, and reconciling disbursements. 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. If this is not feasible due to budgetary constraints, cross checking procedures could be implemented and documented by the individual performing the procedure.

We recommend the sheriff segregate duties over accounting functions. If these duties cannot be segregated, the sheriff should implement and document compensating controls to help offset this weakness, such as:

- Recount and make the daily deposits.
- Agree daily tax collections total to the receipts ledger and deposit slip.
- Agree monthly tax reports to receipts ledger and disbursements ledger.

Sheriff's Response: Segregation of duties is a problem that our office has each year. This is due to the fact that our office is very small and we only have 2 (two) part time clerical employees. Our audits have consistently been accurate therefore this does not seem to present a problem in our office.

2022-002 The Sheriff's Annual Settlement Was Materially Misstated

This is a repeat finding and was included in the prior year audit report as finding 2021-001. The sheriff's annual settlement was materially misstated due to various recording mistakes totaling \$96,570. As a result of this, the following adjustments had to be made to the annual settlement:

- Real Estate Taxes of \$29
- Franchise Taxes of \$50,482
- Additional Bill Taxes of \$690
- Exonerations of \$91
- Discounts of \$922
- Delinquent Real Estate Taxes of (\$1,391)
- Taxes Paid \$43,761
- Commissions of \$1,986

MENIFEE COUNTY
ROGER SMALLWOOD, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Period September 1, 2022 Through August 31, 2023
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2022-002 The Sheriff's Annual Settlement Was Materially Misstated (Continued)

The sheriff did not implement proper internal controls to ensure the activity for tax collections was accurately reflected in the annual tax settlement. By not having an accurate tax settlement the fiscal court cannot determine whether problems exist in tax collections. Effective internal controls over financial reporting are essential to ensure financial reports are accurate. The settlement shall show the amount of taxes collected and disbursed for the county, school, and each taxing district.

We recommend the sheriff's office prepare an accurate annual settlement.

Sheriff's Response: This was my, [office manager's name redacted], fault. I put this information into the wrong account. This has been adjusted/corrected and no further action needs to be taken.

2022-003 The Sheriff Did Not Sign The Official Receipt Timely

The sheriff did not sign the official receipt when the tax bills were delivered to his office. Tax collections started on October 1, 2022, but the sheriff did not sign for them until June 12, 2023. Tax collections occurred before the sheriff accepted responsibility for the tax bills. The sheriff failed to monitor tax collection dates and provide oversight of the acceptance of property tax bills.

KRS 133.220(3) states, "[t]ax bills prepared in accordance with the certification of the department shall be delivered to the sheriff or collector by the county clerk before September 15 of each year. The clerk shall take a receipt showing the number of tax bills and the total amount of tax due each taxing district as shown upon the tax bills. The receipt shall be signed and acknowledged by the sheriff or collector before the county clerk, filed with the county judge/executive, and recorded in the order book of the county judge/executive in the manner required by law for recording the official bond of the sheriff."

We recommend the sheriff sign the official receipt for property tax bills before collections start.

Sheriff's Response: The County Clerk did not send this form to our office until the date it was signed. Myself being new to the position, was not aware that this needed to be done. It has been corrected and the official receipt was signed before tax collection began. The 2022 Tax Account usually has some discrepancies when paying commissions. Upon receiving the audit report, checks are being cut to each taxing district for the unpaid balance.