

REPORT OF THE AUDIT OF THE  
**WHITLEY COUNTY**  
**SHERIFF'S SETTLEMENT – 2013 TAXES**  
FOR THE PERIOD  
APRIL 16, 2013 THROUGH APRIL 15, 2014



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

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



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**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**WHITLEY COUNTY**  
**SHERIFF'S SETTLEMENT - 2013 TAXES**

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

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2013 Taxes for the Whitley County Sheriff for the period April 16, 2013 through April 15, 2014. We have issued an unmodified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$7,773,685 for the districts for 2013 taxes, retaining commissions of \$322,324 to operate the Sheriff's office. The Sheriff distributed taxes of \$7,376,567 to the districts for 2013 taxes. Taxes of \$321 are due to the districts from the Sheriff.

**Report Comments:**

- 2013-01 The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits  
2013-02 The Sheriff's Office Lacks Adequate Segregation Of Duties

**Deposits:**

The Sheriff's deposits as November 6, 2013 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$341,504

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

To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Lori H. Flanery, Secretary  
Finance and Administration Cabinet  
Honorable Pat Wright, Jr., Whitley County Judge/Executive  
Honorable Colan Harrell, Whitley County Sheriff  
Members of the Whitley County Fiscal Court

Independent Auditor's Report

**Report on the Financial Statement**

We have audited the Whitley County Sheriff's Settlement - 2013 Taxes for the period April 16, 2013 through April 15, 2014 - regulatory basis, and the related notes to the financial statement.

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

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

**Auditor's Responsibility**

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

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



To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Lori H. Flanery, Secretary  
Finance and Administration Cabinet  
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Members of the Whitley 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 opinions.

### **Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles**

As described in Note 1 of the financial statement, the financial statement is prepared by the County Sheriff on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

### **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the County Sheriff, as of April 15, 2014, or changes in financial position or cash flows thereof for the year then ended.

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

In our opinion, the financial statement referred to above presents fairly, in all material respects, the taxes charged, credited, and paid for the period April 16, 2013 through April 15, 2014 of the Whitley County Sheriff, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

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

In accordance with Government Auditing Standards, we have also issued our report dated November 5, 2014 on our consideration of the Whitley 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 Whitley County Sheriff's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control over financial reporting and compliance.


To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Lori H. Flanery, Secretary  
Finance and Administration Cabinet  
Honorable Pat Wright, Jr., Whitley County Judge/Executive  
Honorable Colan Harrell, Whitley County Sheriff  
Members of the Whitley 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:

- 2013-01 The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits
- 2013-02 The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,



Adam H. Edelen  
Auditor of Public Accounts

November 5, 2014

WHITLEY COUNTY  
COLAN HARRELL, SHERIFF  
SHERIFF'S SETTLEMENT - 2013 TAXES

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

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 767,009	\$ 1,563,518	\$ 2,747,309	\$ 1,199,995
Tangible Personal Property	140,614	345,604	227,545	398,934
Fire Protection	1			
Franchise Taxes	104,795	234,400	402,672	
Prior Year Additional Billings	999	2,031	2,018	1,597
Additional Billings	210	429	1,125	340
Unmined Coal - 2012 Taxes	4,817	9,818	23,835	7,534
Unmined Coal - 2013 Taxes	7,679	15,654	38,002	12,011
Oil Property Taxes	1,035	2,110	5,123	1,619
Gas Property Taxes	7,148	14,570	35,372	11,180
Clay Property Taxes	11	22	54	17
2012 Gas Property Taxes	48	97	236	75
Penalties	6,465	13,367	24,208	10,144
Adjusted to Sheriff's Receipt	<u>3,767</u>	<u>(175)</u>	<u>(61)</u>	<u>(235)</u>
Gross Chargeable to Sheriff	<u>1,044,598</u>	<u>2,201,445</u>	<u>3,507,438</u>	<u>1,643,211</u>
<u>Credits</u>				
Exonerations	6,581	13,594	25,664	12,060
Discounts	13,559	28,644	42,641	23,883
Delinquents:				
Real Estate	44,238	89,480	184,640	68,657
Prior Year Real Estate	319	642	1,631	499
Tangible Personal Property	1,701	4,037	3,585	3,543
Unmined Coal - 2013 Taxes	429	875	2,123	671
Unmined Coal - 2012 Taxes	566	1,153	2,799	885
2012 Gas Property Taxes	4	8	19	6
Franchise Taxes	<u>6,682</u>	<u>15,858</u>	<u>21,331</u>	
Total Credits	<u>74,079</u>	<u>154,291</u>	<u>284,433</u>	<u>110,204</u>
Taxes Collected	970,519	2,047,154	3,223,005	1,533,007
Less: Commissions *	<u>41,247</u>	<u>87,004</u>	<u>128,920</u>	<u>65,153</u>
Taxes Due	929,272	1,960,150	3,094,085	1,467,854
Taxes Paid	921,744	1,942,964	3,065,529	1,446,330
Refunds (Current and Prior Year)	<u>7,492</u>	<u>17,122</u>	<u>28,388</u>	<u>21,471</u>
Due Districts				
as of Completion of Audit	<u>\$ 36</u>	<u>\$ 64</u>	<u>\$ 168</u>	<u>\$ 53</u>
		**	***	

\*, \*\*, and, \*\*\* See next page.

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



WHITLEY COUNTY  
COLAN HARRELL, SHERIFF  
SHERIFF'S SETTLEMENT - 2013 TAXES  
For The Period April 16, 2013 Through April 15, 2014  
(Continued)

\* Commissions:

4.25% on \$4,550,679

4% on \$3,223,006

\*\* Special Taxing Districts:

Library District \$ 19

Health District 19

Extension District 26

Due Districts \$ 64

\*\*\* School Districts:

Whitley County School \$ 158

Corbin Independent School 10

Due Districts \$ 168

WHITLEY COUNTY  
NOTES TO FINANCIAL STATEMENT

April 15, 2014

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

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

B. Basis of Accounting

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

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

C. Cash and Investments

KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Whitley 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. These requirements were not met, as the Sheriff did not have a written agreement with the bank.

WHITLEY COUNTY  
NOTES TO FINANCIAL STATEMENT  
April 15, 2014  
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Whitley County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). On November 6, 2013, the Sheriff's bank balance was exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured      \$341,504

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2013. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2014. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 11, 2013 through April 15, 2014.

B. Unmined Coal Taxes - 2012

The tangible property tax assessments on unmined coal property were levied as of January 1, 2012. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was February 26, 2013 through August 15, 2014.

C. Unmined Coal Taxes - 2013

The tangible property tax assessments on unmined coal property were levied as of January 1, 2013. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was February 25, 2014 through August 15, 2014.

D. Gas, Oil, and Clay Properties

The tangible property tax assessments on gas, oil, and clay properties were levied as of January 1, 2013. 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 8, 2013 through May 15, 2014.

Note 4. Interest Income

The Whitley County Sheriff earned \$2,319 as interest income on 2013 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

WHITLEY COUNTY  
NOTES TO FINANCIAL STATEMENT  
April 15, 2014  
(Continued)

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

The Whitley County Sheriff collected \$47,271 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



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

The Honorable Pat Wright, Jr., Whitley County Judge/Executive  
Honorable Colan Harrell, Whitley County Sheriff  
Members of the Whitley 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 Whitley County Sheriff's Settlement - 2013 Taxes for the period April 16, 2013 through April 15, 2014 - regulatory basis and the related notes to the financial statement and have issued our report thereon dated November 5, 2014.

**Internal Control Over Financial Reporting**

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 2013-02 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 Whitley 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 an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations as item 2013-01.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Adam H. Edelen  
Auditor of Public Accounts

November 5, 2014

WHITLEY COUNTY  
COLAN HARRELL, SHERIFF  
COMMENTS AND RECOMMENDATIONS

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

STATE LAWS AND REGULATIONS:

2013-01 The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

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On November 6, 2013, \$341,504 of the Sheriff's deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$250,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The Sheriff should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (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.

*Sheriff's Response: No response.*

INTERNAL CONTROL - MATERIAL WEAKNESS:

2013-02 The Sheriff's Office Lacks Adequate Segregation Of Duties

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The Sheriff's office lacks adequate segregation of duties. As a result of a limited budget, which restricts the number of employees the Sheriff can hire and not delegating duties within the office, the bookkeeper collects tax payments from customers, prepares the deposits, and prepares monthly tax reports. The bookkeeper also takes the deposits to the bank, prepares the monthly payments to the taxing districts, signs the checks, and performs monthly bank reconciliations. The Sheriff has implemented compensating controls such as another deputy recalculating deposit, monthly reports, and bank reconciliations; however the Sheriff or another employee did not document oversight of any of these activities. The Sheriff does review all tax reports, disbursement documentation, and signs all checks.

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/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. Lack of oversight could result in misappropriation of assets and/or inaccurate financial reporting to external agencies such as the Department for Local Government, which could occur and go undetected.



WHITLEY COUNTY  
COLAN HARRELL, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Period April 16, 2013 Through April 15, 2014  
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESS: (Continued)

2013-02 The Sheriff's Office Lacks Adequate Segregation Of Duties

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We recommend the Sheriff separate the duties of collecting taxes, preparing daily deposits, preparing and mailing disbursements, and preparing financial reports. If these duties could not be segregated due to limited staff or limited budget, then strong oversight should be provided to the employee responsible for these duties. Ideally, the Sheriff should provide this oversight. If the Sheriff does implement additional compensating controls, these should be noted on appropriate source documentation.

*Sheriff's Response: No response.*