

**REPORT OF THE AUDIT OF THE
BALLARD COUNTY
SHERIFF'S SETTLEMENT - 2016 TAXES**

**For The Period
April 16, 2016 Through April 17, 2017**



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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 Todd Cooper, Ballard County Judge/Executive
The Honorable Carey Batts, Ballard County Sheriff
Members of the Ballard County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the Ballard County Sheriff's Settlement - 2016 Taxes for the period April 16, 2016 through April 17, 2017 - 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
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Members of the Ballard 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 Ballard 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 Ballard County Sheriff, for the period April 16, 2016 through April 17, 2017.

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, 2016 through April 17, 2017 of the Ballard 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 6, 2018, on our consideration of the Ballard 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 Ballard 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 Todd Cooper, Ballard County Judge/Executive
The Honorable Carey Batts, Ballard County Sheriff
Members of the Ballard 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 discusses the following report comments:

- 2016-001 The Ballard County Sheriff Failed To Perform Daily Checkout Procedures Or Make Daily Deposits
- 2016-002 The Ballard County Sheriff's Office Lacks Adequate Segregation Of Duties

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

April 6, 2018

BALLARD COUNTY
CAREY BATTS, SHERIFF
SHERIFF'S SETTLEMENT - 2016 TAXES

For The Period April 16, 2016 Through April 17, 2017

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 862,384	\$ 598,073	\$ 2,119,691	\$ 491,639
Tangible Personal Property	121,289	84,167	303,800	430,199
Fire Protection	680			
Increases Through Exonerations				1,051
Franchise Taxes	139,524	75,401	351,662	
Additional Billings	67	31	165	94
Limestone, Sand, and Gravel Reserves	9	6	23	5
Bank Franchises	25,683			
Penalties	4,012	2,724	9,865	2,411
Adjusted to Sheriff's Receipt	(2)	(9,471)	3	(1)
Gross Chargeable to Sheriff	<u>1,153,646</u>	<u>750,931</u>	<u>2,785,209</u>	<u>925,398</u>
 <u>Credits</u>				
Exonerations	9,469	6,009	23,585	6,105
Discounts	15,899	10,471	37,924	15,742
Delinquents:				
Real Estate	15,438	10,495	37,937	8,799
Tangible Personal Property	282	174	706	604
Franchise Taxes	3,808	1,072	9,280	
Total Credits	<u>44,896</u>	<u>28,221</u>	<u>109,432</u>	<u>31,250</u>
Taxes Collected	1,108,750	722,710	2,675,777	894,148
Less: Commissions *	<u>47,122</u>	<u>29,857</u>	<u>96,328</u>	<u>38,001</u>
Taxes Due	1,061,628	692,853	2,579,449	856,147
Taxes Paid	1,059,500	691,014	2,574,048	854,536
Refunds (Current and Prior Year)	<u>2,128</u>	<u>979</u>	<u>5,401</u>	<u>1,611</u>
Due Districts or (Refunds Due Sheriff) as of Completion of Audit	<u>\$ 0</u>	<u>\$ 860</u>	<u>\$ 0</u>	<u>\$ 0</u>
		**		

* and ** See next page.

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

BALLARD COUNTY
CAREY BATTS, SHERIFF
SHERIFF'S SETTLEMENT - 2016 TAXES
For The Period April 16, 2016 Through April 17, 2017
(Continued)

* Commissions:

4.25% on	2,382,231
4% on	343,377
3.6% on	2,675,777

** Special Taxing Districts:

Ambulance District	\$ 860
Due District	\$ 860

BALLARD COUNTY
NOTES TO FINANCIAL STATEMENT

April 17, 2017

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 Ballard 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 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 17, 2017, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of November 7, 2016, 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 \$345,202

BALLARD COUNTY
NOTES TO FINANCIAL STATEMENT
April 17, 2017
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2016. 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 September 30, 2016 through April 17, 2017.

B. Limestone, Sand, and Gravel Property Taxes

The limestone, sand, and gravel property tax assessments were levied as of January 1, 2016. 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 16, 2016 through April 17, 2017.

C. 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 16, 2016 through May 31, 2017.

Note 4. Interest Income

The Ballard County Sheriff earned \$2,258 as interest income on 2016 taxes. The sheriff was in substantial compliance with his statutory responsibilities.

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

The Ballard County Sheriff collected \$16,208 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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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Todd Cooper, Ballard County Judge/Executive
The Honorable Carey Batts, Ballard County Sheriff
Members of the Ballard 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 Ballard County Sheriff's Settlement - 2016 Taxes for the period April 16, 2016 through April 17, 2017 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated April 6, 2018. The Ballard 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 Ballard 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 Ballard County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Ballard 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.

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 2016-001 and 2016-002 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)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Ballard 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 matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2016-001.

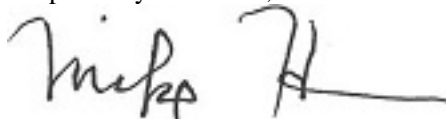
Views of Responsible Official and Planned Corrective Action

The Ballard County Sheriff's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Ballard 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,



Mike Harmon
Auditor of Public Accounts

April 6, 2018

SCHEDULE OF FINDINGS AND RESPONSES

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BALLARD COUNTY
CAREY BATTS, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Period April 16, 2016 Through April 17, 2017

FINANCIAL STATEMENT FINDINGS:

2016-001 The Ballard County Sheriff Failed To Perform Daily Checkout Procedures Or Make Daily Deposits

This is a repeat finding and was included in the prior year audit report as finding 2015-001. During tax year 2016, the Ballard County Sheriff did not perform daily checkout procedures or make daily deposits for tax collections. Instead, the sheriff batched tax receipts and made deposits approximately one or two times a week.

According to the staff of the sheriff's office, daily checkout procedures would not be performed due to the small amount of daily tax collections. Also, according to the staff of the sheriff's office, because of a limited staff, sometimes the bookkeeper would be the only person working in the sheriff's office and would not be able to leave the office to take deposits to the bank. Failure to perform daily checkout procedures and make daily deposits leaves tax collections vulnerable to misappropriation and loss.

KRS 68.210 gives the state local finance officer the authority to establish minimum accounting requirements, which includes performing daily check-out procedures and making daily deposits intact to a federally insured financial institution.

We recommend that the sheriff perform daily checkout procedures and deposit tax collections intact daily accordance with the accounting practices established by the state local finance officer pursuant to KRS 68.210.

Sheriff's Response: The Ballard County Sheriff's Office operates on a limited office staff due to limited finances. The office staff is also subject to answering emergency calls, which occasionally leaves only one person in the office. This makes it difficult to make daily deposits. During heavy collection time, daily deposits are a priority. In the future, our goal will be to increase office staff if finances allow.

2016-002 The Ballard County Sheriff's Office Lacks Adequate Segregation Of Duties

This is a repeat finding and was included in the prior year audit report as finding 2015-002. During tax year 2016, the Ballard County Sheriff's office lacked adequate segregation of duties. The bookkeeper was required to perform multiple tasks such as the collection of cash from customers, deposit preparation, bookkeeping, bank reconciliations, preparation of monthly reports, the preparation of checks for disbursements, and the preparation of the annual tax settlement.

According to the sheriff, this condition was the result of a limited budget, which restricted the number of employees the sheriff could hire or delegate duties to. A lack of segregation of duties or strong oversight could result in undetected misappropriation of assets and incorrect financial reporting.

Segregation of duties over these tasks, or the implementation of compensating controls when limited by staff, is essential for providing protection from asset misappropriation and helping to prevent inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To adequately protect against the misappropriation of assets, we recommend the sheriff segregate the duties noted above by allowing different deputies to perform these functions. If this is not feasible due to a lack of staff, then strong management oversight by the sheriff or designee should be implemented. This oversight should include reviewing the deposits, comparing the daily checkout sheets to the monthly reports, and reviewing the monthly bank reconciliations. Documentation, such as the sheriff's or designee's initials or signature, should be provided on those items that are reviewed.

BALLARD COUNTY
CAREY BATTS, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Period April 16, 2016 Through April 17, 2017
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-002 The Ballard County Sheriff's Office Lacks Adequate Segregation Of Duties (Continued)

Sheriff's Response: The Ballard County Sheriff's Office operates on a limited office staff due to limited finances. In the future, my goal will be to employ more office staff if finances allow. In the meantime, I will make efforts to review and double check deposits and monthly bank reconciliations.