

**REPORT OF THE AUDIT OF THE
BUTLER COUNTY
SHERIFF'S SETTLEMENT - 2019 TAXES**

**For The Period
April 16, 2019 Through May 15, 2020**



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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
The Honorable Andy Beshear, Governor
Holly M. Johnson, Secretary
Finance and Administration Cabinet
The Honorable Tim Flener, Butler County Judge/Executive
The Honorable Scottie Ward, Butler County Sheriff
Members of the Butler County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the Butler County Sheriff's Settlement - 2019 Taxes for the period April 16, 2019 through May 15, 2020 - 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 Andy Beshear, Governor
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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 Butler 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 Butler County Sheriff, for the period April 16, 2019 through May 15, 2020.

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, 2019 through May 15, 2020 of the Butler 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 12, 2021, on our consideration of the Butler 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 Butler 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 comment:

2019-001 The Butler County Sheriff’s 2019 Tax Settlement Was Materially Misstated Due To The Omission Of A Taxing District

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

April 12, 2021

BUTLER COUNTY
SCOTTIE WARD, SHERIFF
SHERIFF'S SETTLEMENT - 2019 TAXES

For The Period April 16, 2019 Through May 15, 2020

	Special Taxing			
	County	Districts	School	State
<u>Charges</u>				
Real Estate	\$ 333,497	\$ 1,300,611	\$ 1,751,907	\$ 515,012
Tangible	22,552	103,851	121,036	164,079
Fire Dues		149,325		
Fire Protection	4,513			
Total Per Sheriff's Official Receipt	<u>360,562</u>	<u>1,553,787</u>	<u>1,872,943</u>	<u>679,091</u>
<u>Other Taxes & Charges</u>				
Franchise Taxes	23,189	103,020	124,122	
Additional Billings	44	261	235	48
Mineral Property Taxes	318	1,026	1,672	492
Penalties	1,289	5,421	6,726	2,015
Gross Chargeable to Sheriff	385,402	1,663,515	2,005,698	681,646
<u>Credits</u>				
Exonerations	552	22,552	2,893	892
Discounts	5,703	24,408	29,697	11,012
Delinquent Real Estate	8,531	39,100	44,335	13,033
Delinquent Tangible	200	1,081	1,075	850
Franchise Taxes - Delinquent	439	1,462	2,324	
Total Credits	15,425	88,603	80,324	25,787
Taxes Collected	369,977	1,574,912	1,925,374	655,859
Less: Sheriff's Commissions*	15,724	65,924	77,014	27,874
Taxes Due Districts	354,253	1,508,988	1,848,360	627,985
Taxes Paid	354,170	1,508,676	1,847,919	627,891
Refunds (Current and Prior Year)	79	286	424	94
Taxes Due Districts (Refund Due Sheriff)	<u>\$ 4</u>	<u>\$ 26</u>	<u>\$ 17</u>	<u>\$ 0</u>
		**		

* and ** See next page.

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

BUTLER COUNTY
 SCOTTIE WARD, SHERIFF
 SHERIFF'S SETTLEMENT - 2019 TAXES
 For The Period April 16, 2019 Through May 15, 2020
 (Continued)

* Commissions:

4.25% on \$ 2,197,360

4% on \$ 2,328,762

** Special Taxing Districts:

Library District \$ (16)

Health District 2

Extension District (8)

Ambulance District 4

Big Reedy Watershed 1

City of Morgantown 43

Due Districts or

(Refunds Due Sheriff) \$ 26

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENT

May 15, 2020

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 Butler 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 fiscal court 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.

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENT
May 15, 2020
(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 Butler 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 May 15, 2020, 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, 2019. Property taxes were billed to finance governmental services for the fiscal year ending June 30, 2020. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 20, 2019 through May 15, 2020.

B. Oil Property Taxes

The oil property tax assessments were levied as of January 1, 2019. 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, 2020 through August 17, 2020. Oil property tax was included in mineral property tax on the financial statement.

C. Limestone, Sand, and Gravel Reserves

The limestone, sand, and gravel property tax assessments were levied as of January 1, 2019. 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, 2020 through August 15, 2020. Limestone, sand, and gravel property tax was included in mineral property tax on the financial statement.

D. 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 May 1, 2019, through May 15, 2020.

Note 4. Interest Income

The Butler County Sheriff earned \$521 as interest income on 2019 taxes. The sheriff was in substantial compliance with his statutory responsibilities.

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

The Butler County Sheriff collected \$11,052 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the sheriff's office.

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENT
May 15, 2020
(Continued)

Note 6. Escrow Account

The sheriff deposited unrefundable payments in an escrow account. The sheriff's escrowed beginning balance was \$774. The sheriff received \$134 and disbursed \$908 resulting in a total ending balance as of January 2020, of \$0. The account was closed in January 2020, with payment being made the Butler County Fiscal Court.

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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 Tim Flener, Butler County Judge/Executive
The Honorable Scottie Ward, Butler County Sheriff
Members of the Butler 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 Butler County Sheriff's Settlement - 2019 Taxes for the period April 16, 2019 through May 15, 2020 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated April 12, 2021. The Butler 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 Butler 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 Butler County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Butler 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 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 Schedule of Findings and Responses as item 2019-001 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 Butler 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 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 2019-001.

Views of Responsible Official and Planned Corrective Action

The Butler County Sheriff's views and planned corrective action for the finding identified in our audit are described in the accompanying Schedule of Findings and Responses. The Butler County Sheriff's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

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 12, 2021

SCHEDULE OF FINDINGS AND RESPONSES

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BUTLER COUNTY
SCOTTIE WARD, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Period April 16, 2019 Through May 15, 2020

FINANCIAL STATEMENT FINDING:

2019-001 The Butler County Sheriff's 2019 Tax Settlement Was Materially Misstated Due To The Omission Of A Taxing District

The Butler County Sheriff's 2019 Tax Settlement was materially misstated due to the omission of taxes related to the City of Morgantown from the settlement.

The following charges and credits for the City of Morgantown were omitted from the sheriff's settlement:

- Penalties were understated by \$188
- Exonerations were understated by \$20,504
- Delinquent real estate taxes were understated by \$1,203
- Delinquent tangible taxes were understated by \$167
- Discounts were understated by \$3,301
- Sheriff's commissions were understated by \$7,642
- Taxes paid were understated by \$172,170

Since this was a new taxing district that was added during tax year 2019, the bookkeeper missed carrying forward formulas on the final settlement workbook for the City of Morgantown taxing district. The sheriff also failed to catch the error when he reviewed and signed the final settlement. Due to the lack of efficient oversight over the preparation of the tax settlement, the undetected errors noted above were allowed to escape detection. In addition, since the sheriff's tax settlement was materially incorrect, the sheriff is not in compliance with KRS 134.192.

KRS 134.192(1) states, "[e]ach sheriff shall annually settle his or her accounts with the department, the county, and any district for which the sheriff collects taxes on or before September 1 of each year. KRS 134.192(2)(b) states, "[t]he sheriff shall settle his or her accounts with the county, the school district, and any other taxing district for which he or she collects taxes."

Good internal controls dictate that procedures be in place to ensure the sheriff's tax settlement is a complete and accurate report of taxes collected.

We recommend the Butler County Sheriff's office strengthen oversight and internal controls in order to ensure a complete and accurate tax settlement is prepared.

Sheriff's Response: We agree with the comments and recommendations made by the auditor and will complete an additional step going forward of having another employee check excel spreadsheets formulas.