

**REPORT OF THE AUDIT OF THE
BREATHITT COUNTY
SHERIFF'S SETTLEMENT - 2021 TAXES**

**For The Period
April 16, 2021 Through August 31, 2022**



**MIKE HARMON
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MIKE HARMON
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 Jeffrey Noble, Breathitt County Judge/Executive
The Honorable John Hollan, Breathitt County Sheriff
Members of the Breathitt County Fiscal Court

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying Breathitt County Sheriff's Settlement - 2021 Taxes for the period April 16, 2021 through August 31, 2022 - 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 April 16, 2021 through August 31, 2022 of the Breathitt 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 Breathitt County Sheriff, for the period April 16, 2021 through August 31, 2022.

Basis for Opinion

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 Guide for Sheriff's 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 Breathitt County Sheriff and to meet our 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 Jeffrey Noble, Breathitt County Judge/Executive
 The Honorable John Hollan, Breathitt County Sheriff
 Members of the Breathitt County Fiscal Court

Basis for Opinion (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 Breathitt 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 Breathitt 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 Breathitt 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
The Honorable Jeffrey Noble, Breathitt County Judge/Executive
The Honorable John Hollan, Breathitt County Sheriff
Members of the Breathitt 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statement as a whole. The Schedule of Excess Liabilities Over Assets is presented for purposes of additional analysis and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statement as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2023, on our consideration of the Breathitt 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 Breathitt 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:

- 2021-001 The Sheriff's Annual Settlement Was Materially Misstated
- 2021-002 The Sheriff Has A Deficit Of \$3,529 In His 2021 Tax Account

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts
Frankfort, Ky

March 23, 2023

BREATHITT COUNTY
JOHN HOLLAN, SHERIFF
SHERIFF'S SETTLEMENT - 2021 TAXES

For The Period April 16, 2021 Through August 31, 2022

	County	Special Taxing Districts	School	State
<u>Charges</u>				
Real Estate	\$ 517,612	\$ 1,268,109	\$ 1,690,226	\$ 353,412
Tangible	52,452	105,145	104,720	52,452
Fire Protection	5,072			
Total Per Sheriff's Official Receipt	575,136	1,373,254	1,794,946	405,864
<u>Other Taxes & Charges</u>				
Franchise Taxes	133,926	335,648	400,101	
Additional Billings	1,038	2,550	3,515	1,411
Oil and Gas Property Taxes	1,158	2,779	4,081	774
Bank Franchises	32,100			
Penalties	2,222	5,287	7,137	1,464
Gross Chargeable to Sheriff	745,580	1,719,518	2,209,780	409,513
<u>Credits</u>				
Exonerations	5,670	13,796	18,256	4,952
Discounts	10,110	22,677	29,276	6,456
Delinquent Real Estate	45,560	108,203	149,130	30,162
Delinquent Tangible	332	855	698	560
Total Credits	61,672	145,531	197,360	42,130
Taxes Collected	683,908	1,573,987	2,012,420	367,383
Less: Sheriff's Commissions*	29,066	66,894	80,497	15,614
Taxes Due Districts	654,842	1,507,093	1,931,923	351,769
Taxes Paid	653,718	1,504,306	1,928,231	351,096
Refunds (Current and Prior Year)	639	1,576	2,074	447
Taxes Due Districts	<u>\$ 485</u>	<u>\$ 1,211</u>	<u>\$ 1,618</u>	<u>\$ 226</u>

**

* and ** See next page.

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

BREATHITT COUNTY
JOHN HOLLAN, SHERIFF
SHERIFF'S SETTLEMENT - 2021 TAXES
For The Period April 16, 2021 Through August 31, 2022
(Continued)

* Commissions:

4.25% on \$ 2,625,278

4% on \$ 2,012,420

** Special Taxing Districts:

Library District	\$	429
Health District		224
Extension District		485
Soil Conservation District		<u>73</u>
Due Districts	\$	<u><u>1,211</u></u>

BREATHITT COUNTY
NOTES TO FINANCIAL STATEMENT

August 31, 2022

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 Breathitt 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.

BREATHITT COUNTY
NOTES TO FINANCIAL STATEMENT
August 31, 2022
(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 Breathitt 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, 2022, 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, 2021. 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 26, 2022 through April 18, 2022.

B. Oil and Gas Property Taxes

The oil and gas property tax assessments were levied as of January 1, 2021. 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, 2022 through August 15, 2022.

C. 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 April 17, 2021 through April 18, 2022.

Note 4. Interest Income

The Breathitt County Sheriff earned \$79 as interest income on 2021 taxes. The sheriff was in substantial compliance with his statutory responsibilities.

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

The Breathitt County Sheriff collected \$13,336 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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BREATHITT COUNTY
JOHN HOLLAN, SHERIFF
SCHEDULE OF EXCESS LIABILITIES OVER ASSETS

For The Period April 16, 2021 Through August 31, 2022

Assets

Reconciled Cash Balance	\$ 0
Total Assets	<u>0</u>

Liabilities

Unpaid Obligations Per Draft -		
Other Taxing Districts-		
County	\$ 485	
School District	1,618	
Library District	429	
Health District	224	
Extension District	485	
Soil Conservation District	73	
Fee Account - State Payment Made for Amount Due	<u>215</u>	
Total Unpaid Obligations		<u>3,529</u>
Total Deficit as of August 31, 2022		<u>\$ (3,529)</u>

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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

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 Jeffrey Noble, Breathitt County Judge/Executive
The Honorable John Hollan, Breathitt County Sheriff
Members of the Breathitt 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 Breathitt County Sheriff's Settlement - 2021 Taxes for the period April 16, 2021 through August 31, 2022 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated March 23, 2023. The Breathitt 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 Breathitt 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 Breathitt County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Breathitt 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 a certain deficiency in internal control that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

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 2021-001 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)

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2021-002 to be a significant deficiency.

Report on Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Breathitt 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2021-001 and 2021-002.

Views of Responsible Official and Planned Corrective Action

The Breathitt 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 Breathitt 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,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal flourish extending to the right.

Mike Harmon
Auditor of Public Accounts
Frankfort, Ky

March 23, 2023

SCHEDULE OF FINDINGS AND RESPONSES

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BREATHITT COUNTY
JOHN HOLLAN, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Period April 16, 2021 Through August 31, 2022

FINANCIAL STATEMENT FINDINGS:

2021-001 The Sheriff's Annual Settlement Was Materially Misstated

The sheriff's annual settlement was materially misstated. The sheriff did not include franchise taxes in the approved annual settlement and other adjustments were needed to account for additional taxes collected.

- Total Adjustments to Gross Chargeable to Sheriff \$906,005
- Total Adjustments to Credits \$4,357
- Total Adjustments to Commissions \$37,595
- Total Adjustments to Taxes Paid \$861,389

Since the settlement was not complete, the amount shown owed or due the taxing districts may have been incorrect. Adjustments and reclassifications have been made to correctly account for the tax collections of the audited period.

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.

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." Additionally, 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 district, and each taxing district.

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

Sheriff's Response: Attempts will be made for a more accurate settlement in the future.

2021-002 The Sheriff Has A Deficit Of \$3,529 In His 2021 Tax Account

The Breathitt County Sheriff has a deficit of \$3,529 in his official 2021 tax account. This occurred because of a lack of internal controls in place to ensure all tax monies due the tax account were properly billed, collected, and deposited, and that all payments were properly paid, and that this activity was properly reflected on the county settlement that was submitted to, and approved by, the fiscal court.

As a result, the sheriff's office did not have the funds needed to settle 2021 taxes and the taxing districts were underpaid during the tax year.

As collector of property taxes, the sheriff assumes full responsibility for all tax collections and complete distribution of these collections to the proper taxing authorities. KRS 134.192 requires the sheriff to settle his or her accounts annually with each taxing district for which he or she collects taxes.

We recommend the sheriff determine if his settlement was accurate and reflected the proper activity of the 2021 tax year. Furthermore, if it is determined that the settlement is correct, the sheriff should deposit personal funds of \$3,529 into his official 2021 tax account and settle the 2021 tax year.

BREATHITT COUNTY
JOHN HOLLAN, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Period April 16, 2021 Through August 31, 2022
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2021-002 The Sheriff Has A Deficit Of \$3,529 In His 2021 Tax Account (Continued)

Sheriff's Response: The audit cannot produce any specific tax bills, etc. to support the suggested deficit of \$3,529. We disagree that an audit finding that has no specific support can be included in an audit report. The sheriff staff has spent hundreds of hours but cannot find misappropriated money, etc. Monthly tax disbursements were made according to [software name redacted] software in full. Short payments were never made to the tax districts. Furthermore, the money is not in the bank. The sheriff dept also requested the assistance of [software name redacted] to research the issue. After days of research they also found no issues when comparing collections activity, bills, etc. If there truly is a shortage of funds and unpaid liabilities to tax districts we question how the [software name redacted] disbursement reports were paid in full throughout the tax period in question. Seems like the details for such deficit could be supported via audit fieldwork, department research, as well as review by the [software name redacted] software personnel. Until further support is provided to evidence funds are owed to tax districts we question the inclusion of an audit issue that isn't supported at the bill level of detail.

Auditor's Reply: Adjustments made to the sheriff's settlement were discussed with the sheriff. The final audited settlement shows over \$3,500 due to the taxing districts and agrees closely to an updated settlement provided to us by the sheriff. It would be cost prohibitive for auditors to review every tax bill and transaction; therefore, we advised Sheriff Hollan of areas to review, including additional bills, in order to keep the cost of the audit from being excessive.