

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

**For The Period
April 16, 2021 Through June 30, 2022**



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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 Dakota Young, Caldwell County Judge/Executive

The Honorable Stan Hudson, Former Caldwell County Sheriff

The Honorable Don Weedman, Caldwell County Sheriff

Members of the Caldwell County Fiscal Court

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying former Caldwell County Sheriff's Settlement - 2021 Taxes for the period April 16, 2021 through June 30, 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 June 30, 2022 of the former Caldwell 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 former Caldwell County Sheriff, for the period April 16, 2021 through June 30, 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 former Caldwell 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 Dakota Young, Caldwell County Judge/Executive
 The Honorable Stan Hudson, Former Caldwell County Sheriff
 The Honorable Don Weedman, Caldwell County Sheriff
 Members of the Caldwell 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 former Caldwell 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 former Caldwell 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 former Caldwell 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 Dakota Young, Caldwell County Judge/Executive
The Honorable Stan Hudson, Former Caldwell County Sheriff
The Honorable Don Weedman, Caldwell County Sheriff
Members of the Caldwell County Fiscal Court

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2023, on our consideration of the former Caldwell 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 former Caldwell 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 finding:

2021-001 The Former Caldwell County Sheriff's Tax Settlement Was Materially Misstated

Respectfully submitted,

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Mike Harmon
Auditor of Public Accounts
Frankfort, Ky

April 27, 2023

CALDWELL COUNTY
STAN HUDSON, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2021 TAXES

For The Period April 16, 2021 Through June 30, 2022

	County	Special Taxing Districts	School	State
<u>Charges</u>				
Real Estate	\$ 483,658	\$ 1,193,009	\$ 2,223,817	\$ 593,903
Tangible	81,097	248,888	310,011	394,517
Fire Protection	733			
Total Per Sheriff's Official Receipt	565,488	1,441,897	2,533,828	988,420
<u>Other Taxes & Charges</u>				
Franchise Taxes	104,838	188,589	450,795	
Limestone, Sand, and Gravel Reserves	1,468	2,345	6,748	1,801
Penalties	3,448	9,350	15,547	5,342
Gross Chargeable to Sheriff	675,242	1,642,181	3,006,918	995,563
<u>Credits</u>				
Exonerations	2,549	6,672	11,089	2,480
Discounts	9,432	24,003	42,159	16,486
Delinquent Real Estate	7,421	20,469	33,832	8,646
Delinquent Tangible				1,334
Total Credits	19,402	51,144	87,080	28,946
Taxes Collected	655,840	1,591,037	2,919,838	966,617
Less: Sheriff's Commissions*	27,873	67,620	87,595	41,081
Taxes Due Districts	627,967	1,523,417	2,832,243	925,536
Taxes Paid	626,955	1,521,339	2,828,006	924,987
Refunds (Current and Prior Year)	1,012	2,103	4,237	544
Taxes Due Districts (Refund Due Sheriff)	\$ 0	\$ (25)	\$ 0	\$ 5

**

* and ** See next page.

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

CALDWELL COUNTY
STAN HUDSON, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2021 TAXES
For The Period April 16, 2021 Through June 30, 2022
(Continued)

* Commissions:

4.25% on	\$	3,213,494
3% on	\$	2,919,838

** Special Taxing Districts:

Donaldson Creek Watershed	\$	2
City of Fredonia		<u>(27)</u>

Due District or (Refund Due Sheriff)	\$	<u>(25)</u>
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CALDWELL COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 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 former Caldwell 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.

CALDWELL COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 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 former sheriff's deposits may not be returned. The former Caldwell County Sheriff did not have a deposit policy for custodial credit risk, but rather followed the requirements of the *DLG County Budget Preparation and State Local Finance Officer Policy Manual*. As of June 30, 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 20, 2021 through April 18, 2022.

B. Limestone, Sand, and Gravel Reserves

The limestone, sand, and gravel 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 26, 2022 through June 30, 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 16, 2021 through June 30, 2022.

Note 4. Interest Income

The former Caldwell County Sheriff earned \$7,119 as interest income on 2021 taxes. The former sheriff was in substantial compliance with his statutory responsibilities.

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

The former Caldwell County Sheriff collected \$29,852 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the former sheriff's office.

Note 6. Subsequent Events

The former sheriff retired on June 30, 2022 and a new sheriff was appointed by the county judge/executive on July 1, 2022. The new sheriff had no franchise tax collections between July 1, 2022 through August 31, 2022.

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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 Dakota Young, Caldwell County Judge/Executive
The Honorable Stan Hudson, Former Caldwell County Sheriff
The Honorable Don Weedman, Caldwell County Sheriff
Members of the Caldwell 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 former Caldwell County Sheriff's Settlement - 2021 Taxes for the period April 16, 2021 through June 30, 2022 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated April 27, 2023. The former Caldwell 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 former Caldwell 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 former Caldwell County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Caldwell 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.

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)

Report on Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Caldwell County Sheriff's financial statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statement. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2021-0001.

Views of Responsible Official and Planned Corrective Action

The former Caldwell 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 former Caldwell 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,

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
Frankfort, Ky

April 27, 2023

SCHEDULE OF FINDINGS AND RESPONSES

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CALDWELL COUNTY
STAN HUDSON, FORMER SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Period April 16, 2021 Through June 30, 2022

FINANCIAL STATEMENT FINDING:

2021-001 The Former Caldwell County Sheriff's Tax Settlement Was Materially Misstated

The former Caldwell County Sheriff's tax settlement that was presented and approved by the fiscal court was not a complete and accurate reporting of the taxes collected and disbursed as of June 30, 2022, which was the former sheriff's last day in office. The former sheriff's tax settlement misclassified gas franchise taxes of \$257,602 as gas property taxes. This caused property tax collections to be overstated and franchise taxes to be understated by the same amount. Additionally, May 2022 franchise collections totaling \$282,851 and the corresponding tax payments to districts of \$266,163 were omitted from the former sheriff's tax settlement.

According to the bookkeeper, they were unaware how to handle the franchises collected by the sheriff prior to his retirement. Due to the errors above, the former sheriff's tax settlement gave an inaccurate accounting of the taxes collected and remitted to the districts.

KRS 134.215(3) states, "[e]ach outgoing sheriff shall make a final settlement with the department, the fiscal court, and all districts for which his or her office collected taxes by March 15 immediately following the expiration of his or her term of office. The settlement shall address all charges of taxes made against the sheriff and all money received by him or her as sheriff, and shall include all of the information required for the annual settlement pursuant to KRS 134.192." Additionally, strong internal controls dictate the sheriff should have ensured that final settlement is made with all taxing districts.

We recommend the Caldwell County Sheriff's office review future tax settlements to ensure the settlement is complete and accurate, including franchise taxes collected and taxes paid, prior to being submitted for approval.

Former Sheriff's Response: The material adjustments being required for this audit were due to, historically, no franchise bills being collected in the timeframe and past settlements being settled through May; therefore the "final" settlement for the outgoing sheriff was conducted in the same manner. The sheriff's office was unaware the auditing standards are changed from previous practices and has made immediate note of this change. It is also noted while the wording was misstated, the funds were deposited and dispersed from the correct accounts. As this was the first year having an outgoing sheriff settlement, notations for future settlements have been noted to ensure no material adjustments will need to be made to future settlements.

Auditor's Reply: There were no changes in auditing standards that affected the former sheriff's tax settlement. Franchise taxes were erroneously reported as property taxes and the omission of May 2022 franchise taxes collected and remitted by the former sheriff's office caused the former sheriff's final tax settlement to be materially misstated.