

**REPORT OF THE AUDIT OF THE  
FORMER DAVIESS COUNTY  
SHERIFF'S SETTLEMENT – 2021 TAXES**

**For The Period  
April 16, 2021 Through November 30, 2021**



**MIKE HARMON  
AUDITOR OF PUBLIC ACCOUNTS  
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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 Charlie Castlen, Daviess County Judge/Executive  
The Honorable Keith Cain, Former Daviess County Sheriff  
The Honorable Brad Youngman, Daviess County Sheriff  
Members of the Daviess County Fiscal Court

**Report on the Audit of the Financial Statements**

**Opinions**

We have audited the accompanying former Daviess County Sheriff's Settlement – 2021 Taxes for the period April 16, 2021 through November 30, 2021 - 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 November 30, 2021 of the former Daviess 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 Daviess County Sheriff, for the period April 16, 2021 through November 30, 2021.

**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 Daviess 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 Charlie Castlen, Daviess County Judge/Executive  
 The Honorable Keith Cain, Former Daviess County Sheriff  
 The Honorable Brad Youngman, Daviess County Sheriff  
 Members of the Daviess 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 Daviess 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 Daviess 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 Daviess 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 Charlie Castlen, Daviess County Judge/Executive  
The Honorable Keith Cain, Former Daviess County Sheriff  
The Honorable Brad Youngman, Daviess County Sheriff  
Members of the Daviess 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 July 25, 2023, on our consideration of the former Daviess 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 Daviess 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 Daviess County Sheriff's Tax Settlement Was Materially Misstated

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

July 25, 2023

DAVIESS COUNTY  
KEITH CAIN, FORMER SHERIFF  
SHERIFF'S SETTLEMENT – 2021 TAXES

For The Period April 16, 2021 Through November 30, 2021

	County	Special Taxing Districts	School	State
<u>Charges</u>				
Real Estate	\$ 9,004,233	\$ 8,349,918	\$ 37,504,662	\$ 7,996,286
Tangible	865,956	734,938	3,054,855	2,224,941
Total Per Sheriff's Official Receipt	9,870,189	9,084,856	40,559,517	10,221,227
<u>Other Taxes &amp; Charges</u>				
Court Ordered Increases	8,009	6,650	27,825	7,642
Franchise Taxes	201,700	161,897	709,458	
Interest	1	1	5	
Supplemental Billings	40	34	214	
Additional Billings	5,466	4,155	23,943	1,894
Gross Chargeable to Sheriff	10,085,405	9,257,593	41,320,962	10,230,763
<u>Credits</u>				
Exonerations	22,136	18,661	91,859	58,652
Discounts	66,865	61,497	261,623	64,198
Transferred to Incoming Sheriff:				
Real Estate	5,812,392	5,387,726	24,811,678	5,161,744
Tangible	721,194	622,895	2,674,715	1,797,785
Additional Bills	5,308	4,039	23,251	1,664
Total Credits	6,627,895	6,094,818	27,863,126	7,084,043
Taxes Collected	3,457,510	3,162,775	13,457,836	3,146,720
Less: Sheriff's Commissions*	146,944	127,322	201,867	133,736
Taxes Due Districts	3,310,566	3,035,453	13,255,969	3,012,984
Taxes Paid	3,305,942	3,031,617	13,236,189	3,008,786
Refunds (Current and Prior Year)	4,624	3,840	19,780	4,198
Taxes Due Districts (Refund Due Sheriff)	\$ 0	\$ (4)	\$ 0	\$ 0
		**		

\* and \*\* See next page.

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



DAVIESS COUNTY  
KEITH CAIN, FORMER SHERIFF  
SHERIFF'S SETTLEMENT – 2021 TAXES  
For The Period April 16, 2021 Through November 30, 2021  
(Continued)

\* Commissions:

4.25% on \$ 9,508,963

1.5% on \$ 13,715,878

\*\* Special Taxing Districts:

Health District	\$	1
Extension District		<u>(5)</u>

Due District or (Refund Due Sheriff)	\$	<u><u>(4)</u></u>
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DAVIESS COUNTY  
NOTES TO FINANCIAL STATEMENT

November 30, 2021

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 Daviess 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.

DAVIESS COUNTY  
NOTES TO FINANCIAL STATEMENT  
November 30, 2021  
(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 Daviess 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 November 30, 2021, 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 November 1, 2021 through November 30, 2021.

B. 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 November 30, 2021.

Note 4. Interest Income

The former Daviess County Sheriff earned \$1,553 as interest income on 2021 taxes. The former sheriff was in substantial compliance with his statutory responsibilities.

Note 5. Subsequent Events

The former sheriff retired on November 30, 2021 and a new sheriff was appointed by the county judge/executive on December 1, 2021.

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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 Charlie Castlen, Daviess County Judge/Executive  
The Honorable Keith Cain, Former Daviess County Sheriff  
The Honorable Brad Youngman, Daviess County Sheriff  
Members of the Daviess 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 Daviess County Sheriff's Settlement – 2021 Taxes for the period April 16, 2021 through November 30, 2021 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated July 25, 2023. The former Daviess 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 Daviess 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 Daviess County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Daviess 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 Daviess 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 2021-001.

**Views of Responsible Official and Planned Corrective Action**

The former Daviess 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 Daviess 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", followed by a horizontal line.

Mike Harmon  
Auditor of Public Accounts  
Frankfort, Ky

July 25, 2023



## SCHEDULE OF FINDINGS AND RESPONSES

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DAVIESS COUNTY  
KEITH CAIN, FORMER SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES

For The Period April 16, 2021 Through November 30, 2021

FINANCIAL STATEMENT FINDING:

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

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The former Daviess County Sheriff's tax settlement, for the period April 16, 2021 through November 30, 2021, was materially inaccurate. The former sheriff's settlement was overstated by the following:

- Franchise Taxes of \$2,373,521
- Penalties of \$3,434
- Discounts of \$9,158
- Tax Commissions of \$61,236
- Taxes Paid of \$2,702,179

The settlement also did not include unpaid real estate taxes of \$582,062, as a separate settlement for fire district taxes was not made, and the street lighting district was omitted from the former sheriff's property tax settlement. Due to this omission, there was also an understatement of real estate taxes by \$210,066.

This was due to an error when preparing the tax settlements that were presented to fiscal court. The franchise and fire district tax settlements that were approved by the fiscal court included taxes that were collected by the incoming sheriff in December 2021 and January through May 2022. As a result, the former sheriff's settlement presented and approved by the fiscal court was not a complete and accurate reporting of taxes collected as of November 30, 2021.

According to KRS 134.215(3), "[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, all shall include all of the information required for the annual settlement pursuant to KRS 134.192." KRS 134.192(5) states, in part, "[t]he settlement shall show the amount of ad valorem tax collected for the county, the school district, and all taxing districts, and an itemized statement of the money disbursed to or on behalf of the county, the school district, and all taxing districts."

The former sheriff should have presented separate settlements for the franchise and fire district tax collections that occurred while he was sheriff. The street lighting district should also have been included on the former sheriff's property tax settlement as well.

*Former Sheriff's Response: Upon the retirement of Sheriff Cain, I reached out to our auditors as well as County Fees for clarification on best practices to close out his term. Concerning taxes, I was told to complete a settlement for property taxes collected in the month of November. The settlement was completed for the real estate/tangible collections we were currently involved in. I learned one year later that a settlement should have also been completed for franchise taxes collected to the end of his term.*

*As a result, a material misstatement was made. It is important to note that all taxes balanced for the 2021 tax year. There were no funds missing or misappropriated.*

*Sheriff Barry Smith left our office on December 31, 2022. Upon his retirement, settlements were completed for both regular revenue and franchise taxes. The problem has already been corrected.*