

**REPORT OF THE AUDIT OF THE
SCOTT COUNTY
SHERIFF'S SETTLEMENT - 2022 TAXES**

**For The Period
September 1, 2022 Through August 31, 2023**



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ALLISON BALL
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 Joe Pat Covington, Scott County Judge/Executive
The Honorable Tony Hampton, Scott County Sheriff
Members of the Scott County Fiscal Court

Report on the Audit of the Financial Statement

Opinions

We have audited the accompanying Scott County Sheriff's Settlement - 2022 Taxes for the period September 1, 2022 through August 31, 2023 - 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 September 1, 2022 through August 31, 2023 of the Scott 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 Scott County Sheriff, for the period September 1, 2022 through August 31, 2023.

Basis for Opinions

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 Program for Sheriffs' 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 Scott County Sheriff and to meet our other 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 Joe Pat Covington, Scott County Judge/Executive
The Honorable Tony Hampton, Scott County Sheriff
Members of the Scott County Fiscal Court

Basis for Opinions (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 Scott 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 Scott 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 Scott 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 Joe Pat Covington, Scott County Judge/Executive
The Honorable Tony Hampton, Scott County Sheriff
Members of the Scott 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 March 14, 2024, on our consideration of the Scott 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 Scott 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:

- 2022-001 The Scott County Sheriff Did Not Have Adequate Internal Controls Over Financial Reporting
- 2022-002 The Scott County Sheriff Does Not Have Adequate Segregation Of Duties

Respectfully submitted,



Allison Ball
Auditor of Public Accounts
Frankfort, Ky

March 14, 2024

SCOTT COUNTY
TONY HAMPTON, SHERIFF
SHERIFF'S SETTLEMENT - 2022 TAXES

For The Period September 1, 2022 Through August 31, 2023

	Special Taxing			
	County	Districts	School	State
<u>Charges</u>				
Real Estate	\$ 3,414,404	\$ 6,350,792	\$ 33,062,813	\$ 6,544,274
Tangible	167,757	390,980	1,717,219	1,754,916
Total Per Sheriff's Official Receipt	3,582,161	6,741,772	34,780,032	8,299,190
<u>Other Taxes & Charges</u>				
Court Ordered Increases	24	45	235	47
Franchise Taxes	169,304	347,194	1,665,139	
Additional Billings	15,818	29,499	149,552	30,842
Penalties	7,222	13,707	70,146	14,946
Gross Chargeable to Sheriff	3,774,529	7,132,217	36,665,104	8,345,025
<u>Credits</u>				
Exonerations	6,549	12,180	63,416	12,552
Discounts	65,528	123,402	636,276	151,863
Delinquent Real Estate	25,281	47,022	244,801	48,415
Delinquent Tangible	848	1,924	8,685	4,461
Credit for returned check				40
Franchise Taxes - Uncollected	802	1,678	7,511	
Total Credits	99,008	186,206	960,689	217,331
Taxes Collected	3,675,521	6,946,011	35,704,415	8,127,694
Less: Sheriff's Commissions*	156,210	295,205	892,637	345,427
Taxes Due Districts	3,519,311	6,650,806	34,811,778	7,782,267
Taxes Paid	3,511,999	6,636,020	34,741,875	7,773,281
Refunds (Current and Prior Year)	4,620	8,677	42,892	8,984
Taxes Due Districts	\$ 2,692	\$ 6,109	\$ 27,011	\$ 2

**

* and ** See next page.

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

SCOTT COUNTY
TONY HAMPTON, SHERIFF
SHERIFF'S SETTLEMENT - 2022 TAXES
For The Period September 1, 2022 Through August 31, 2023
(Continued)

* Commissions:

4.25% on \$ 18,749,226

2.5% on \$ 35,704,415

** Special Taxing Districts:

Library District \$ 2,540

Health District 2,091

Extension District 1,478

Due Districts \$ 6,109

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENT

August 31, 2023

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 Scott 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.

SCOTT COUNTY
 NOTES TO FINANCIAL STATEMENT
 August 31, 2023
 (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 Scott 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, 2023, 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, 2022. Property taxes were billed to finance governmental services for the fiscal year ending June 30, 2023. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 31, 2022 through April 17, 2023.

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, 2022 through April 17, 2023.

Note 4. Interest Income

The Scott County Sheriff earned \$5,877 as interest income on 2022 taxes. The sheriff was in substantial compliance with his statutory responsibilities.

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

The Scott County Sheriff collected \$77,996 of 10% add-on fees allowed by KRS 134.119(7). As of March 14, 2024, the sheriff owed \$15,989 in 10% add-on fees to his fee account.

Note 6. Escrow Account

The sheriff deposited nonrefundable payments in an interest-bearing account. The sheriff's escrowed amounts were as follows:

2015	\$544
2016	\$317
2019	\$1,210
2020	\$18,062
2021	\$1,518

When statutorily required, the sheriff will turn over the escrowed funds to the Kentucky State Treasurer as unclaimed property.

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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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ALLISON BALL
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 Joe Pat Covington, Scott County Judge/Executive
The Honorable Tony Hampton, Scott County Sheriff
Members of the Scott 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 Scott County Sheriff's Settlement - 2022 Taxes for the period September 1, 2022 through August 31, 2023 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated March 14, 2024. The Scott 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 Scott 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 Scott County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Scott 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 certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2022-001 and 2022-002 to be material weaknesses.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards*
(Continued)

Report on Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Scott 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 2022-01.

Views of Responsible Official and Planned Corrective Action

The Scott 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 Scott 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,



Allison Ball
Auditor of Public Accounts
Frankfort, Ky

March 14, 2024

SCHEDULE OF FINDINGS AND RESPONSES

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SCOTT COUNTY
TONY HAMPTON, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Period September 1, 2022 Through August 31, 2023

FINANCIAL STATEMENT FINDINGS:

2022-001 The Scott County Sheriff Did Not Have Adequate Internal Controls Over Financial Reporting

This is a repeat finding and was included in the prior year audit report as finding 2021-001. The Scott County Sheriff prepared and submitted an incomplete 2022 tax settlement statement to the Scott County Fiscal Court. The sheriff's bookkeeper prepared a settlement statement that only included Scott County Fiscal Court tax collections and excluded the Scott County School, Library, Health Department, and Cooperative Extension tax districts. This partial statement was filed with the county clerk's office and approved by the fiscal court on September 8, 2023, after the September 1 deadline. The bookkeeper prepared a complete settlement statement to provide to the Auditor of Public Accounts field staff to audit in compliance with KRS 134.192(1) after it was requested and brought to the sheriff's attention. This complete settlement provided to the auditor was materially incorrect and required multiple adjustments totaling \$2,002,113 in additional tax receipts.

Due to management oversight, the settlement was not prepared accurately and presented to the fiscal court timely to comply with applicable laws and regulations. The sheriff has delegated most accounting duties to the bookkeeper, without sufficient internal controls in place to ensure compliance. The lack of effective internal controls over financial reporting increases the risk of misappropriation of assets, errors, and inaccurate financial reporting. Additionally, ineffective oversight over financial reporting can result in failure to comply with applicable laws and regulations and result in noncompliance with KRS 134.192. Strong internal controls dictate effective monitoring by those charged with governance over financial reporting.

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(5) states, "[t]he report of the state and local settlement shall be filed in the county clerk's office and approved by the governing body of the county no later than September 1 of each year. The 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."

We recommend the sheriff strengthen internal controls and oversight over financial reporting to ensure compliance with applicable laws and regulations. This could include but is not limited to the following:

- The sheriff (or designee) should monitor the annual tax settlement process for risk of noncompliance.
- The sheriff should consider the use of an outside agent such as the Department of Revenue, a Certified Public Accountant, or another qualified party to assist in the completion of the annual tax settlement if needed.

Sheriff's Response: The Sheriff has designated the Chief Deputy to oversee all financial reporting. There will be a Certified Public Accountant assisting the bookkeeper in the completion of the annual tax settlement.

SCOTT COUNTY
TONY HAMPTON, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Period September 1, 2022 Through August 31, 2023
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2022-002 The Scott County Sheriff Does Not Have Adequate Segregation Of Duties

This is a repeat finding and was included in the prior year audit report as finding 2021-002. The sheriff's bookkeeper prepares daily check-out sheets and deposit slips, signs disbursement checks, and prepares monthly reports. The sheriff and his staff did not maintain a receipts and disbursements ledger, or document bank statement reconciliations monthly. The bookkeeper maintained a check register and monitored bank activity online to confirm when checks cleared. The bookkeeper also posts payments to the tax software for taxes collected via online processing and those collected by the sheriff's bank, as well as manually tracks franchise payments. Deposits are being taken to the bank by someone other than the bookkeeper. Disbursement checks are usually completed with a second signature of the office manager, although it is not required to validate the check. Further, there is no documentation of a review of bank statements or reconciliations.

According to the sheriff, there is a small administrative staff, and the bookkeeper has been delegated to execute most accounting functions. The sheriff has not implemented compensating controls sufficient to offset the control weakness noted.

The lack of segregation of duties increases the risk of misappropriation of assets, errors, and inaccurate financial reporting. If the same employee primarily performs related functions without sufficient oversight and review, the risk that errors or fraud may go undetected increases. Additionally, proper segregation of duties and oversight and review protects employees in the course of performing their daily responsibilities. Segregation of duties and the implementation of compensating controls due to limited staff size is essential for providing protection from asset misappropriation and inaccurate financial reporting. Adequate segregation of duties would prevent the same person from having all the significant roles over various accounting functions. Strong internal controls dictate oversight and review procedures to ensure accountability for public funds.

We recommend the sheriff implement the segregation of duties over custody of assets, recording function, authorization of disbursements, and reconciliation of the book balance to the bank balance. If these duties cannot be segregated, then the sheriff should implement compensating controls to strengthen oversight of duties performed by the same person. This could include but is not limited to the following:

- The sheriff (or designee) should review and initial the daily checkout sheet to agree to the daily deposit and initial the deposit slip.
- The sheriff (or designee) should review and initial the monthly receipts and disbursements ledger when compared to the monthly bank reconciliations and bank statements.
- The sheriff (or designee) should review and initial the monthly bank statements and reconciliations.
- The sheriff should evaluate the potential for increased use of information technologies to strengthen internal controls over financial reporting.

Sheriff's Response: Each day, a daily checkout sheet is prepared and presented to the Sheriff or Chief Deputy for review. Once the deposit has been made, the Sheriff or Chief Deputy will compare the deposit slip to the checkout sheet. Each month, the Chief Deputy will review and compare the disbursements and receipts to the bank reconciliations and bank statements.