REPORT OF THE AUDIT OF THE FORMER SCOTT COUNTY SHERIFF

For The Year Ended
December 31, 2023

ALLISON BALL
AUDITOR OF PUBLIC ACCOUNTS
auditor.ky.gov

209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912

CONTENTS PAGE

THIS PAGE LEFT BLANK INTENTIONALLY

ALLISON BALL
AUDITOR OF PUBLIC ACCOUNTS

Independent Auditor's Report

The Honorable Joe Pat Covington, Scott County Judge/Executive
The Honorable Tony Hampton, Former Scott County Sheriff
The Honorable Jeremy Nettles, Scott County Sheriff
Members of the Scott County Fiscal Court

Report on the Audit of the Financial Statement

Opinions

We have audited the accompanying Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the former Sheriff of Scott County, Kentucky, for the year ended December 31, 2023, 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 receipts, disbursements, and excess fees of the former Scott County Sheriff for the year ended December 31, 2023, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws 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 financial position of the former Scott County Sheriff, as of December 31, 2023, or changes in financial position or cash flows thereof for the year then ended.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards* (GAS), issued by the Comptroller General of the United States, and the *Audit Program for County Fee Officials* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. 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 Scott County Sheriff and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE 502.564.5841
FACSIMILE 502.564.2912
AUDITOR.KY.GOV

The Honorable Joe Pat Covington, Scott County Judge/Executive
The Honorable Tony Hampton, Former Scott County Sheriff
The Honorable Jeremy Nettles, Scott County Sheriff
Members of the Scott 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 Scott County Sheriff on the basis of the 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 this 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the former Scott County Sheriff's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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 absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and GAS 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 judgment made by a reasonable user based on the financial statement.

In performing an audit in accordance with GAAS and GAS, 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 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.

The Honorable Joe Pat Covington, Scott County Judge/Executive
The Honorable Tony Hampton, Former Scott County Sheriff
The Honorable Jeremy Nettles, Scott County Sheriff
Members of the Scott County Fiscal Court

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

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the former Scott County Sheriff's ability to continue as a going concern for a reasonable period of time.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2024, on our consideration of the former Scott County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely 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 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:

2023-001 The Former Scott County Sheriff's Office Did Not Have Adequate Segregation Of Duties
2023-002 The Former Scott County Sheriff Materially Misstated The Fourth Quarter Financial Statement

Respectfully submitted,

Allison Ball

Allison Ball
Auditor of Public Accounts
Frankfort, KY

August 15, 2024

SCOTT COUNTY
TONY HAMPTON, FORMER SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2023

Receipts		
Federal:		
Grants		$ 11,766
State Fees For Services:		
Finance and Administration Cabinet	$ 291,832	
Cabinet For Health And Family Services	1,526	293,358
Circuit Court Clerk:		
Fines and Fees Collected		1,690
Fiscal Court		131,993
County Clerk - Delinquent Taxes		52,011
Commission On Taxes Collected		1,887,367
Fees Collected For Services:		
Auto Inspections	19,605	
Accident and Police Reports	6,189	
Serving Papers	73,230	
Carry Concealed Deadly Weapon Permits	16,165	115,189
Other:		
Add-On Fees	77,996	
Miscellaneous	958	
Courthouse Fees	1,420	80,374
Interest Earned		412
Total Receipts		2,574,160

SCOTT COUNTY
TONY HAMPTON, FORMER SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2023
(Continued)

Disbursements	
Refunds	$ 20
Operating Disbursements:	
Other Charges-	
Miscellaneous	900
Total Disbursements	920
Net Receipts	2,573,240
Less: Statutory Maximum	127,010
Excess Fees	2,446,230
Less: Training Incentive Benefit	4,983
Excess Fees Due County for 2023	2,441,247
Payments to Fiscal Court - Monthly	2,398,053
Balance Due Fiscal Court at Completion of Audit	$ 43,194

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2023

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. 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.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount due from the sheriff as determined by the audit. KRS 134.192 requires the sheriff to pay to the governing body of the county any fees, commissions, and other income of his or her office, including income from investments, which exceed the sum of his or her maximum salary as permitted by the Constitution and other reasonable expenses, including compensation of deputies and assistants by March 15 of each year. KRS 64.830 requires an outgoing sheriff to make a final settlement with the fiscal court of his county by March 15 immediately following the expiration of his term of office.

The financial statement has been prepared on a regulatory basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. This basis demonstrates compliance with the laws of Kentucky and is a special purpose framework. Under this regulatory basis of accounting, receipts and disbursements are generally recognized when cash is received or disbursed, with the exception of accrual of the following items (not all-inclusive) as of December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2023 services
- Reimbursements for 2023 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2023

The measurement focus of a fee official's financial statement is upon current financial resources. Per KRS 134.192(12), remittance of excess fees is due to the fiscal court when the sheriff makes their final settlement.

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).

Note 1. Summary of Significant Accounting Policies (Continued)

D. Fee Pooling

The Scott County Sheriff's office is required by the fiscal court to participate in a fee pooling system. Fee officials who are required to participate in fee pooling deposit all funds collected into their official operating account. The fee official is responsible for paying all amounts collected for others. Residual funds are then paid to the county treasurer on a monthly basis. Invoices are submitted to the county treasurer to document operating expenses. The fiscal court pays all operating expenses for the fee official.

Note 2. Employee Retirement System and Other Post-Employment Benefits

The sheriff's office has elected to participate, pursuant to KRS 78.530, in the County Employees Retirement System (CERS), which is administered by the Kentucky Public Pensions Authority (KPPA). This is a cost-sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute six percent of their salary to be allocated as follows: five percent will go to the member's account and one percent will go to the CERS insurance fund.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on or after January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own accounts. Nonhazardous covered employees contribute five percent of their annual creditable compensation. Nonhazardous members also contribute one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the CERS Board of Directors based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a four percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008, must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

The county's contribution rate for nonhazardous employees was 26.79 percent for the first six months and 23.34 percent for the last six months.

Note 2. Employee Retirement System and Other Post-Employment Benefits (Continued)

Hazardous

Hazardous covered employees are required to contribute eight percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008, are required to contribute nine percent of their salary to be allocated as follows: eight percent will go to the member's account and one percent will go to the Kentucky Retirement System insurance fund.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own accounts. Hazardous members contribute eight percent of their annual creditable compensation and one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A hazardous member's account is credited with a seven and one-half percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008, aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

The county's contribution rate for hazardous employees was 49.59 percent for the first six months and 43.69 percent for the last six months.

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	**% Paid by Insurance Fund**	**% Paid by Member through Payroll Deduction**
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Note 2. Employee Retirement System and Other Post-Employment Benefits (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

A. Health Insurance Coverage - Tier 1 (Continued)

Hazardous employees whose participation began on or after July 1, 2003, earn 15 dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, the employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Benefits are covered under KRS 78.5536.

B. Health Insurance Coverage - Tier 2 and Tier 3 - Nonhazardous

Once members reach a minimum vesting period of 15 years, they earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually by 1.5 percent. This was established for Tier 2 members during the 2008 Special Legislative Session by House Bill 1. During the 2013 Legislative Session, Senate Bill 2 was enacted, creating Tier 3 benefits for members.

The monthly insurance benefit has been increased annually as a 1.5 percent cost of living adjustment (COLA) since July 2003 when the law changed. The annual increase is cumulative and continues to accrue after the member's retirement.

Tier 2 member benefits are covered by KRS 78.5536. Tier 3 members are not covered by the same provisions.

C. Health Insurance Coverage - Tier 2 and Tier 3 - Hazardous

Once members reach a minimum vesting period of 15 years, earn fifteen dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually by 1.5 percent. Upon the death of a hazardous employee, the employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This was established for Tier 2 members during the 2008 Special Legislative Session by House Bill 1. During the 2013 Legislative Session, Senate Bill 2 was enacted, creating Tier 3 benefits for members.

The monthly insurance benefit has been increased annually as a 1.5 percent COLA since July 2003 when the law changed. The annual increase is cumulative and continues to accrue after the member's retirement.

D. Cost of Living Adjustments - Tier 1

The 1996 General Assembly enacted an automatic cost of living adjustment (COLA) provision for all recipients of Kentucky Retirement Systems benefits. During the 2008 Special Session, the General Assembly determined that each July beginning in 2009, retirees who have been receiving a retirement allowance for at least 12 months will receive an automatic COLA of 1.5 percent. The COLA is not a guaranteed benefit. If a retiree has been receiving a benefit for less than 12 months, and a COLA is provided, it will be prorated based on the number of months the recipient has been receiving a benefit.

Note 2. Employee Retirement System and Other Post-Employment Benefits (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

E. Cost of Living Adjustments - Tier 2 and Tier 3

No COLA is given unless authorized by the legislature with specific criteria. To this point, no COLA has been authorized by the legislature for Tier 2 or Tier 3 members.

F. Death Benefit

If a retired member is receiving a monthly benefit based on at least 48 months of service credit, KRS will pay a $5,000 death benefit payment to the beneficiary designated by the member specifically for this benefit. Members with multiple accounts are entitled to only one death benefit.

Kentucky Retirement System Annual Financial Report and Proportionate Share Audit Report

Kentucky Retirement System issues a publicly available annual financial report that includes financial statements and required supplementary information on CERS. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Kentucky Retirement System also issues proportionate share audit reports for both total pension liability and other post-employment benefits for CERS determined by actuarial valuation as well as each participating county's proportionate share. Both the Schedules of Employer Allocations and Pension Amounts by Employer and the Schedules of Employer Allocations and OPEB Amounts by Employer reports and the related actuarial tables are available online at https://kyret.ky.gov. The complete actuarial valuation report, including all actuarial assumptions and methods, is also available on the website or can be obtained as described in the paragraph above.

Note 3. 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.

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 former Scott 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 December 31, 2023, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Grant

The Scott County Sheriff's office received a Highway Safety Grant in the amount of $11,766 to provide impaired driving services to communities in Kentucky through federal grants administered by the Kentucky Transportation Cabinet's Office of Highway Safety. The main purpose of these grants is to reduce the fatalities on Kentucky roadways, minimize injuries to individuals and damage to property, and to educate the public in ways to do this. All funds were remitted to the fiscal court from the reimbursement of disbursements for personnel services, travel, and training.

Note 5. On Behalf Payments

The Scott County Sheriff's office is required by the fiscal court to participate in a fee pooling system. Since the sheriff is fee pooling, the fiscal court pays the sheriff's statutory maximum and training incentive as reflected on the sheriff's financial statement. For the year ended December 31, 2023, the fiscal court's contributions recognized by the former sheriff included the amounts that were based on the statutory maximum as required by KRS 64.5275. The former Scott County Sheriff recognized receipts from the fiscal court and disbursements for the statutory maximum of $127,010 and training incentive of $4,983 for the year ended December 31, 2023.

Note 6. Other Accounts

A. Federal Forfeiture Account

The Scott County Sheriff's office maintains a federal forfeiture account for the deposit of funds forfeited as a result on court cases. Disbursements from these accounts are restricted in accordance with court related orders related to each individual case. The federal forfeiture account had a balance of $28,108 as of January 1, 2023. There were receipts of $32, and disbursements of $28,140, leaving a balance of $0 as of December 31, 2023.

B. State Forfeiture Account

The Scott County Sheriff's office maintains a state forfeiture account for the deposit of funds forfeited as a resulted of court cases. Disbursements from these accounts are restricted in accordance with court related orders related to each individual case. The state forfeiture account has a balance of $46,379 as of January 1, 2023. During the year, there were receipts of $6,440 and disbursements of $5,266, leaving a balance of $47,553 as of December 31, 2023.

C. Donation Account

The Scott County Sheriff's office maintains a donation account for donations to the sheriff's office. On January 1, 2023, the account had a balance of $13,073. During calendar year 2023, the sheriff's office has $30 of receipts and $2,103 in disbursements, leaving a balance of $11,000 as of December 31, 2023.

THIS PAGE LEFT BLANK INTENTIONALLY

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*

THIS PAGE LEFT BLANK INTENTIONALLY

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, Former Scott County Sheriff
The Honorable Jeremy Nettles, 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, 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 County Fee Officials* issued by the Auditor of Public Accounts, Commonwealth of Kentucky, the Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the former Scott County Sheriff for the year ended December 31, 2023, and the related notes to the financial statement and have issued our report thereon dated August 15, 2024. The former 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 former 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 former Scott County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the former 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 over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified a certain deficiency in internal control that we consider to be a material weakness 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 2023-002 to be a material weakness.

Report on 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 2023-001 to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the former Scott County Sheriff's financial statement is free of 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Views of Responsible Official and Planned Corrective Action

Government Auditing Standards requires the auditor to perform limited procedures on the former Scott County Sheriff's response to the finding identified in our audit and described in the accompanying Schedule of Findings and Responses. The former Scott County Sheriff's response was not subjected to the other auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on the response.

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

Allison Ball
Auditor of Public Accounts
Frankfort, KY

August 15, 2024

SCHEDULE OF FINDINGS AND RESPONSES

THIS PAGE LEFT BLANK INTENTIONALLY

SCOTT COUNTY
TONY HAMPTON, FORMER SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2023

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2023-001 The Former Scott County Sheriff's Office Did Not Have Adequate Segregation Of Duties

This is a repeat finding and was included in the prior year audit report as finding 2022-001. The former sheriff's bookkeeper prepared daily checkout sheets, prepared daily deposits, prepared and signed disbursements checks, posted transactions to the receipts and disbursements ledger, reconciled monthly bank statements, and prepared quarterly reports. Occasionally the bookkeeper would also collect payments from customers when front line staff coverage was inadequate. Deposits are taken to the bank by someone other than the bookkeeper, although there is no documentation of who made the deposits. Disbursements are limited to monthly fee pooling remittances to the fiscal court and preapproved refunds; checks received a second signature by the former sheriff or office manager, although it was not required to validate the check. Further, there was no documentation of the review of daily checkout sheets, deposit slips, receipts and disbursements ledger, bank statements, or bank reconciliations. The former sheriff had a small administrative staff, and the bookkeeper was delegated to execute most accounting functions. The former sheriff did not implement compensating controls sufficient to offset the control weakness noted. The lack of segregation of duties increased the risk of misappropriation of assets, errors, and inaccurate financial reporting. The same employee primarily performing related functions without sufficient oversight and review increases the risk that errors or fraud may go undetected. Additionally, proper segregation of duties and oversight and review protects employees in the course of performing their daily responsibilities.

KRS 46.010(2) requires, "each county treasurer, and each county officer who receives or disburses state funds, to keep an accurate account of receipts and disbursements, showing a daily balance of receipts and disbursements." KRS 46.010(3) requires, "all county officers handling state funds, other than taxes, to make an annual report to the Department for Local Government showing receipts and disbursements, and to make other financial statements as the Department for Local Government requires." The segregation of duties is a basic internal control necessary to ensure the accuracy and reliability of financial reports.

We recommend the sheriff's office implement the segregation of duties over custody of assets, recording function, authorization of disbursements, and reconciliation of books to the bank. If these duties cannot be segregated, then the sheriff's office 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 and agree to and sign disbursement checks.
- The sheriff (or designee) should review and initial the monthly bank statements and reconciliations.
- The sheriff should sign the quarterly financial statements and annual settlement and agree to the receipts and disbursements ledger.

Former Sheriff's Response: The Scott County Sheriff's Office has corrected our segregation of duties. Once checkout sheets are created by our bookkeeper, she initials them and hands them to a designated employee to review and initial. A second designated employee then takes the deposit to our bank and returns the deposit ticket after he signs it. The deposit ticket is then attached to the checkout sheet. Monthly reports are reviewed and signed by the bookkeeper, Sheriff and Chief Deputy. The bookkeeper and the Sheriff or Chief Deputy signs checks. Bank statements and reconciliations are reviewed and initialed by the bookkeeper and Chief Deputy. The Sheriff and/or Chief Deputy reviews and signs each quarterly financial statement and annual settlement.

SCOTT COUNTY
TONY HAMPTON, FORMER SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2023
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESS:

2023-002 The Former Scott County Sheriff Materially Misstated The Fourth Quarter Financial Statement

The former Scott County Sheriff materially misstated the fourth quarter financial statement requiring adjustments and reclassifications totaling $259,251.

- Adjustment to include $174,549 for December 2023 tax commissions.
- Adjustment to include $15,989 for add-on fees.
- Adjustment to include $6,706 for February 2023 tax commission.
- Reclassification of $62,007 of sheriff's add-on fees incorrectly posted as tax commissions.

The office did not have proper internal controls to ensure that all receipts collected were posted in the proper period and in proper receipts line item on their receipt's ledger and subsequent quarterly financial statements. By not having adequate internal controls over ledgers to detect or correct posting errors, the former sheriff materially misstated his fourth quarter by $259,251 and required auditor adjustments to correctly agree with underlying financial records.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. This system of accounts requires the fee official quarterly financial report to be submitted by the 30th day following the close of each quarter. Pursuant to KRS 68.210, the State Local Finance Officer has prescribed minimum accounting and reporting standards in DLG's *County Budget Preparation and State Local Finance Officer Policy Manual*. The manual requires the clerk to prepare a quarterly report which includes total receipts and total disbursements on a cash basis per line-item category. In addition, good internal control procedures would detect errors in daily posting to ledgers, reducing the risk of misappropriation and inaccurate financial reporting.

We recommend the sheriff's office ensure compliance with applicable statutes and DLG's manual. We recommend updating internal controls to properly monitor posting to the receipt ledger.

Former Sheriff's Response: The Scott County Sheriff's Office will contact DLG to ensure we are properly posting receipts in the 4th quarter financial statement.