

**REPORT OF THE AUDIT OF THE
FORMER BALLARD COUNTY
SHERIFF'S SETTLEMENT - 2017 TAXES**

**For The Period
April 18, 2017 Through April 16, 2018**



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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

The Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary Finance and Administration Cabinet
The Honorable Todd Cooper, Ballard County Judge/Executive
The Honorable Carey Batts, Former Ballard County Sheriff
The Honorable Ronnie Giles, Ballard County Sheriff
Members of the Ballard County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the former Ballard County Sheriff's Settlement - 2017 Taxes for the period April 18, 2017 through April 16, 2018 - Regulatory Basis, and the related notes to the financial statement.

Management's Responsibility 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 as described in Note 1. 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 Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit 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 Guide for Sheriff's Tax Settlements*, issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



To the People of Kentucky

The Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
The Honorable Todd Cooper, Ballard County Judge/Executive
The Honorable Carey Batts, Former Ballard County Sheriff
The Honorable Ronnie Giles, Ballard County Sheriff
Members of the Ballard County Fiscal Court

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 Ballard 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, 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.

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 paragraph, the financial statement referred to above 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 Ballard County Sheriff, for the period April 18, 2017 through April 16, 2018.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the taxes charged, credited, and paid for the period April 18, 2017 through April 16, 2018 of the former Ballard County Sheriff, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2019, on our consideration of the former Ballard 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 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 Ballard County Sheriff's internal control over financial reporting and compliance.

To the People of Kentucky

The Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

The Honorable Todd Cooper, Ballard County Judge/Executive

The Honorable Carey Batts, Former Ballard County Sheriff

The Honorable Ronnie Giles, Ballard County Sheriff

Members of the Ballard County Fiscal Court

Other Reporting Required by *Government Auditing Standards* (Continued)

Based on the results of our audit, we have presented the accompanying Schedule of Findings and Responses, included herein, which discusses the following report comments:

- 2017-001 The Former Ballard County Sheriff Failed To Perform Daily Checkout Procedures Or Make Daily Deposits
- 2017-002 The Former Ballard County Sheriff's Office Lacked Adequate Segregation Of Duties

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

February 5, 2019

BALLARD COUNTY
CAREY BATTS, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2017 TAXES

For The Period April 18, 2017 Through April 16, 2018

<u>Charges</u>	County Taxes	Special Taxing Districts	School Taxes	State Taxes
Real Estate	\$ 877,018	\$ 585,053	\$ 2,163,312	\$ 475,539
Tangible Personal Property	106,326	64,868	262,270	391,029
Fire Protection	661			
Increases Through Exonerations	85	55	209	1,089
Franchise Taxes	78,162	46,810	193,598	
Additional Billings	47	31	117	26
Limestone, Sand, and Gravel Reserves	23	15	56	12
Omitted Limestone, Sand, and Gravel	216	141	533	117
Bank Franchises	25,480			
Penalties	8,258	5,423	20,391	2,587
Adjusted to Sheriff's Receipt		(1,825)	3	2
Gross Chargeable to Sheriff	<u>1,096,276</u>	<u>700,571</u>	<u>2,640,489</u>	<u>870,401</u>
<u>Credits</u>				
Exonerations	5,254	3,302	12,960	5,605
Discounts	15,666	10,131	38,077	14,950
Delinquents:				
Real Estate	17,618	11,564	43,440	9,549
Tangible Personal Property	661	392	1,630	457
Limestone, Sand, and Gravel	216	141	533	117
Total Credits	<u>39,415</u>	<u>25,530</u>	<u>96,640</u>	<u>30,678</u>
Taxes Collected	1,056,861	675,041	2,543,849	839,723
Less: Commissions *	<u>44,917</u>	<u>27,893</u>	<u>91,579</u>	<u>35,688</u>
Taxes Due	1,011,944	647,148	2,452,270	804,035
Taxes Paid	1,011,107	645,836	2,450,189	803,559
Refunds (Current and Prior Year)	<u>837</u>	<u>515</u>	<u>2,081</u>	<u>476</u>
Due District				
as of Completion of Audit	<u>\$ 0</u>	<u>\$ 797</u>	<u>\$ 0</u>	<u>\$ 0</u>
		**		

* and ** See next page.

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

BALLARD COUNTY
CAREY BATTS, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2017 TAXES
For The Period April 18, 2017 Through April 16, 2018
(Continued)

* Commissions:

4.25% on	\$	2,252,935
4% on	\$	318,690
3.6% on	\$	2,543,849

** Special Taxing District:

Ambulance	\$	<u>797</u>
Due District	\$	<u>797</u>

BALLARD COUNTY
NOTES TO FINANCIAL STATEMENT

April 16, 2018

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).

Note 2. Deposits

The former Ballard County Sheriff maintained deposits of public funds with depository institutions insured by the FDIC as required by KRS 66.480(1)(d). According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC 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.

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 sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of April 16, 2018, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of November 7, 2017, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the former sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$599,602

BALLARD COUNTY
NOTES TO FINANCIAL STATEMENT
April 16, 2018
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2017. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2017. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 29, 2017 through April 16, 2018.

B. Limestone, Sand, and Gravel Reserves

The limestone, sand, and gravel property tax assessments were levied as of January 1, 2017. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 13, 2017 through April 16, 2018.

C. Franchise Taxes

The franchise tax assessments were levied by the Department of Revenue for various tax years. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was April 18, 2017 through April 16, 2018.

Note 4. Interest Income

The former Ballard County Sheriff earned \$2,916 as interest income on 2017 taxes. The former sheriff was in substantial compliance with his statutory responsibilities.

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

The former Ballard County Sheriff collected \$33,035 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the former sheriff's office.

Note 6. Commitments and Contingencies

The former Ballard County Sheriff's office is involved in a lawsuit that arose from the normal course of doing business. While the outcome of this lawsuit may not be significant, due to the uncertainty of the litigation a reasonable estimate of the financial impact cannot be made at this time.

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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

The Honorable Todd Cooper, Ballard County Judge/Executive
The Honorable Carey Batts, Former Ballard County Sheriff
The Honorable Ronnie Giles, Ballard County Sheriff
Members of the Ballard County Fiscal Court

**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

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 Ballard County Sheriff's Settlement - 2017 Taxes for the period April 18, 2017 through April 16, 2018 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated February 5, 2019. The former Ballard 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.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the former Ballard County Sheriff's internal control over financial reporting (internal control) to determine the 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 Ballard County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Ballard 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 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 2017-001 and 2017-002 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)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Ballard 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 determination of financial statement amounts. 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 matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2017-001.

Views of Responsible Official and Planned Corrective Action

The former Ballard 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 former Ballard 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,



Mike Harmon
Auditor of Public Accounts

February 5, 2019

SCHEDULE OF FINDINGS AND RESPONSES

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BALLARD COUNTY
CAREY BATTS, FORMER SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Period April 18, 2017 Through April 16, 2018

FINANCIAL STATEMENT FINDINGS:

2017-001 The Former Ballard County Sheriff Failed To Perform Daily Checkout Procedures Or Make Daily Deposits

This is a repeat finding and was included in the prior year audit report as finding 2016-001. During tax year 2017, the former Ballard County Sheriff did not perform daily check-out procedures or make daily deposits for tax collections. According to the former sheriff, daily checkout procedures were not performed due to small amount of daily tax collections. Also, according to the former sheriff, because of limited staff sometimes the bookkeeper would be the only person working in the sheriff's office and would not be able to leave the office to take deposits to the bank.

Failure to perform daily checkout procedures and make daily deposits leave tax collections vulnerable to misappropriation and loss. Additionally, the failure to make daily deposits results in the former sheriff not being in compliance with KRS 68.210. The Department for Local Government's (DLG) *County Budget Preparation And State Local Finance Officer Policy Manual*, promulgated by KRS 68.210, requires receipts be kept intact and deposited daily.

We recommend the sheriff's office perform daily checkout procedures and make daily deposits as required by KRS 68.210.

Former Sheriff's Response: We made deposits when deposits were significant, and even tried to make small deposits on a much more regular basis also when time permitted. While running the Sheriff's Office, emergencies and important matters many times occurred at inopportune moments which may have interfered with making "daily" deposits. These type of situations would have been alleviated had the Sheriff's Office been in a better financial position to hire another full time secretary at the time.

It took most of my four year term to put the Sheriff's Office financially back where it needed to be in order to allow for hiring another full time secretary with the current budget. Even though I will no longer be Sheriff, after four years I have rebuilt the Sheriff's Office to a financial level where it can thrive, enabling the new Sheriff to easily hire another full time secretary without the need for any extra monies from the Ballard County Fiscal Court. As proof of that, I will soon be reimbursing the Ballard County Fiscal Court over \$80,000 in excess fees from the 2018 budget cycle, which runs on a calendar year. This amount is historically unprecedented, and accounts for almost 10% of the budget. I accomplished this feat at the same time that I managed to obtain better cruisers and equipment for the Sheriff's Office. This \$80,000 surplus of money that the Sheriff's Office is given each year can easily be used to hire another full time secretary without having to ask the Fiscal Court for more money to do this.

This audit was not started until mid to late 2018, and completed in 2019, which doesn't enable me to "correct" these situations. The financial decisions I made during my term, however, will allow the new Sheriff the ability to hire the needed second secretary position to allow himself the opportunity to avoid this error.

BALLARD COUNTY
 CAREY BATTS, FORMER SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Period April 18, 2017 Through April 16, 2018
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-002 The Former Ballard County Sheriff's Office Lacks Adequate Segregation Of Duties

This is a repeat finding and was included in the prior year audit report as finding 2016-002. For tax year 2017, the former Ballard County Sheriff's office lacked adequate segregation of duties. The bookkeeper was required to perform multiple tasks such as the collection of cash from customers, deposit preparation, bookkeeping, the preparation of monthly reports, the preparation of checks for disbursements, and the preparation of the annual tax settlement. These tasks were performed with little to no supervisory review. According to the former sheriff, the bookkeeper has so many responsibilities due to the size of the office.

A lack of segregation of duties or strong oversight could result in the undetected misappropriation of assets. Additionally, it resulted in inaccurate financial reporting including, the former sheriff's August monthly report and the county settlement presented to fiscal court. Also the former sheriff was not able to provide bank reconciliations due to his inability to locate original bank statements.

Segregation of duties over these tasks, or the implementation of compensating controls when limited by staff, is essential for providing protection from asset misappropriation and helping to prevent inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To adequately protect against the misappropriation of assets, we recommend the sheriff's office segregate the duties noted above by allowing different deputies to perform these functions. If this is not feasible due to a lack of staff, then strong management oversight by the sheriff or designee could be a cost effective alternative. This oversight should include reviewing the deposits, comparing the daily checkout sheets to the monthly reports, reviewing the bank reconciliations, and reviewing the county settlement prior to presenting it to the fiscal court. Documentation, such as the sheriff's or designee's initials or signature, should be documented to signify the review.

Former Sheriff's Response: It took most of my four year term to put the Sheriff's Office financially back where it needed to be in order to allow for hiring another full time secretary with the current budget. Even though I will no longer be Sheriff, after four years I have rebuilt the Sheriff's Office to a financial level where it can thrive, enabling the new Sheriff to easily hire another full time secretary without the need for any extra monies from the Ballard County Fiscal Court. As proof of that, I will soon be reimbursing the Ballard County Fiscal Court over \$80,000 in excess fees from the 2018 budget cycle, which runs on a calendar year. This amount is historically unprecedented, and accounts for almost 10% of the budget. I accomplished this feat at the same time that I managed to obtain better cruisers and equipment for the Sheriff's Office. This \$80,000 surplus of money that the Sheriff's Office is given each year can easily be used to hire another full time secretary without having to ask the Fiscal Court for more money to do this.

This audit was not started until mid to late 2018, and completed in 2019, which doesn't enable me to "correct" these situations. The financial decisions I made during my term, however, will allow the new Sheriff the ability to hire the needed second secretary position to allow himself the opportunity to avoid this error. Hiring another full time secretary should enable adequate segregation of duties.