

**REPORT OF THE AUDIT OF THE
FORMER BALLARD COUNTY
SHERIFF'S SETTLEMENT - 2018 TAXES**

**For The Period
April 17, 2018 Through December 31, 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 - 2018 Taxes for the period April 17, 2018 through December 31, 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 17, 2018 through December 31, 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 17, 2018 through December 31, 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 September 4, 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:

- 2018-001 The Former Ballard County Sheriff's Tax Settlement Was Materially Misstated
- 2018-002 The Former Ballard County Sheriff's Office Did Not Perform Daily Checkout Procedures Or Make Daily Deposits
- 2018-003 The Former Ballard County Sheriff's Office Lacked Adequate Segregation Of Duties

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

September 4, 2019

BALLARD COUNTY
CAREY BATTS, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2018 TAXES

For The Period April 17, 2018 Through December 31, 2018

	Special Taxing			
	County	Districts	School	State
<u>Charges</u>				
Real Estate	\$ 882,085	\$ 594,517	\$ 2,175,545	\$ 482,577
Tangible	94,737	57,397	235,781	367,996
Fire Protection	655			
Total Per Sheriff's Official Receipt	<u>977,477</u>	<u>651,914</u>	<u>2,411,326</u>	<u>850,573</u>
<u>Other Taxes & Charges</u>				
Court Ordered Increases	69	42	172	140
Franchise Taxes	218,784	132,699	541,451	
Additional Billings	4,108	2,477	10,224	8,253
Bank Franchises	<u>25,293</u>			
Gross Chargeable to Sheriff	1,225,731	787,132	2,963,173	858,966
<u>Credits</u>				
Exonerations	974	643	2,403	599
Discounts	15,597	10,379	38,533	14,914
Transferred To Incoming Sheriff	<u>97,512</u>	<u>65,075</u>	<u>240,535</u>	<u>54,984</u>
Total Credits	114,083	76,097	281,471	70,497
Taxes Collected	1,111,648	711,035	2,681,702	788,469
Less: Sheriff's Commissions*	<u>47,244</u>	<u>29,367</u>	<u>96,538</u>	<u>33,510</u>
Taxes Due Districts	1,064,404	681,668	2,585,164	754,959
Taxes Paid	1,063,772	681,256	2,583,606	754,627
Refunds (Current and Prior Year)	<u>597</u>	<u>391</u>	<u>1,472</u>	<u>335</u>
Taxes Due Districts (Refund Due Sheriff)	<u>\$ 35</u>	<u>\$ 21</u>	<u>\$ 86</u>	<u>\$ (3)</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 - 2018 TAXES
For The Period April 17, 2018 Through December 31, 2018
(Continued)

* Commissions:

4.25% on \$ 2,268,699

4% on \$ 342,453

3.6% on \$ 2,681,702

** Special Taxing Districts:

Health District \$ 5

Extension District 5

Ambulance District 11

Due Districts \$ 21

BALLARD COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 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).

D. Preparation of State Settlement

The Kentucky Department of Revenue conducts the settlement relating to taxes collected for the state under the provision of KRS 134.192(2)(a). This is reported as the "State Taxes" column on the financial statement.

Note 2. Deposits

The former 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 Ballard County 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 December 31, 2018, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

BALLARD COUNTY
NOTES TO FINANCIAL STATEMENT
For The Period April 17, 2018 Through December 31, 2018
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2018 2018. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2019. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 27, 2018 through December 31, 2018.

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 17, 2018 through December 31, 2018.

Note 4. Interest Income

The former Ballard County Sheriff earned \$3,357 as interest income on 2018 taxes. The sheriff was in substantial compliance with his statutory responsibilities.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
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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 -2018 Taxes for the period April 17, 2018 through December 31, 2018 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated September 4, 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 2018-001, 2018-002, and 2018-003 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 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 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2018-001 and 2018-002.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal line extending to the right.

Mike Harmon
Auditor of Public Accounts

September 4, 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 17, 2018 Through December 31, 2018

FINANCIAL STATEMENT FINDINGS:

2018-001 The Former Ballard County Sheriff's Tax Settlement Was Materially Misstated

The former Ballard County Sheriff's Tax Settlement was materially misstated by \$564,590 due to not reporting franchise tax collections and distributions from June 2018 of \$227,019, July 2018 of \$83,465, and September 2018 of \$254,106.

The former sheriff hired a new bookkeeper beginning in October 2018. The bookkeeper was not aware of the collections received and distributed in June, July, and September. Also, the former sheriff did not ensure the tax settlement was complete and accurate prior to submitting to the fiscal court for approval. As a result, the former sheriff's settlement presented and approved by the fiscal court was not a complete and accurate reporting of taxes collected as of December 31, 2018.

According to KRS 134.215(3), "[e]ach outgoing sheriff shall make a final settlement with the department, the fiscal court, and all districts for which his or her office collected taxes by March 15 immediately following the expiration of his or her term of office. The settlement shall address all charges of taxes made against the sheriff and all money received by him or her as sheriff, and shall include all of the information required for an annual settlement pursuant to KRS 134.192." KRS 134.192(5) states, "[t]he settlement shall show the amount of ad valorem tax collected for the county, the school district, and all taxing districts, and an itemized statement of the money disbursed to or on behalf of the county, the school district, and all taxing districts."

The former sheriff should have reviewed the tax settlement to determine if it was complete and accurate by comparing to supporting documentation such of the monthly tax reports. We recommend the sheriff's office ensure the settlement is reviewed for accuracy.

Former Sheriff's Response: No Response.

2018-002 The Former Ballard County Sheriff's Office Did Not Perform Daily Checkout Procedures Or Make Daily Deposits

This is a repeat finding and was included in the prior year audit report as finding 2017-001. During the tax year, the former Ballard County Sheriff's office did not perform daily check-out procedures or make daily deposits for tax collections. Tax collections totaling \$29,618 for November 8 through November 13 were batched and deposited on November 14 and collection totaling \$6,982 for November 14 through November 15 were batched and deposited on November 16.

According to the former sheriff, daily checkout procedures were not performed due to the small amount of taxes collected on a daily basis. Also because of a limited number of staff, sometimes the bookkeeper would be the only person working in the office and would not be able to leave to take deposits to the bank.

Failure to perform daily checkout procedures and make daily deposits increases the risk that tax collections could be misappropriated or lost.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Pursuant to KRS 68.210, the state local finance officer has prescribed minimum accounting and reporting standards in the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual*, which states, "daily deposits intact into a federally insured banking institution."

BALLARD COUNTY
CAREY BATTS, FORMER SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Period April 17, 2018 Through December 31, 2018
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-002 The Former Ballard County Sheriff's Office Did Not Perform Daily Checkout Procedures Or Make Daily Deposits (Continued)

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

Former Sheriff's Response: No Response.

2018-003 The Former Ballard County Sheriff's Office Lacked Adequate Segregation Of Duties

This is a repeat finding and was included in the prior year audit report as finding 2017-002. The former Ballard County Sheriff's office lacked adequate segregation of duties over tax collections. The former sheriff's bookkeeper performed all the accounting functions of the office. The bookkeeper collected tax payments, prepared deposits, printed monthly reports, and prepared tax distributions, monthly bank reconciliations, and the annual tax settlement. These tasks were performed with little to no supervisory review.

According to the former sheriff, the bookkeeper performed all of these duties because he was unable to hire another secretary due to a limited budget.

This lack of segregation of duties without sufficient oversight resulted in the sheriff's tax settlement being materially misstated (See Finding 2018-001).

Segregation of duties 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.

We recommend the sheriff's office segregate the duties noted above by allowing different employees to perform these functions. If this is not feasible due to a lack of staff, then strong management oversight by the sheriff or a designee could be a cost effective alternative.

Former Sheriff's Response: No Response.