

**REPORT OF THE AUDIT OF THE  
CARLISLE COUNTY  
SHERIFF'S SETTLEMENT - 2019 TAXES**

**For The Period  
April 16, 2019 Through May 15, 2020**



**MIKE HARMON  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

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



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**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
The Honorable Andy Beshear, Governor  
Holly M. Johnson, Secretary  
Finance and Administration Cabinet  
The Honorable Greg Terry, Carlisle County Judge/Executive  
The Honorable William Gilbert, Carlisle County Sheriff  
Members of the Carlisle County Fiscal Court

Independent Auditor's Report

**Report on the Financial Statement**

We have audited the Carlisle County Sheriff's Settlement - 2019 Taxes for the period April 16, 2019 through May 15, 2020 - 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 Andy Beshear, Governor  
Holly M. Johnson, Secretary  
Finance and Administration Cabinet  
The Honorable Greg Terry, Carlisle County Judge/Executive  
The Honorable William Gilbert, Carlisle County Sheriff  
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### **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 Carlisle 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 Carlisle County Sheriff, for the period April 16, 2019 through May 15, 2020.

### **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 16, 2019 through May 15, 2020 of the Carlisle 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 March 17, 2021, on our consideration of the Carlisle 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 Carlisle County Sheriff's internal control over financial reporting and compliance.

To the People of Kentucky  
The Honorable Andy Beshear, Governor  
Holly M. Johnson, Secretary  
Finance and Administration Cabinet  
The Honorable Greg Terry, Carlisle County Judge/Executive  
The Honorable William Gilbert, Carlisle County Sheriff  
Members of the Carlisle 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:

- 2019-001 The Carlisle County Sheriff's Franchise Tax Settlement Was Materially Misstated
- 2019-002 The Carlisle County Sheriff's Office Does Not Have 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

March 17, 2021

CARLISLE COUNTY  
WILLIAM GILBERT, SHERIFF  
SHERIFF'S SETTLEMENT - 2019 TAXES

For The Period April 16, 2019 Through May 15, 2020

	Special Taxing			
	County	Districts	School	State
<u>Charges</u>				
Real Estate	\$ 387,600	\$ 524,880	\$ 1,072,842	\$ 232,479
Tangible	34,547	35,971	95,813	63,559
Total Per Sheriff's Official Receipt	422,147	560,851	1,168,655	296,038
<u>Other Taxes &amp; Charges</u>				
Court Ordered Increases	359	437	996	216
Franchise Taxes	99,803	108,491	282,098	
Omitted Clay Property Taxes	26	28	72	16
Clay Property Taxes	3	3	7	2
Penalties	2,058	2,369	5,704	1,267
Gross Chargeable to Sheriff	524,396	672,179	1,457,532	297,539
<u>Credits</u>				
Exonerations	1,150	1,611	3,191	696
Discounts	7,160	8,156	19,846	4,739
Delinquent Real Estate	6,036	9,064	16,710	3,621
Delinquent Tangible	375	390	1,039	772
Total Credits	14,721	19,221	40,786	9,828
Taxes Collected	509,675	652,958	1,416,746	287,711
Less: Sheriff's Commissions*	21,661	24,013	56,670	12,228
Taxes Due Districts	488,014	628,945	1,360,076	275,483
Taxes Paid	480,043	620,204	1,336,988	275,487
Refunds (Current and Prior Year)	7,971	8,678	22,853	
Taxes Due Districts (Refund Due Sheriff)	\$ 0	\$ 63	\$ 235	\$ (4)

\*\*

\* and \*\* See next page.

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



CARLISLE COUNTY  
WILLIAM GILBERT, SHERIFF  
SHERIFF'S SETTLEMENT - 2019 TAXES  
For The Period April 16, 2019 Through May 15, 2020  
(Continued)

\* Commissions:

4.25% on	\$	1,157,128
4% on	\$	1,634,862
0% on	\$	75,100

\*\* Special Taxing Districts:

Ambulance District	\$	<u>63</u>
Due District	\$	<u><u>63</u></u>

CARLISLE COUNTY  
NOTES TO FINANCIAL STATEMENT

May 15, 2020

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

KRS 66.480 authorizes the sheriff's office to invest in obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

D. Preparation of State Settlement

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

Note 2. Deposits

The Carlisle 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 fiscal court 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.

CARLISLE COUNTY  
NOTES TO FINANCIAL STATEMENT  
May 15, 2020  
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the sheriff's deposits may not be returned. The Carlisle County Sheriff does not have a deposit policy for custodial credit risk, but rather follows the requirements of the DLG *County Budget Preparation and State Local Finance Officer Policy Manual*. As of May 15, 2020, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2019. Property taxes were billed to finance governmental services for the fiscal year ending June 30, 2020. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 26, 2019 through May 15, 2020.

B. Clay Reserves

The clay reserve property tax assessments were levied as of January 1, 2019. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was February 25, 2020 through May 15, 2020.

C. Franchise Taxes

The franchise tax assessments were levied by the Department of Revenue for various tax years. Franchise taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was April 16, 2019 through May 15, 2020.

Note 4. Interest Income

The Carlisle County Sheriff earned \$38 as interest income on 2019 taxes. The sheriff was in substantial compliance with his statutory responsibilities.

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

The Carlisle County Sheriff collected \$9,253 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the sheriff's office.

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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 Greg Terry, Carlisle County Judge/Executive  
The Honorable William Gilbert, Carlisle County Sheriff  
Members of the Carlisle 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 Carlisle County Sheriff's Settlement - 2019 Taxes for the period April 16, 2019 through May 15, 2020 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated March 17, 2021. The Carlisle 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 Carlisle 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 Carlisle County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Carlisle 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 2019-001 to be a material weakness.



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

**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 2019-002 to be a significant deficiency.

**Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the Carlisle 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2019-001.

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

The Carlisle 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 Carlisle 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

March 17, 2021



## SCHEDULE OF FINDINGS AND RESPONSES

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CARLISLE COUNTY  
WILLIAM GILBERT, SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES

For The Period April 16, 2019 Through May 15, 2020

FINANCIAL STATEMENT FINDINGS:

2019-001 The Carlisle County Sheriff's Franchise Tax Settlement Was Materially Misstated

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The Carlisle County Sheriff's Franchise Tax Settlement for the 2019 tax collection period was materially misstated. Current year franchise taxes were understated by \$294,813, and taxes paid were understated by \$282,500. This was due to the inexperience of the bookkeeper and sheriff. As this was the first full year of taxes collected under the sheriff, there was confusion as to what tax year the franchise taxes collected should be reported in. Though the taxes were properly collected and distributed, they were not correctly recorded on the franchise tax settlement. Due to the error that was made, the franchise tax settlement was materially misstated.

KRS 134.192(1) states, "[e]ach sheriff shall annually settle his or her account with the department, the county and any district for which the sheriff collects taxes on or before September 1 of each year." KRS 134.192(5) states, "[t]he report of the state and local settlement shall be filed in the county clerk's office and approved by the governing body of the county no later than September 1 of each year. The settlement shall show the amount of ad valorem tax collected for the county, the school district, and all taxing districts, and an itemized statement of the money disbursed to or on behalf of the county, the school district, and all taxing districts." Also, strong internal controls over the reporting process requires all reports to be reviewed throughout the reporting period to ensure all relevant data is included in the final settlement.

We recommend the Carlisle County Sheriff's office review all reports to ensure the correct data for the correct time period is included.

*Sheriff's Response: Franchise Tax Bills are received in the Sheriff's Office from the County Clerk's Office. They have rates and calculations when received. We have developed new procedures and tracking systems to ensure Franchise Bills are checked and billed at the correct rate when they are sent out of the Sheriff's office. When bills are received from the Clerk's office they are logged, checked for accuracy, assigned a tracking number and mailed. When they are paid, they are logged by tracking number and recorded in log by month and date paid for distribution. Receipts are recorded individually for processing discounts and fees, and on a total log to ensure distribution agrees with bank balance. Monthly interest is added to total and bank balances are reconciled before disbursements are made. Interest is paid in a separate check.*

*The misstated amount on the 2019 settlement was a result of a 2018 bill (prior administration) sent out at the wrong rate by the Clerk's office. [Franchise name redacted], and Clerk's Office, found the error but before correction could be made, the bill had been paid. [Franchise name redacted] requested a refund from the Clerk's Office, who in turn forwarded the request to the Sheriff's office. We contacted Frankfort and was advised to process the refund and deduct it from December disbursements.*

*All documents pertaining to overpayment and refund are recorded and logged in Sheriff's department. [Department of Revenue employees' names redacted] came to Carlisle County to assist in preparation of settlement.*

**Auditor's Reply:** There were eleven tax bills collected that were not included on the sheriff's franchise tax settlement including the bill mentioned in the sheriff's response that required a partial refund in December. The bills were collected during May and July 2019 and paid out during June and August 2019. The bills were not included during the 2018 tax settlement and thus belong on the 2019 tax settlement. Additionally, the Department of Revenue assists with the state portion of the tax settlement. Franchise taxes are not included on the state portion.

CARLISLE COUNTY  
WILLIAM GILBERT, SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Period April 16, 2019 Through May 15, 2020  
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-002 The Carlisle County Sheriff's Office Does Not Have Adequate Segregation Of Duties

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This is a repeat finding and was included in the prior year audit report as finding 2018-001. The sheriff's bookkeeper and the part time assistant collect taxes, post payments to the tax software, prepare deposits, prepare monthly tax reports and monthly tax distributions, perform monthly bank reconciliations, and prepare the annual tax settlement. The sheriff has implemented compensating controls such as reviewing bank reconciliations by initialing, dual signatures are required for all disbursements with one being the sheriff, and reviewing monthly tax reports by signing and dating reports. However, the sheriff's office does not have adequate compensating controls over tax collections due to not documenting review of daily checkout sheets, deposit tickets, and ledgers.

The sheriff indicated that this condition was present because of the limited number of office staff and the budget requirements of the sheriff's office. The sheriff was unaware of the need to document review of tax collection documents. A lack of segregation of duties or strong oversight increases the risk of undetected misappropriation of assets or inaccurate financial reporting.

Good internal controls dictate the same employee should not handle, record, and reconcile receipts. Further, the same employee should not be responsible for preparing, recording, and reconciling disbursements. The segregation of duties over various accounting functions such as opening mail, preparing deposits, recording receipts and disbursements, and preparing monthly reports, or the implementation of compensating controls is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. If this is not feasible due to budgetary constraints, cross checking procedures could be implemented and documented by the individual performing this procedure.

We recommend the sheriff's office segregate the duties noted above to the extent allowed by budget restrictions. For those duties that cannot be segregated due to a limited number of staff, we recommend the sheriff's office strengthen the management oversight that is currently in place.

*Sheriff's Response: We maintain a Small County Sheriff's office with a small operating budget. There are two full time employee. Both employees are trained, and can perform any duty in the office. Both sign all Fee and Tax receipts as they are recorded in [accounting software name redacted]. The Sheriff and Office Manager sign all checks. Reports are double checked for accuracy. The Sheriff or Chief Deputy are available during office hours, in person or by phone, for help or advice and to oversee the functions of the office.*