

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

**For The Period
April 17, 2018 Through April 15, 2019**



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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 Todd Pollock, Trimble County Judge/Executive
The Honorable Charles Kelton, Trimble County Sheriff
Members of the Trimble County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the Trimble County Sheriff's Settlement - 2018 Taxes for the period April 17, 2018 through April 15, 2019 - 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
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The Honorable Todd Pollock, Trimble County Judge/Executive
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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 Trimble 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 Trimble County Sheriff, for the period April 17, 2018 through April 15, 2019.

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 April 15, 2019 of the Trimble County Sheriff, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

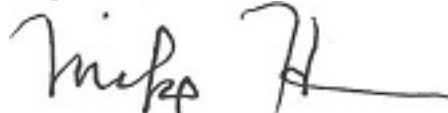
Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2020, on our consideration of the Trimble 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 Trimble 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 comment:

2018-001 The Sheriff’s Office Lacked Segregation Of Duties Over Receipts, Disbursements, And Bank Reconciliations

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

August 27, 2020

TRIMBLE COUNTY
CHARLES KELTON, SHERIFF
SHERIFF'S SETTLEMENT - 2018 TAXES

For The Period April 17, 2018 Through April 15, 2019

	County	Special Taxing Districts	School	State
<u>Charges</u>				
Real Estate	\$ 250,629	\$ 665,232	\$ 2,355,358	\$ 392,028
Tangible	9,634	30,612	90,534	50,623
Fire Protection	1,508			
Total Per Sheriff's Official Receipt	261,771	695,844	2,445,892	442,651
<u>Other Taxes & Charges</u>				
Court Ordered Increases	38	99	358	60
Franchise Taxes	151,598	425,492	1,468,848	
Additional Billings	6	20	60	37
Bank Franchises	23,439			
Penalties	1,218	3,212	11,394	1,914
Gross Chargeable to Sheriff	438,070	1,124,667	3,926,552	444,662
<u>Credits</u>				
Exonerations	845	2,219	7,938	1,379
Discounts	4,051	10,814	37,857	6,780
Delinquent Real Estate	7,134	18,965	66,745	11,109
Delinquent Tangible	802	2,546	7,536	3,622
Total Credits	12,832	34,544	120,076	22,890
Taxes Collected	425,238	1,090,123	3,806,476	421,772
Less: Sheriff's Commissions*	18,073	46,330	152,259	17,925
Taxes Due Districts	407,165	1,043,793	3,654,217	403,847
Taxes Paid	406,891	1,043,067	3,651,701	403,414
Refunds (Current and Prior Year)	249	658	2,270	385
Taxes Due Districts	\$ 25	\$ 68	\$ 246	\$ 48
		**		

* and ** See next page.

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

TRIMBLE COUNTY
CHARLES KELTON, SHERIFF
SHERIFF'S SETTLEMENT - 2018 TAXES
For The Period April 17, 2018 Through April 15, 2019
(Continued)

* Commissions:

4.25% on	\$	1,937,133
4% on	\$	3,806,476

** Special Taxing Districts:

Library District	\$	40
Health District		14
Extension District		<u>14</u>
Due Districts	\$	<u><u>68</u></u>

TRIMBLE COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2019

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 Trimble 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 Trimble 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 April 15, 2019, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

TRIMBLE COUNTY
NOTES TO FINANCIAL STATEMENT
April 15, 2019
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 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 25, 2018 through April 15, 2019.

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 April 15, 2019.

Note 4. Interest Income

The Trimble County Sheriff earned \$441 as interest income on 2018 taxes. The sheriff was in substantial compliance with his statutory responsibilities.

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

The Trimble County Sheriff collected \$14,703 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the sheriff's office.

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 Pollock, Trimble County Judge/Executive
The Honorable Charles Kelton, Trimble County Sheriff
Members of the Trimble 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 Trimble County Sheriff's Settlement - 2018 Taxes for the period April 17, 2018 through April 15, 2019 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated August 27, 2020. The Trimble 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 Trimble 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 Trimble County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Trimble 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.

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 2018-001 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)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Trimble 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 stroke extending to the right.

Mike Harmon
Auditor of Public Accounts

August 27, 2020

SCHEDULE OF FINDINGS AND RESPONSES

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TRIMBLE COUNTY
CHARLES KELTON, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Period April 17, 2018 Through April 15, 2019

INTERNAL CONTROL - MATERIAL WEAKNESS:

2018-001 The Sheriff's Office Lacked Segregation Of Duties Over Receipts, Disbursements, And Bank Reconciliations

This is a repeat finding and was included in the prior year audit report as finding 2017-001. The Trimble County Sheriff's office lacked segregation of duties over receipts, disbursements, and bank reconciliations. The sheriff's bookkeeper batched receipts to a daily collection report, prepared the deposit ticket, took the deposit to the bank, prepared tax disbursement reports, prepared checks, signed the checks, and reconciled the bank account. There was no independent review in place.

The sheriff did not have enough funds to hire additional personnel to segregate duties. A lack of segregation of duties increases the risk of material misstatement of the tax settlement due to errors in financial reporting and misappropriation of tax receipts.

Good internal controls dictate that a segregation of duties related to receipts and disbursements protects employees in their day-to-day functions and it reduces the risk that undetected financial reporting errors may occur.

We recommend the sheriff's office either segregate control duties over receipts and disbursements or implement compensating controls. Examples of compensating controls the sheriff or his designee could implement are: review the deposit ticket to ensure it agrees with the daily collection report, review the disbursements checks to ensure they agree to the corresponding monthly tax distribution report, and review the bank reconciliations to ensure they account for all receipt and disbursement activity. Reviews should be documented by initials of reviewer on the deposit tickets, daily collection reports, and bank reconciliations. The sheriff should sign the checks and monthly distribution reports, evidencing the review.

Sheriff's Response: The sheriff did not provide a response.