

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

**For The Period  
April 17, 2018 Through January 6, 2019**



**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**



CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT ..... 1

SHERIFF’S SETTLEMENT - 2018 TAXES .....4

NOTES TO FINANCIAL STATEMENT .....6

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* ..... 11

SCHEDULE OF FINDINGS AND RESPONSES ..... 15

THIS PAGE LEFT BLANK INTENTIONALLY



**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 David Fields, Pendleton County Judge/Executive

The Honorable Charles Peoples, Former Pendleton County Sheriff

The Honorable Edwin Quinn, Pendleton County Sheriff

Members of the Pendleton County Fiscal Court

Independent Auditor's Report

**Report on the Financial Statement**

We have audited the former Pendleton County Sheriff's Settlement - 2018 Taxes for the period April 17, 2018 through January 6, 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  
Finance and Administration Cabinet  
The Honorable David Fields, Pendleton County Judge/Executive  
The Honorable Charles Peoples, Former Pendleton County Sheriff  
The Honorable Edwin Quinn, Pendleton County Sheriff  
Members of the Pendleton 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 Pendleton 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 Pendleton County Sheriff, for the period April 17, 2018 through January 6, 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 January 6, 2019 of the former Pendleton 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 October 14, 2019, on our consideration of the former Pendleton 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 Pendleton 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 David Fields, Pendleton County Judge/Executive  
The Honorable Charles Peoples, Former Pendleton County Sheriff  
The Honorable Edwin Quinn, Pendleton County Sheriff  
Members of the Pendleton 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 Sheriff's Office Did Not Batch Or Deposit Receipts Daily
- 2018-002 The Former Sheriff's Office Lacked Adequate Segregation Of Duties Over Receipts And Disbursements

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

October 14, 2019

PENDLETON COUNTY  
 CHARLES PEOPLES, FORMER SHERIFF  
SHERIFF'S SETTLEMENT - 2018 TAXES

For The Period April 17, 2018 Through January 6, 2019

	Special Taxing			
	County	Districts	School	State
<u>Charges</u>				
Real Estate	\$ 847,543	\$ 2,278,838	\$ 3,679,836	\$ 653,806
Tangible	57,458	232,997	247,942	298,103
Total Per Sheriff's Official Receipt	905,001	2,511,835	3,927,778	951,909
<u>Other Taxes &amp; Charges</u>				
Court Ordered Increases	119	304	516	92
Omitted Taxes	235	529	947	
Franchise Taxes	95,311	264,319	407,479	
Additional Billings	133	340	576	102
Bank Franchises	28,340			
Penalties	12	26	47	
Gross Chargeable to Sheriff	1,029,151	2,777,353	4,337,343	952,103
<u>Credits</u>				
Exonerations	1,947	5,097	8,453	1,501
Discounts	15,735	42,440	65,828	16,230
Transferred to Incoming Sheriff	55,654	149,557	241,637	46,201
Total Credits	73,336	197,094	315,918	63,932
Taxes Collected	955,815	2,580,259	4,021,425	888,171
Less: Sheriff's Commissions*	40,622	100,307	120,641	37,747
Taxes Due Districts	915,193	2,479,952	3,900,784	850,424
Taxes Paid	913,808	2,475,503	3,894,826	850,107
Refunds (Current and Prior Year)	1,373	4,355	5,910	317
Taxes Due Districts	\$ 12	\$ 94	\$ 48	\$ 0

\*\*

\* and \*\* See next page.

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



PENDLETON COUNTY  
 CHARLES PEOPLES, FORMER SHERIFF  
 SHERIFF'S SETTLEMENT - 2018 TAXES  
 For The Period April 17, 2018 Through January 6, 2019  
 (Continued)

\* Commissions:

4.25% on	\$	3,749,837
4% on	\$	418,761
3% on	\$	4,021,425
1% on	\$	255,647

\*\* Special Taxing Districts:

Library District	\$	10
Health District		5
Extension District		8
Soil		1
Mental Health		62
Ambulance		8
		<hr/>
Due Districts	\$	<u>94</u>

PENDLETON COUNTY  
NOTES TO FINANCIAL STATEMENT

January 6, 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 former Pendleton 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 Pendleton 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 January 6, 2019, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

PENDLETON COUNTY  
NOTES TO FINANCIAL STATEMENT  
January 6, 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 26, 2018 through January 6, 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 January 6, 2019.

Note 4. Interest Income

The former Pendleton County Sheriff earned \$906 as interest income on 2018 taxes. The former sheriff was in substantial compliance with his statutory responsibilities.

THIS PAGE LEFT BLANK INTENTIONALLY

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

THIS PAGE LEFT BLANK INTENTIONALLY



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

The Honorable David Fields, Pendleton County Judge/Executive  
The Honorable Charles Peoples, Former Pendleton County Sheriff  
The Honorable Edwin Quinn, Pendleton County Sheriff  
Members of the Pendleton 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 Pendleton County Sheriff's Settlement - 2018 Taxes for the period April 17, 2018 through January 6, 2019 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated October 14, 2019. The former Pendleton 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 Pendleton 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 Pendleton County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Pendleton 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 2018-002 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 2018-001 to be a significant deficiency.

**Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the former Pendleton 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,



Mike Harmon  
Auditor of Public Accounts

October 14, 2019



## SCHEDULE OF FINDINGS AND RESPONSES

THIS PAGE LEFT BLANK INTENTIONALLY

PENDLETON COUNTY  
CHARLES PEOPLES, FORMER SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES

For The Period April 17, 2018 Through January 6, 2019

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2018-001 The Former Sheriff's Office Did Not Batch Or Deposit Receipts Daily

---

The former Pendleton County Sheriff did not make daily deposits. Receipts were batched based on deposit date and were often held from previous days. According to the former sheriff, the former sheriff's office had a small staff and minimal deposits on certain days, which lead to them holding receipts until a deposit is made. A lack of oversight could lead to misappropriation of assets and inaccurate financial reporting. The likelihood that a receipt could be lost or misplaced is increased if the receipts are not batched and deposited daily.

The mandatory standards established by the state local finance officer pursuant to KRS 68.210 dictate that collections should be deposited daily intact into a federally insurance banking institution. It requires officials to issue receipts and reconcile daily checkout sheets with daily deposit totals. The daily checkout sheets should agree to batched receipts, deposits, and the receipts ledger.

We recommend the sheriff's office implement procedures to ensure that receipts are batched and deposited daily.

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

INTERNAL CONTROL - MATERIAL WEAKNESS:

2018-002 The Former Sheriff's Office Lacked Adequate Segregation Of Duties Over Receipts And Disbursements

---

This is a repeat finding included in the prior year audit report as finding 2017-001. The former sheriff's office lacked adequate segregation of duties over receipts and disbursements. All employees of the former sheriff's office collected receipts. The office manager was responsible for preparing the daily bank deposit, the daily checkout sheet, and posting items to the receipts ledger. The office manager also prepared checks for all disbursements and posted to the disbursements ledger. The former sheriff and office manager are the only authorized check signers; however, the former sheriff did not require dual signatures on checks.

According to the former sheriff, the limited size of the sheriff's office made it difficult to segregate duties properly.

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

Good internal controls dictate that the same employee should not handle, record, and reconcile receipts and disbursements.

We recommend the sheriff's office separate the duties of collecting taxes, preparing daily deposits, preparing and mailing disbursements, and preparing financial reports. If these duties cannot be segregated due to a limited number of staff, then strong oversight should be provided to the employee responsible for these duties and this oversight should be documented.

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