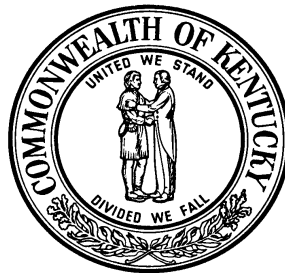


**REPORT OF THE AUDIT OF THE
ROCKCASTLE COUNTY
SHERIFF'S SETTLEMENT - 2019 TAXES**

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



**MIKE HARMON
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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 Howell Holbrook, Jr., Rockcastle County Judge/Executive

The Honorable Shannon Franklin, Rockcastle County Sheriff

Members of the Rockcastle County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the Rockcastle 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 Howell Holbrook, Jr., Rockcastle County Judge/Executive
 The Honorable Shannon Franklin, Rockcastle County Sheriff
 Members of the Rockcastle 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 Rockcastle 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 Rockcastle 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 Rockcastle 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 December 22, 2020, on our consideration of the Rockcastle 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 Rockcastle 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:

2019-001 The Rockcastle County Sheriff's Office Does Not Have Adequate Segregation Of Duties Over Receipts And Disbursements

Respectfully submitted,



Mike Harmon
 Auditor of Public Accounts

December 22, 2020

ROCKCASTLE COUNTY
SHANNON FRANKLIN, 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	\$ 328,831	\$ 918,795	\$ 1,900,917	\$ 549,555
Tangible	23,011	80,529	118,451	122,905
Fire Protection	1,531			
Total Per Sheriff's Official Receipt	<u>353,373</u>	<u>999,324</u>	<u>2,019,368</u>	<u>672,460</u>
<u>Other Taxes & Charges</u>				
Franchise Taxes	42,360	141,721	223,812	
Additional Billings	65	194	364	175
Limestone, Sand, and Gravel Reserves	546	1,526	3,158	913
Penalties	2,085	5,900	11,894	4,204
Gross Chargeable to Sheriff	398,429	1,148,665	2,258,596	677,752
<u>Credits</u>				
Exonerations	2,117	5,915	12,238	3,538
Discounts	5,205	14,824	29,687	9,666
Delinquent Real Estate	10,910	30,560	62,520	19,421
Total Credits	18,232	51,299	104,445	32,625
Taxes Collected	380,197	1,097,366	2,154,151	645,127
Less: Sheriff's Commissions*	<u>16,158</u>	<u>46,638</u>	<u>86,166</u>	<u>27,418</u>
Taxes Due Districts	364,039	1,050,728	2,067,985	617,709
Taxes Paid	363,714	1,049,923	2,066,075	617,166
Refunds (Current and Prior Year)	<u>325</u>	<u>904</u>	<u>1,868</u>	<u>540</u>
Taxes Due Districts (Refunds Due Sheriff)	<u>\$ 0</u>	<u>\$ (99)</u>	<u>\$ 42</u>	<u>\$ 3</u>

**

* and ** See next page.

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

ROCKCASTLE COUNTY
SHANNON FRANKLIN, SHERIFF
SHERIFF'S SETTLEMENT - 2019 TAXES
For The Period April 16, 2019 Through May 15, 2020
(Continued)

* Commissions:

4.25% on	\$	2,122,690
4% on	\$	2,154,151

** Special Taxing Districts:

Health District	\$	(96)
Extension District		<u>(3)</u>
(Refunds Due Sheriff)	\$	<u>(99)</u>

ROCKCASTLE 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 Rockcastle 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.

ROCKCASTLE 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 Rockcastle 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 18, 2019 through May 15, 2020.

B. Limestone, Sand, and Gravel Reserves

The limestone, sand, and gravel 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 Rockcastle County Sheriff earned \$154 as interest income on 2019 taxes. As of May 15, 2020, the sheriff owed \$14 in interest to the school district and \$31 in interest to his fee account.

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

The Rockcastle County Sheriff collected \$ 19,931 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 Howell Holbrook, Jr., Rockcastle County Judge/Executive
The Honorable Shannon Franklin, Rockcastle County Sheriff
Members of the Rockcastle 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 Rockcastle 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 December 22, 2020. The Rockcastle 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 Rockcastle 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 Rockcastle County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Rockcastle 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 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)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Rockcastle 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 flourish extending to the right.

Mike Harmon
Auditor of Public Accounts

December 22, 2020

SCHEDULE OF FINDINGS AND RESPONSES

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ROCKCASTLE COUNTY
SHANNON FRANKLIN, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

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

INTERNAL CONTROL - MATERIAL WEAKNESS:

2019-001 The Rockcastle County Sheriff's Office Does Not Have Adequate Segregation Of Duties Over Receipts And Disbursements

This is a repeat finding and was included in the prior year audit report as finding 2018-001. The Rockcastle County Sheriff's office does not have adequate segregation of duties over receipts and disbursements. The sheriff has two bookkeepers. One bookkeeper is responsible for opening mail and writing checks. The second bookkeeper, who is part-time, is responsible for posting receipts and disbursements to the ledgers as well as preparing the bank reconciliation. Both bookkeepers collect receipts, prepare bank deposits, prepare the daily tax report, and can initiate voided transactions in the computerized tax system. The sheriff's office stated that a lack of segregation of duties existed because a limited number of employees were available to properly segregate job duties. A limited budget placed restrictions on the number of employees the sheriff could hire. A lack of oversight could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies, such as the Department of Revenue and other taxing districts.

A proper segregation of duties over accounting functions is essential for preventing asset misappropriation and inaccurate financial reporting. In addition, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. The sheriff's office can implement oversight when duties cannot be segregated.

We recommend the sheriff's office separate the duties of collecting taxes, preparing daily deposits, preparing and mailing disbursements, and preparing financial reports. If this is not feasible due to lack of staff, then strong oversight over these areas should occur and involve an employee that isn't currently performing any of these functions. Additionally, the sheriff's office could implement compensating controls by providing oversight and documenting the oversight on the appropriate source documents.

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