

**REPORT OF THE AUDIT OF THE  
PENDLETON COUNTY  
SHERIFF'S SETTLEMENT - 2020 TAXES**

**For The Period  
May 16, 2020 Through April 15, 2021**



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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 Davis Fields, Pendleton County Judge/Executive  
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 Pendleton County Sheriff's Settlement - 2020 Taxes for the period May 16, 2020 through April 15, 2021 - 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 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 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 Pendleton County Sheriff, for the period May 16, 2020 through April 15, 2021.

### **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 May 16, 2020 through April 15, 2021 of the 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 January 31, 2022, on our consideration of the 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 Pendleton 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:

2020-001 The 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 flourish extending to the right.

Mike Harmon  
Auditor of Public Accounts

January 31, 2022

PENDLETON COUNTY  
EDWIN QUINN, SHERIFF  
SHERIFF'S SETTLEMENT - 2020 TAXES

For The Period May 16, 2020 Through April 15, 2021

	County	Special Taxing Districts	School	State
<u>Charges</u>				
Real Estate	\$ 876,559	\$ 2,475,060	\$ 3,788,965	\$ 689,928
Tangible	56,132	244,396	242,637	295,600
Total Per Sheriff's Official Receipt	932,691	2,719,456	4,031,602	985,528
<u>Other Taxes &amp; Charges</u>				
Court Ordered Increases	274	802	1,185	180
Franchise Taxes	138,227	524,026	597,263	
Additional Billings	256	692	1,105	248
2019 Additional Bill	63	168	273	
Limestone, Sand, and Gravel Reserves	8,691	25,458	37,570	6,841
Bank Franchises	35,733			
Penalties	2,832	7,923	12,238	2,642
Gross Chargeable to Sheriff	1,118,767	3,278,525	4,681,236	995,439
<u>Credits</u>				
Exonerations	1,840	5,277	7,953	1,370
Discounts	19,054	55,467	80,333	16,626
Delinquent Real Estate	9,093	24,964	38,817	7,068
Delinquent Tangible		395	487	327
Total Credits	29,987	86,103	127,590	25,391
Taxes Collected	1,088,780	3,192,422	4,553,646	970,048
Less: Sheriff's Commissions*	46,273	124,468	136,609	41,227
Taxes Due Districts	1,042,507	3,067,954	4,417,037	928,821
Taxes Paid	1,041,123	3,062,709	4,411,052	926,921
Refunds (Current and Prior Year)	1,385	4,093	5,985	1,902
Taxes Due Districts (Refunds Due Sheriff)	\$ (1)	\$ 1,152	\$ 0	\$ (2)

\*\*

\* and \*\* See next page.

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

PENDLETON COUNTY  
 EDWIN QUINN, SHERIFF  
 SHERIFF'S SETTLEMENT - 2020 TAXES  
 For The Period May 16, 2020 Through April 15, 2021  
 (Continued)

\* Commissions:

4.25% on	\$	4,352,094
4% on	\$	600,380
1% on	\$	298,776
3% on	\$	4,553,646

\*\* Special Taxing Districts:

Extension District	\$	(2)
Soil District		6
Mental Health District		(2)
Ambulance District		<u>1,150</u>

Due Districts		
(Refunds Due Sheriff)	\$	<u><u>1,152</u></u>



PENDLETON COUNTY  
NOTES TO FINANCIAL STATEMENT

April 15, 2021

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 Pendleton 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 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. These requirements were met.

PENDLETON COUNTY  
NOTES TO FINANCIAL STATEMENT  
April 15, 2021  
(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 Pendleton 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 April 15, 2021, 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, 2020. Property taxes were billed to finance governmental services for the fiscal year ending June 30, 2021. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 18, 2020 through April 15, 2021.

B. Limestone, Sand, and Gravel Reserves

The limestone, sand, and gravel property tax assessments were levied as of January 1, 2020. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 24, 2020 through April 15, 2021.

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 May 16, 2020 through April 15, 2021.

Note 4. Interest Income

The Pendleton County Sheriff earned \$570 as interest income on 2020 taxes. As of April 15, 2021, the sheriff owed \$253 in interest to the school district, and \$317 in interest to his fee account.

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

The Pendleton County Sheriff collected \$18,972 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 David Fields, Pendleton County Judge/Executive  
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 Pendleton County Sheriff's Settlement - 2020 Taxes for the period May 16, 2020 through April 15, 2021 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated January 31, 2022. The 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 Pendleton County Sheriff's internal control over financial reporting (internal control) as a basis for designing 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 Pendleton County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 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 2020-001 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 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 financial statement. 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*.

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

The Pendleton County Sheriff's views and planned corrective action for the finding identified in our audit are described in the accompanying Schedule of Findings and Responses. The Pendleton County Sheriff's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

**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

January 31, 2022

## SCHEDULE OF FINDINGS AND RESPONSES

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PENDLETON COUNTY  
EDWIN QUINN, SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES

For The Period May 16, 2020 Through April 15, 2021

INTERNAL CONTROL - MATERIAL WEAKNESS:

2020-001    The 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 2019-001. The sheriff's office does not have adequate segregation of duties over receipts, disbursements, and reconciliations. The sheriff or his office manager receives, processes, records receipts, prepares checks for tax distribution, and posts payments to the disbursements ledger. The sheriff reconciles the bank account. According to the sheriff, due to the office having a small staff, it is very difficult to segregate duties over receipts and disbursements. Inadequate segregation of duties allows one person to have a significant role in processing and recording receipts and disbursements which could increase the risk that the misappropriation of assets and inaccurate financial reporting will occur and be undetected.

Good internal controls dictate that the same employee should not handle, record, and reconcile receipts and disbursements. Segregation of duties over these tasks, or the implementation of compensating controls when limited by staff, 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.

We recommend the sheriff's office implement internal controls or segregate duties as much as possible. If these duties cannot be segregated due to a limited number of staff or a limited budget, the sheriff could implement compensating controls to offset this control weakness. Examples of compensating controls include:

- The sheriff or independent person could compare daily bank deposit to the daily checkout sheet. This could be documented by having the reviewer initial the deposit slip.
- An independent person could review monthly bank reconciliations prepared by the sheriff. The reviewer could sign or initial the reconciliation to document this review.
- To document delivery of tax payments to the taxing districts, the sheriff could have each taxing district sign and date a sheet.
- Dual signatures could be required on all checks.

*Sheriff's Response: The sheriff's office lacks adequate segregation of duties due to a limited number of staff.*