

**REPORT OF THE AUDIT OF THE  
ROCKCASTLE COUNTY  
SHERIFF'S SETTLEMENT - 2021 TAXES**

**For The Period  
April 16, 2021 Through August 31, 2022**



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

**Independent Auditor's Report**

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

**Report on the Audit of the Financial Statements**

**Opinions**

We have audited the accompanying Rockcastle County Sheriff's Settlement - 2021 Taxes for the period April 16, 2021 through August 31, 2022 - Regulatory Basis, and the related notes to the financial statement.

*Unmodified Opinion on Regulatory Basis of Accounting*

In our opinion, the accompanying financial statement presents fairly, in all material respects, the taxes charged, credited, and paid for the period April 16, 2021 through August 31, 2022 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.

*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 section of our report, the financial statement 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, 2021 through August 31, 2022.

**Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and 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*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statement section of our report. We are required to be independent of the Rockcastle County Sheriff and to meet our ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



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 Opinion (Continued)**

### *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 and budget laws, 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 and pervasive.

## **Responsibilities of Management 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 and budget laws. 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 Responsibilities for the Audit of the Financial Statement**

Our objectives are to obtain reasonable assurance about whether the financial statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not an absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statement.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement.
- Obtain an understanding of internal control relevant to the audit 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 Rockcastle County Sheriff's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statement.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Rockcastle County Sheriff's ability to continue as a going concern for a reasonable period of time.

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

**Auditor's Responsibilities for the Audit of the Financial Statement (Continued)**

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant findings, and certain internal control-related matters that we identified during the audit.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2023, 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 effectiveness of 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 finding:

2021-001    The Rockcastle County Sheriff's Office Does Not Have 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  
Frankfort, Ky

February 14, 2023

ROCKCASTLE COUNTY  
SHANNON FRANKLIN, SHERIFF  
SHERIFF'S SETTLEMENT - 2021 TAXES

For The Period April 16, 2021 Through August 31, 2022

	County	Special Taxing Districts	School	State
<u>Charges</u>				
Real Estate	\$ 345,285	\$ 1,016,124	\$ 2,130,902	\$ 586,986
Tangible	18,302	66,312	96,421	86,849
Fire Protection	1,524			
Total Per Sheriff's Official Receipt	365,111	1,082,436	2,227,323	673,835
<u>Other Taxes &amp; Charges</u>				
Franchise Taxes	51,537	176,876	280,960	
Additional Billings	396	1,164	2,441	673
Omitted Limestone, Sand, and Gravel Reserves	406	1,195	2,506	690
Total Interest Accrued			63	
Limestone, Sand, and Gravel Reserves	471	1,387	2,910	801
Penalties	2,228	6,564	13,643	3,826
Gross Chargeable to Sheriff	420,149	1,269,622	2,529,846	679,825
<u>Credits</u>				
Exonerations	3,123	9,257	19,160	5,801
Discounts	5,376	16,015	32,716	9,513
Delinquent Real Estate	8,951	26,239	55,026	15,158
Delinquent Tangible	94	339	493	402
Franchise Taxes - Delinquent	86	311	452	
Total Credits	17,630	52,161	107,847	30,874
Taxes Collected	402,519	1,217,461	2,421,999	648,951
Less: Sheriff's Commissions*	17,107	51,742	96,880	27,580
Taxes Due Districts	385,412	1,165,719	2,325,119	621,371
Taxes Paid	385,177	1,166,561	2,322,487	620,960
Refunds (Current and Prior Year)	308	849	1,917	521
Taxes Due Districts (Refund Due Sheriff)	\$ (73)	\$ (1,691)	\$ 715	\$ (110)

\*\*

\* and \*\* See next page.

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



ROCKCASTLE COUNTY  
SHANNON FRANKLIN, SHERIFF  
SHERIFF'S SETTLEMENT - 2021 TAXES  
For The Period April 16, 2021 Through August 31, 2022  
(Continued)

\* Commissions:

4.25% on \$ 2,268,931

4% on \$ 2,421,999

\*\* Special Taxing Districts:

Library District	\$ 14,182
Health District	(15,856)
Extension District	(47)
Soil Conservation District	<u>30</u>

Due Districts or (Refunds Due Sheriff)	<u><u>\$ (1,691)</u></u>
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ROCKCASTLE COUNTY  
NOTES TO FINANCIAL STATEMENT

August 31, 2022

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 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.

ROCKCASTLE COUNTY  
NOTES TO FINANCIAL STATEMENT  
August 31, 2022  
(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 August 31, 2022, 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, 2021. Property taxes were billed to finance governmental services for the fiscal year ending June 30, 2022. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 30, 2021 through April 18, 2022.

B. Limestone, Sand, and Gravel Reserves

The limestone, sand, and gravel property tax assessments were levied as of January 1, 2021. 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 26, 2022 through August 31, 2022.

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, 2021 through April 18, 2022.

D. Omitted Limestone, Sand, and Gravel Reserve Taxes

The omitted limestone, sand, and gravel property tax assessments were levied as of January 1, 2021. 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 26, 2022 through August 31, 2022.

Note 4. Interest Income

The Rockcastle County Sheriff earned \$171 as interest income on 2021 taxes. The sheriff was in substantial compliance with his statutory responsibilities.

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

The Rockcastle County Sheriff collected \$24,681 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  
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

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**

The Honorable Howell Holbrook, Jr., Rockcastle County Judge/Executive  
The Honorable Shannon Franklin, Rockcastle County Sheriff  
Members of the Rockcastle County Fiscal Court

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 - 2021 Taxes for the period April 16, 2021 through August 31, 2022- Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated February 14, 2023. 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.

**Report on 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) 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 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 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 2021-001 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)

**Report on 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 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*.

**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  
Frankfort, Ky

February 14, 2023



## SCHEDULE OF FINDINGS AND RESPONSES

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ROCKCASTLE COUNTY  
SHANNON FRANKLIN, SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES

For The Period April 16, 2021 Through August 31, 2022

INTERNAL CONTROL - MATERIAL WEAKNESS:

2021-001    The Rockcastle County Sheriff's Office Does Not Have Adequate Segregation Of Duties Over Receipts And Disbursements

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This is a repeat finding and was included in the prior year audit report as finding 2020-001. 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 restriction 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.*