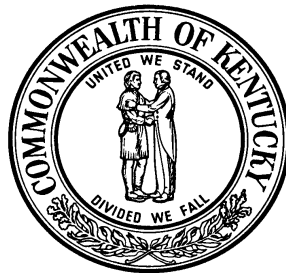


**REPORT OF THE AUDIT OF THE
FRANKLIN COUNTY
SHERIFF'S SETTLEMENT - 2016 TAXES**

**For The Period
April 16, 2016 Through April 17, 2017**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
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CONTENTS

PAGE

| | |
|--|----|
| INDEPENDENT AUDITOR’S REPORT | 1 |
| SHERIFF’S SETTLEMENT - 2016 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 <i>GOVERNMENT AUDITING STANDARDS</i> | 11 |
| SCHEDULE OF FINDINGS AND RESPONSES | 15 |
| APPENDIX A: FRANKLIN COUNTY SHERIFF'S ADDITIONAL RESPONSE | |

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

The Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
The Honorable Huston Wells, Franklin County Judge/Executive
The Honorable Pat Melton, Franklin County Sheriff
Members of the Franklin County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the Franklin County Sheriff's Settlement - 2016 Taxes for the period April 16, 2016 through April 17, 2017 - 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.

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AN EQUAL OPPORTUNITY EMPLOYER M / F / D



To the People of Kentucky
The Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
The Honorable Huston Wells, Franklin County Judge/Executive
The Honorable Pat Melton, Franklin County Sheriff
Members of the Franklin 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 Franklin 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 Franklin County Sheriff, for the period April 16, 2016 through April 17, 2017.

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, 2016 through April 17, 2017 of the Franklin 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 8, 2017, on our consideration of the Franklin 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 Franklin County Sheriff's internal control over financial reporting and compliance.

To the People of Kentucky

The Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

The Honorable Huston Wells, Franklin County Judge/Executive

The Honorable Pat Melton, Franklin County Sheriff

Members of the Franklin County Fiscal Court

Other Reporting Required by *Government Auditing Standard* (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:

- 2016-001 The Franklin County Sheriff Lacks Adequate Segregation Of Duties Over Daily Accounting And Reporting Functions
- 2016-002 The Franklin County Sheriff Did Not Ensure Tax Collections Were Deposited Daily
- 2016-003 The Franklin County Sheriff Did Not Present His 2016 Tax Settlement To The Fiscal Court
- 2016-004 The Franklin County Sheriff Lacked Adequate Internal Controls Over The Daily Receipt And Deposit Process

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

December 8, 2017

FRANKLIN COUNTY
PAT MELTON, SHERIFF
SHERIFF'S SETTLEMENT - 2016 TAXES

For The Period April 16, 2016 Through April 17, 2017

| <u>Charges</u> | <u>County Taxes</u> | <u>Special Taxing Districts</u> | <u>School Taxes</u> | <u>State Taxes</u> |
|--------------------------------------|---------------------|-------------------------------------|---------------------|--------------------|
| Real Estate | \$ 5,293,837 | \$ 4,782,002 | \$ 18,350,072 | \$ 3,568,222 |
| Tangible Personal Property | 448,848 | 410,753 | 1,204,076 | 896,398 |
| Increases Through Exonerations | 878 | 2,209 | 249 | 916 |
| Franchise Taxes | 247,523 | 218,821 | 735,283 | |
| Distilled Spirits Taxes | 392,588 | 385,157 | 1,125,975 | |
| Insurance Capital | 33,028 | | | |
| Limestone, Sand, and Gravel Reserves | 793 | 717 | 2,954 | 535 |
| Penalties | 11,558 | 10,425 | 37,725 | 7,913 |
| Adjusted to Sheriff's Receipt | (42) | (19) | (89) | (108) |
| Gross Chargeable to Sheriff | <u>6,429,011</u> | <u>5,810,065</u> | <u>21,456,245</u> | <u>4,473,876</u> |
| <u>Credits</u> | | | | |
| Exonerations | 27,589 | 24,485 | 93,145 | 26,282 |
| Discounts | 109,527 | 99,540 | 369,972 | 79,426 |
| Delinquents: | | | | |
| Real Estate | 75,016 | 67,763 | 246,508 | 50,563 |
| Tangible Personal Property | 1,104 | 950 | 2,958 | 1,010 |
| Franchise Taxes | 1,609 | 1,391 | 4,621 | |
| Total Credits | <u>214,845</u> | <u>194,129</u> | <u>717,204</u> | <u>157,281</u> |
| Taxes Collected | 6,214,166 | 5,615,936 | 20,739,041 | 4,316,595 |
| Less: Commissions * | <u>264,102</u> | <u>238,677</u> | <u>414,781</u> | <u>183,455</u> |
| Taxes Due | 5,950,064 | 5,377,259 | 20,324,260 | 4,133,140 |
| Taxes Paid | 5,916,267 | 5,347,852 | 20,227,143 | 4,125,002 |
| Refunds (Current and Prior Year) | <u>8,079</u> | <u>7,117</u> | <u>25,338</u> | <u>8,090</u> |
| Due Districts | | | | |
| as of Completion of Audit | <u>\$ 25,718</u> | <u>\$ 22,290</u> | <u>\$ 71,779</u> | <u>\$ 48</u> |

**

* and ** See next page.

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

FRANKLIN COUNTY
PAT MELTON, SHERIFF
SHERIFF'S SETTLEMENT - 2016 TAXES
For The Period April 16, 2016 Through April 17, 2017
(Continued)

* Commissions:

4.25% on \$ 16,146,697

2% on \$ 20,739,041

** Special Taxing Districts:

| | | |
|----------------------------|----|-----------|
| Library District | \$ | 12,956 |
| Health District | | 6,375 |
| Extension District | | 2,905 |
| Soil Conservation District | | <u>54</u> |

| | | |
|---------------|----|---------------|
| Due Districts | \$ | <u>22,290</u> |
|---------------|----|---------------|

FRANKLIN COUNTY
NOTES TO FINANCIAL STATEMENT

April 17, 2017

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).

Note 2. Deposits

The Franklin 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 Franklin 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 17, 2017, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

FRANKLIN COUNTY
NOTES TO FINANCIAL STATEMENT
April 17, 2017
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2016. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2017. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 11, 2016 through April 17, 2017.

B. Limestone, Sand, and Gravel Property Taxes

The limestone, sand, and gravel property tax assessments were levied as of January 1, 2016. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 11, 2016 through April 17, 2017.

C. Franchise Taxes

Franchise taxes were assessed by the Kentucky 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, 2016 through April 17, 2017.

Note 4. Interest Income

The Franklin County Sheriff earned \$5,899 as interest income on 2016 taxes. As of December 8, 2017, the sheriff owed \$105 in interest to the school district.

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

The Franklin County Sheriff collected \$45,832 of 10% add-on fees allowed by KRS 134.119(7). As of December 8, 2017, the sheriff owed \$11,350 in 10% add-on fees to his fee account.

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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

The Honorable Huston Wells, Franklin County Judge/Executive
The Honorable Pat Melton, Franklin County Sheriff
Members of the Franklin 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 Franklin County Sheriff's Settlement - 2016 Taxes for the period April 16, 2016 through April 17, 2017 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated December 8, 2017. The Franklin 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 Franklin 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 Franklin County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Franklin County Sheriff's internal control.

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. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified certain deficiencies in internal control, which are described in the accompanying Schedule of Findings and Responses as items 2016-001, 2016-002, 2016-03, and 2016-004 that we consider to be significant deficiencies.



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 Franklin County Sheriff's financial statement is free of 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2016-002, 2016-003, and 2016-004.

View of Responsible Official and Planned Corrective Action

The Franklin County Sheriff's views and planned corrective action for the findings identified in our audit are described in the accompanying Schedule of Findings and Responses and Appendix A. The sheriff's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

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

December 8, 2017

SCHEDULE OF FINDINGS AND RESPONSES

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FRANKLIN COUNTY
PAT MELTON, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Period April 16, 2016 Through April 17, 2017

FINANCIAL STATEMENT FINDINGS:

2016-001 The Franklin County Sheriff Lacks Adequate Segregation Of Duties Over The Daily Accounting And Reporting Functions

The sheriff lacks adequate segregation of duties over accounting and reporting functions of the sheriff's office. The bookkeeper assists in collecting tax bill payments, posts to the financial software program, pulls monthly reports for all districts, prepares checks for districts, and prepares the monthly bank reconciliation. The auditor noted that the sheriff had a signature stamp that was utilized by the bookkeeper in his absence with his approval. The signature stamp was utilized on checks and monthly tax reports.

Internal controls were not in place to ensure duties were adequately segregated and sufficient compensating controls were not implemented.

The lack of adequate segregation of duties increases the risk that undetected errors could occur. Utilizing a signature stamp circumvents the controls over disbursements and report review because the same person preparing the check or report would be the same person approving the transaction.

When faced with a limited number of staff, strong compensating controls should be in place to offset the lack of adequate segregation of duties. Proper segregation of duties, or the implementation of compensating controls, is essential for providing protection from asset misappropriation and inaccurate financial reporting, while also protecting employees in the normal course of performing their responsibilities.

We recommend the sheriff evaluate the controls that are in place and consider the following controls to adequately protect against misappropriation of assets and inaccurate financial reporting:

- Authorize someone other than the person performing closeout procedures, preparing the deposit, and performing the bank reconciliation to agree daily tax collection totals to the deposit slip. This person should also ensure the cash/checks per report agree to deposit slip, then document the review by initialing the bank deposit.
- Authorize someone other than the check preparer to review supporting documentation and sign checks in the sheriff's absence.
- The sheriff or a designated employee should reconcile the daily work to the ledger and monthly reports to ensure accuracy, then document the review by initialing or signing reports.

Sheriff's Response: We have compensating controls in place and have taken steps to correct any issues found in the findings. Deposits are initialed by person preparing the deposit and by the person taking deposit to the bank. An office employee [name redacted] prepares the daily balancing and enters the daily deposits. These deposits are checked and initialed by the Office Manager. The mail is brought to us by the County Runner. The mail is then opened by a part time staff member. The Sheriff's signature stamp will not be used in the future.

Auditor's Reply: The auditor was unable to confirm compensating controls as they were not properly documented.

FRANKLIN COUNTY
 PAT MELTON, SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Period April 16, 2016 Through April 17, 2017
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-002 The Franklin County Sheriff Did Not Ensure Tax Collections Were Deposited Daily

The sheriff is not depositing tax collections into the bank daily as required by KRS 68.210. Tax collection deposits were found to be deposited in the bank anywhere from one to five business days after collection date with multiple daily collections deposited in the same day:

- Collections on 12/12, 12/14, and 12/15 were all deposited at the bank on 12/16;
- Collections on 03/03 was not deposited at bank until 03/06;
- Collections on 03/07, 03/08, and 03/09 were all deposited at the bank on 03/10;
- Collections on 03/10, 03/13, and 03/14 were all deposited at the bank on 03/15;
- Collections on 03/17, 03/20, and 03/21 were all deposited at the bank on 03/23;
- Collections on 03/23 and 03/24 were all deposited at the bank on 03/27;
- Collections on 03/27, 03/28, and 03/29 were all deposited at the bank on 03/30; and
- Collections on 03/30 and 03/31 were all deposited at the bank on 04/04.

The sheriff did not have internal controls in place to ensure daily collections were deposited intact daily.

The practice of making daily deposits reduces the risk of misappropriation of cash, which is the asset most susceptible to theft. Delaying processing of deposits can be used to conceal the theft of tax payments to the sheriff's office.

The Department for Local Government (DLG) was given authority by KRS 68.210 to prescribe a uniform system of accounts. The minimum requirements for handling public funds as stated in the *County Budget Preparation and State Local Finance Officer Policy Manual* requires daily deposits intact into a federally insured banking institution.

We recommend the sheriff implement controls to ensure that tax collections are deposited intact daily.

Sheriff's Response: We have added existing staff to comply with this request. The Sheriff, Major and Lieutenant are now making the deposits.

2016-003 The Franklin County Sheriff Did Not Present His 2016 Tax Settlement To The Fiscal Court

The Franklin County Sheriff's tax settlement was not presented to the fiscal court as required by KRS 134.192(5). The sheriff's settlement was not presented until September 21, 2017.

According to the sheriff, the sheriff's computer system maintaining the tax collection program malfunctioned in April 2017 and the sheriff's settlement was not able to be prepared until the data was reentered into the accounting software. The sheriff had a backup plan in place; however, it did not function properly and the sheriff lost three years of data.

Failure to comply with these regulations result in a lack of availability of financial records to approving authorities. The sheriff cannot collect taxes for the following year until the settlement has been submitted to the fiscal court and a quietus obtained from the Department of Revenue. Information relative to the financial reporting of the 2016 tax year was lost and had to be recreated. Furthermore, taxing districts and other governmental agencies were deprived of funds for significant time periods.

FRANKLIN COUNTY
 PAT MELTON, SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Period April 16, 2016 Through April 17, 2017
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-003 The Franklin County Sheriff Did Not Present His 2016 Tax Settlement To The Fiscal Court
 (Continued)

KRS 134.192(5) states, “[t]he report of the state and local settlement shall be filed in the county clerk's office and approved by the governing body of the county no later than September 1 of each year. The settlement shall show the amount of ad valorem tax collected for the county, the school district, and all taxing districts, and an itemized statement of the money disbursed to or on behalf of the county, the school district, and all taxing districts.”

Ensuring good internal controls are maintained over backing up computers retaining pertinent financial data will lessen the risk of losing important information, ensure deadlines are met for reporting purposes, and reduce inaccuracies from recreating financial data that was lost.

We recommend the sheriff submit the tax settlement to the fiscal court as required by KRS 134.192(5). Furthermore, we recommend the sheriff ensure that the computer maintaining financial data is properly backed up to one or more sources to prevent this from happening again.

Sheriff's Response: The Sheriff's Office was not able to present the 2016 Tax Settlement to the Fiscal Court by September 21, 2016. The computer used by the office manager crashed which required records to be reconstructed. Backup hard copies were used to reconstruct, all information was restored. The backup system that we had did not work. We now have a separate back up system for the accounting computer.

2016-004 The Franklin County Sheriff Lacked Adequate Internal Controls Over The Daily Receipt And
 Deposit Process

The following deficiencies were identified related to the preparation of the daily deposits that suggest deposits were not made intact:

- Four instances in which cash and checks from the tax processing software did not correspond to cash and checks from the bank deposit slip for the daily deposit;
- No documentation on the software report that cash and checks counted from cash drawer by a deputy agreed to report;
- No indication that a review of the deposit was performed;
- Two franchise bills paid during November 2016 did not actually show up in the tax system until it was reentered in March 2017. The checks for these two bills were processed with the November deposit;
- Tax Software does not have capability to track the employee who took each tax bill collection;
- Various employees work out of the same drawer with the same log-in credentials. No control is in place to track which employee processes a tax bill payment; and
- Deposits were not made daily – See finding 2016-002.

Because of a lack of control and understanding of state statutes, required daily checkout procedures were not performed.

By not performing required daily checkout procedures, tax receipts were left vulnerable to misappropriation and loss. Additionally, the sheriff is not in compliance with the Department for Local Government's (DLG) accounting requirements. Failure to implement controls over the receipt process increases the risk of undetected errors and misappropriation of assets.

FRANKLIN COUNTY
PAT MELTON, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Period April 16, 2016 Through April 17, 2017
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-004 The Franklin County Sheriff Lacked Adequate Internal Controls Over The Daily Receipt And Deposit Process (Continued)

Effective internal control procedures over daily deposits require that deposits be made intact and contain all cash and checks received for payments. DLG was given the authority by KRS 68.210 to prescribe a uniform system of accounts. The minimum requirements for handling public funds as stated in the *County Budget Preparation and State Local Finance Office Policy Manual* requires daily deposits intact into a federally insured banking institution and utilization of daily cash checkout sheets.

We recommend the sheriff strengthen internal controls over daily checkout procedures to ensure checkout sheets are prepared and agree to manual and computerized records. Deposits should be made intact daily. Furthermore, we recommend the sheriff work with the software programmer to see if an audit trail could be added.

Sheriff's Response: We have compensating controls in place and have taken steps to correct any issues found in the findings. Deposits are initialed by person preparing the deposit and by the person taking deposit to the bank. [Name redacted] prepares the daily balancing and enters the daily deposits. These deposits are checked and initialed by the Office Manager. We have added existing staff to make the daily deposits which are The Sheriff, Major and Lieutenant.

Auditor's Reply: The auditor was unable to confirm compensating controls as they were not properly documented.

APPENDIX A



Sheriff

Pat Melton



Sheriff of Franklin County, P.O. Box 5260, Frankfort, KY 40602

Phone:(502) 875-8740 Fax: (502) 875-8738

January 16, 2018

Auditor Mike Harmon
Auditor of Public Accounts
209 St. Clair Street
Frankfort, Kentucky 40601

Dear Auditor Harmon:

First, I would like to compliment your staff for a very professionally performed audit. I have prepared a response to each finding and we are developing a corrective action plan to address each item.

The Franklin County Sheriff's office has 43 full time employees and only 2.5 employees are involved in the business side with the remaining staff and over 90% of the budget dedicated to law enforcement.

We clearly recognize the tax collection function is vital to assure local government and schools are funded and I am very proud of the dedicated staff that performs these duties. Your tax and fee audit identify areas which are important to assure the collection and distribution of over \$33,635,846.00 a year. Since 2014, my office has collected over \$123,580,590.00 in taxes and I am proud to say, every penny has been accounted for.

I would also note that we process over 24,000 tax bills a year, in addition to the following:

- Since 2011, we have responded to over 84,000 calls
- Since 2011, we have served over 9,434 processes and 657 subpoenas
- Since 2011, we have served over 10,600 warrants
- Since 2015, we have issued 4,236 CCDW (Carry Concealed Deadly Weapon) License
- Since 2016, we have inspected over 3,490 vehicles to assure proper titling to protect consumers
- Since 2011, we have worked over 3,750 car accidents
- Since 2011, we have made 800 felony arrests



Sheriff

Pat Melton



Sheriff of Franklin County, P.O. Box 5260, Frankfort, KY 40602 Phone:(502) 875-8740 Fax: (502) 875-8738

I cite this data to reflect the volume of activity which is performed by this office on behalf of the citizens of this county

Please note in the audit responses, that we have accepted the comments and have a plan and commitment to make this office even better.

Also, on several of the findings that I have already made reimbursement, I am seeking guidance from the Franklin County Ethics Commission and all remaining funds have been released to the taxing districts and local governments.

I would request this letter be published in the final audit because it provides a complete picture to the citizens of Franklin County the amount of responsibility the Franklin County Sheriff's entails.

Sincerely,


Pat Melton
Sheriff