

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

**For The Period  
April 17, 2018 Through December 31, 2018**



**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 Mike Peters, Former Rockcastle County Sheriff  
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 former Rockcastle County Sheriff's Settlement - 2018 Taxes for the period April 17, 2018 through December 31, 2018 - 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

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The Honorable Mike Peters, Former Rockcastle County Sheriff

The Honorable Shannon Franklin, Rockcastle County Sheriff

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### **Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles**

As described in Note 1 of the financial statement, the financial statement is prepared by the former 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 former Rockcastle County Sheriff, for the period April 17, 2018 through December 31, 2018.

### **Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statement referred to above presents fairly, in all material respects, the taxes charged, credited, and paid for the period April 17, 2018 through December 31, 2018 of the former 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 October 24, 2019, on our consideration of the former 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 former Rockcastle County Sheriff's internal control over financial reporting and compliance.

To the People of Kentucky

The Honorable Andy Beshear, Governor

Holly M. Johnson, Secretary

Finance and Administration Cabinet

The Honorable Howell Holbrook, Jr., Rockcastle County Judge/Executive

The Honorable Mike Peters, Former Rockcastle County Sheriff

The Honorable Shannon Franklin, Rockcastle County Sheriff

Members of the Rockcastle County Fiscal Court

**Other Reporting Required by *Government Auditing Standards* (Continued)**

Based on the results of our audit, we have presented the accompanying Schedule of Findings and Responses, included herein, which discusses the following report comments:

- 2018-001 The Former Rockcastle County Sheriff's Office Lacked Adequate Segregation Of Duties Over Receipts And Disbursements
- 2018-002 The Former Sheriff Did Not Include \$235,406 In Franchise Tax Collections On His 2018 Outgoing Tax Settlement

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a horizontal line extending to the right.

Mike Harmon  
Auditor of Public Accounts

October 24, 2019

ROCKCASTLE COUNTY  
MIKE PETERS, FORMER SHERIFF  
SHERIFF'S SETTLEMENT - 2018 TAXES

For The Period April 17, 2018 Through December 31, 2018

	Special Taxing			
	County	Districts	School	State
<u>Charges</u>				
Real Estate	\$ 315,962	\$ 881,364	\$ 1,817,866	\$ 528,049
Tangible	16,148	59,067	82,708	87,986
Fire Protection	1,542			
Total Per Sheriff's Official Receipt	333,652	940,431	1,900,574	616,035
<u>Other Taxes &amp; Charges</u>				
Court Ordered Increases	114	319	658	191
Franchise Taxes	24,256	83,691	127,459	
Additional Billings	8	24	50	14
Gross Chargeable to Sheriff	358,030	1,024,465	2,028,741	616,240
<u>Credits</u>				
Exonerations	2,439	6,804	14,033	4,076
Discounts	4,753	13,413	27,121	8,942
Transferred to Incoming Sheriff				
Real Estate	45,946	124,078	255,918	74,338
Tangible		4,614	6,464	4,582
Total Credits	53,138	148,909	303,536	91,938
Taxes Collected	304,892	875,556	1,725,205	524,302
Less: Sheriff's Commissions*	12,958	37,211	69,008	22,283
Taxes Due Districts	291,934	838,345	1,656,197	502,019
Taxes Paid	291,494	837,161	1,653,734	501,296
Refunds (Current and Prior Year)	440	1,184	2,463	723
Taxes Due Districts	\$ 0	\$ 0	\$ 0	\$ 0

\* Commissions:

4.25% on	\$	1,704,750
4% on	\$	1,725,205

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



ROCKCASTLE COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2018

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

KRS 66.480 authorizes the sheriff's office to invest in obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

D. Preparation of State Settlement

The Kentucky Department of Revenue conducts the settlement relating to taxes collected for the state under the provision of KRS 134.192(2)(a). This is reported as the "State Taxes" column on the financial statement.

Note 2. Deposits

The former Rockcastle County Sheriff maintained deposits of public funds with depository institutions insured by the FDIC as required by KRS 66.480(1)(d). According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the sheriff's deposits may not be returned. The former Rockcastle County Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 66.480(1)(d) and KRS 41.240. As of December 31, 2018, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

ROCKCASTLE COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2018  
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2018. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2019. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 28, 2018 through December 31, 2018.

B. Franchise Taxes

The franchise tax assessments were levied by the Department of Revenue for various tax years. Franchise taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was April 17, 2018 through December 31, 2018.

Note 4. Interest Income

The former Rockcastle County Sheriff earned \$108 as interest income on 2018 taxes. The former sheriff was in substantial compliance with his statutory responsibilities.

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 Mike Peters, Former Rockcastle County Sheriff  
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 former Rockcastle County Sheriff's Settlement - 2018 Taxes for the period April 17, 2018 through December 31, 2018 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated October 24, 2019. The former 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 former 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 former Rockcastle County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the former 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 certain deficiencies in internal control that we consider to be material weaknesses.

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 deficiencies described in the accompanying Schedule of Findings and Responses as items 2018-001 and 2018-002 to be material weaknesses.



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 former 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2018-002.

**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

October 24, 2019

## SCHEDULE OF FINDINGS AND RESPONSES

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ROCKCASTLE COUNTY  
MIKE PETERS, FORMER SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES

For The Period April 17, 2018 Through December 31, 2018

FINANCIAL STATEMENT FINDINGS:

2018-001 The Former Rockcastle County Sheriff's Office Lacked 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 2017-001. The former Rockcastle County Sheriff's office lacked adequate segregation of duties over receipts and disbursements. The former sheriff had two bookkeepers. One bookkeeper was responsible for opening mail and writing checks. The second bookkeeper, who was part-time, was responsible for posting receipts and disbursements to the ledgers as well as preparing the bank reconciliation. Both bookkeepers collected receipts, prepared bank deposits, prepared the daily tax report, and could initiate voided transactions in the computerized tax system.

The former 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 former 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.

To adequately protect against misappropriation of assets and inaccurate financial reporting, 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 is not 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.

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

2018-002 The Former Sheriff Did Not Include \$235,406 In Franchise Tax Collections On His 2018 Outgoing Tax Settlement

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The former sheriff did not include \$235,406 of franchise tax collections on his 2018 outgoing tax settlement. The error occurred due to a lack of internal controls and oversight over financial reporting. As a result, the former sheriff's tax settlement was materially understated.

KRS 134.192(11) states, "[i]n counties containing a population of less than seventy thousand (70,000), the sheriff shall file annually with his or her settlement:

- (a) A complete statement of all funds received by his or her office for official services, showing separately the total income received by his or her office for services rendered, exclusive of his or her commissions for collecting taxes, and the total funds received as commissions for collecting state, county, and school taxes; and
- (b) A complete statement of all expenditures of his or her office, including his or her salary, compensation of deputies and assistants, and reasonable expenses."

ROCKCASTLE COUNTY  
MIKE PETERS, FORMER SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Period April 17, 2018 Through December 31, 2018  
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-002 The Former Sheriff Did Not Include \$235,406 In Franchise Tax Collections On His 2018 Outgoing Tax Settlement (Continued)

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Good internal controls dictate that the tax settlement be complete and accurate.

We recommend the sheriff's office comply with KRS 134.192(11) by submitting a complete and accurate settlement of all funds received.

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