

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

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



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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 Dan Ison, Shelby County Judge/Executive  
The Honorable Mike Armstrong, Former Shelby County Sheriff  
The Honorable Mark Moore, Shelby County Sheriff  
Members of the Shelby County Fiscal Court

Independent Auditor's Report

**Report on the Financial Statement**

We have audited the former Shelby 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  
The Honorable Dan Ison, Shelby County Judge/Executive  
The Honorable Mike Armstrong, Former Shelby County Sheriff  
The Honorable Mark Moore, Shelby County Sheriff  
Members of the Shelby 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 was prepared by the former Shelby 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 Shelby 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 Shelby 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 April 15, 2020, on our consideration of the former Shelby 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 Shelby 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 Dan Ison, Shelby County Judge/Executive  
The Honorable Mike Armstrong, Former Shelby County Sheriff  
The Honorable Mark Moore, Shelby County Sheriff  
Members of the Shelby 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 comment:

2018-001 The Former Shelby County Sheriff Did Not Prepare A Complete And Accurate Franchise Tax Settlement

Respectfully submitted,

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

Mike Harmon  
Auditor of Public Accounts

April 15, 2020

SHELBY COUNTY  
MIKE ARMSTRONG, 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	\$ 3,493,842	\$ 6,633,682	\$ 23,869,144	\$ 3,990,467
Tangible	330,192	597,151	2,294,671	1,527,626
Total Per Sheriff's Official Receipt	<u>3,824,034</u>	<u>7,230,833</u>	<u>26,163,815</u>	<u>5,518,093</u>
<u>Other Taxes &amp; Charges</u>				
Court Ordered Increases	1,295	10,030	8,994	2,187
Franchise Taxes	105,163	177,630	723,289	
Additional Billings	170	238	1,181	1,085
Gross Chargeable to Sheriff	<u>3,930,662</u>	<u>7,418,731</u>	<u>26,897,279</u>	<u>5,521,365</u>
<u>Credits</u>				
Exonerations	17,829	34,754	122,429	19,306
Discounts	66,555	125,942	455,376	96,764
Unpaid Bills	628	1,030	4,290	
Transfers to Incoming Sherriff	143,010	272,304	977,899	189,109
Total Credits	<u>228,022</u>	<u>434,030</u>	<u>1,559,994</u>	<u>305,179</u>
Taxes Collected	3,702,640	6,984,701	25,337,285	5,216,186
Less: Sheriff's Commissions*	<u>157,362</u>	<u>214,482</u>	<u>380,059</u>	<u>221,688</u>
Taxes Due Districts	3,545,278	6,770,219	24,957,226	4,994,498
Taxes Paid	3,527,315	6,755,890	24,834,461	4,976,869
Refunds (Current and Prior Year)	<u>17,963</u>	<u>14,329</u>	<u>122,765</u>	<u>17,629</u>
Taxes Due Districts	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

\* Commissions:

4.25% on	\$	13,369,129
1.5% on	\$	25,337,285
1% on	\$	2,534,398

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



SHELBY 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 Shelby 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 former sheriff's deposits may not be returned. The former Shelby 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.

SHELBY 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 October 1, 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 May 1, 2018 through December 31, 2018.

Note 4. Interest Income

The former Shelby County Sheriff earned \$13,051 as interest income on 2018 taxes. The former sheriff was in substantial compliance with his statutory responsibilities.

Note 5. Escrow Account

The former sheriff deposited an unrefundable payment in an interest-bearing account. The former sheriff's escrowed balance as of December 31, 2018 was:

2017 \$12

KRS 393.090 states that if the funds have not been claimed after three years, they are presumed abandoned. Abandoned funds are required to be sent to the Kentucky State Treasurer pursuant to KRS 393.110 and its accompanying regulations.

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 Dan Ison, Shelby County Judge/Executive  
The Honorable Mike Armstrong, Former Shelby County Sheriff  
The Honorable Mark Moore, Shelby County Sheriff  
Members of the Shelby 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 Shelby 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 April 15, 2020. The former Shelby 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 Shelby County Sheriff's internal control over financial reporting (internal control) to determine 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 Shelby County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Shelby County Sheriff's internal control.

Our consideration of internal control 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 2018-001 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 former Shelby 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 2018-001.

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

The former Shelby 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 former Shelby 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,



Mike Harmon  
Auditor of Public Accounts

April 15, 2020

## SCHEDULE OF FINDINGS AND RESPONSES

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SHELBY COUNTY  
MIKE ARMSTRONG, FORMER SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES

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

FINANCIAL STATEMENT FINDING:

2018-001    The Former Shelby County Sheriff Did Not Prepare A Complete And Accurate Franchise Tax Settlement

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The former Shelby County Sheriff's franchise settlement presented to fiscal court reported payments to taxing districts only. It did not include \$1,006,082 in taxes collected for franchise or \$20,829 for commissions paid.

This was an oversight by management. Management was not aware the complete franchise settlement needed to be presented for the outgoing tax collection for the period May 1, 2018 through December 31, 2018. The outgoing franchise tax settlement was presented to the fiscal court with correct amounts paid to all taxing districts however, it did not include amounts collected and commissions paid. The amounts were readily available and the year to date franchise tax settlement that was presented to the fiscal court on June 18, 2019, as required for the period January 1, 2019 through April 15, 2019, included amounts that were not previously reported for the period April 1, 2018 through December 31, 2018.

The former sheriff did not present a complete and accurate franchise tax settlement to the fiscal court as required by statute. The franchise receipts omitted were material to the financial statement.

Per KRS 134.192 (1), "Each sheriff shall annually settle his or her accounts with the department, the county, and any district for which the sheriff collects taxes on or before September 1 of each year" and KRS 134.192 (5), "The 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."

We recommend the sheriff ensure a complete and accurate franchise tax settlement that includes taxes collected and commissions paid be completed prior to submitting it to the fiscal court for approval.

*Former County Sheriff's Response: Former Sheriff Armstrong and current bookkeeper were unaware that franchise tax receipt must be separated between outgoing and incoming sheriff's. All funds were accounted for.*