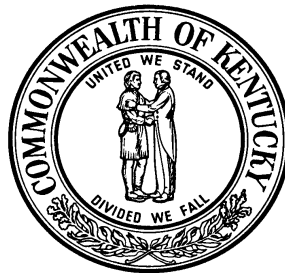


**REPORT OF THE AUDIT OF THE  
FORMER FRANKLIN COUNTY  
SHERIFF'S SETTLEMENT - 2018 TAXES**

**For The Period  
April 17, 2018 Through January 6, 2019**



**MIKE HARMON  
AUDITOR OF PUBLIC ACCOUNTS  
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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 Huston Wells, Franklin County Judge/Executive  
The Honorable Pat Melton, Former Franklin County Sheriff  
The Honorable Chris Quire, Franklin County Sheriff  
Members of the Franklin County Fiscal Court

Independent Auditor's Report

**Report on the Financial Statement**

We have audited the former Franklin County Sheriff's Settlement - 2018 Taxes for the period April 17, 2018 through January 6, 2019 - 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 Huston Wells, Franklin County Judge/Executive  
The Honorable Pat Melton, Former Franklin County Sheriff  
The Honorable Chris Quire, 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 former 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 former Franklin County Sheriff, for the period April 17, 2018 through January 6, 2019.

### **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 January 6, 2019 of the former 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 November 6, 2020, on our consideration of the former 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 former Franklin 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 Huston Wells, Franklin County Judge/Executive  
The Honorable Pat Melton, Former Franklin County Sheriff  
The Honorable Chris Quire, Franklin County Sheriff  
Members of the Franklin 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 Franklin County Sheriff Lacked Adequate Controls And Oversight For Daily Office Procedures
- 2018-002 The Former Franklin County Sheriff Lacked Adequate Segregation Of Duties Over Daily Accounting And Reporting Functions
- 2018-003 The Former Franklin County Sheriff's Tax Settlement Was Inaccurate

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

November 6, 2020

FRANKLIN COUNTY  
PAT MELTON, FORMER SHERIFF  
SHERIFF'S SETTLEMENT - 2018 TAXES

For The Period April 17, 2018 Through January 6, 2019

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 5,679,501	\$ 5,553,155	\$ 20,276,383	\$ 3,705,343
Tangible Personal Property	448,295	465,252	1,361,895	1,036,863
Increases Through Exonerations	9	9	29	1,393
Franchise Taxes	36,061	33,580	100,497	
Insurance Capital	36,308			
Penalties	3	3	12	2
Adjusted to Sheriff's Receipt	348	(16)	(105)	(112)
Gross Chargeable to Sheriff	<u>6,200,525</u>	<u>6,051,983</u>	<u>21,738,711</u>	<u>4,743,489</u>
 <u>Credits</u>				
Exonerations	5,873	5,738	20,391	4,465
Discounts	108,596	106,617	385,667	84,913
Taxes Transferred To Incoming Sheriff	338,044	330,706	1,111,053	228,619
Total Credits	<u>452,513</u>	<u>443,061</u>	<u>1,517,111</u>	<u>317,997</u>
Taxes Collected	5,748,012	5,608,922	20,221,600	4,425,492
Less: Commissions *	244,291	238,379	404,432	188,083
Taxes Due	5,503,721	5,370,543	19,817,168	4,237,409
Taxes Paid	5,498,944	5,366,592	19,800,534	4,234,205
Refunds (Current and Prior Year)	<u>4,862</u>	<u>4,420</u>	<u>17,353</u>	<u>3,375</u>
Refunds Due Sheriff as of Completion of Audit	<u>\$ (85)</u>	<u>\$ (469)</u>	<u>\$ (719)</u>	<u>\$ (171)</u>

\*\*

\* Commissions:

4.25% on \$ 15,782,426  
2% on 20,221,600

\*\* Special Taxing Districts:

Library District	\$ (246)
Health District	(157)
Extension District	<u>(66)</u>
Refunds Due Sheriff	<u>\$ (469)</u>

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



FRANKLIN COUNTY  
NOTES TO FINANCIAL STATEMENT

January 6, 2019

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 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 former 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 January 06, 2019, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

FRANKLIN COUNTY  
NOTES TO FINANCIAL STATEMENT  
January 6, 2019  
(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 23, 2018 through January 6, 2019.

B. Franchise Taxes

The franchise tax assessments were levied by the Department of Revenue for various tax years. Property 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 January 6, 2019.

Note 4. Interest Income

The former Franklin County Sheriff earned \$9,476 as interest income on 2018 taxes. The former sheriff owes the board of education \$333 and the fee account \$4,260.

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, Former Franklin County Sheriff  
The Honorable Chris Quire, 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 former Franklin County Sheriff's Settlement - 2018 Taxes for the period April 17, 2018 through January 6, 2019 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated November 6, 2020. The former 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 former 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 former Franklin County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Franklin 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 and another deficiency that we consider to be a significant deficiency.

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)

**Internal Control Over Financial Reporting (Continued)**

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. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2018-003 to be a significant deficiency.

**Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the former 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 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,



Mike Harmon  
Auditor of Public Accounts

November 6, 2020

## SCHEDULE OF FINDINGS AND RESPONSES

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FRANKLIN COUNTY  
PAT MELTON, FORMER SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES

For The Period April 17, 2018 Through January 6, 2019

INTERNAL CONTROL - MATERIAL WEAKNESSES:

2018-001 The Former Franklin County Sheriff Lacked Adequate Controls And Oversight For Daily Office Procedures

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This is a partial repeat finding and was included in the prior year audit report as finding 2017-003. The following deficiencies were identified related to daily office procedures:

- Tax software did not have the capability to track the employee who took each tax bill collection;
- Various employees worked out of the same drawer with the same log in credentials. No control was in place to track which employee processes a tax bill payment;
- Thirteen bank statements for the three tax bank accounts were not available for audit, along with their corresponding reconciliations. The auditor obtained the bank statements from the bank.
- A franchise bill was billed incorrectly resulting in the former sheriff owing the company a refund.
- Three franchise bills were prepared by the county clerk and sent to the former sheriff in December 2018, but the former sheriff did not send them to the vendors to collect payment, and one franchise certification was not received by the county clerk from the Department of Revenue, so a bill was not prepared and sent to the former sheriff.
- The 2018 tax settlement was not accurate and required a net adjustment of \$268,575 - see finding 2018-003.
- Tax account interest of \$4,260 was not paid to the fee account and the school is still owed \$333 in interest.
- Follow-up on insufficient funds checks being collected was not documented to evidence the funds being re-deposited.
- The tax bill for insurance capital of \$36,308 did not have the supporting official receipt maintained.

Internal controls were not in place to ensure adequate oversight was in place over daily operations. The lack of adequate controls over daily operations increases the risk that errors could occur and go undetected and materially affect financial reporting.

Strong internal controls dictate that effective monitoring and oversight procedures be in place over the daily operations of an office. Effective internal controls are 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's office strengthen controls and provide management oversight over daily procedures to ensure accurate financial reporting. In addition, the sheriff should work with the software programmer to see if an audit trail can be added.

*Former Sheriff's Response: No response provided.*

2018-002 The Former Franklin County Sheriff Lacked Adequate Segregation Of Duties Over Daily Accounting And Reporting Functions

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This is a repeat finding and was included in the prior year audit report as finding 2017-001. The former sheriff lacked adequate segregation of duties over accounting and reporting functions of the former sheriff's office. The bookkeeper collected tax bill payments, posted to the financial software program, prepared monthly reports for all districts, prepared checks for districts, and prepared the monthly bank reconciliation. The former sheriff implemented dual signatures on all checks and signed monthly tax reports.

FRANKLIN COUNTY  
 PAT MELTON, FORMER SHERIFF  
 SCHEDULE OF FINDINGS AND RESPONSES  
 For The Period April 17, 2018 Through January 6, 2019  
 (Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES: (Continued)

2018-002 The Former Franklin County Sheriff Lacked Adequate Segregation Of Duties Over Daily Accounting And Reporting Functions (Continued)

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The former sheriff indicated that he reviewed bank reconciliations but there were several bank statements for the tax accounts and their corresponding reconciliations that were unavailable for audit. Those bank statements were requested from the bank and provided to the auditor. The compensating controls over disbursements and reconciliations were ineffective to offset the risk associated with inadequate segregation of duties.

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 and that the errors could have a material effect on the financial reporting of the office.

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's office evaluate the controls that are in place and consider the following controls to adequately protect the office 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.

*Former Sheriff's Response: No response provided.*

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2018-003 The Former Franklin County Sheriff's Tax Settlement Was Inaccurate

---

The former sheriff's tax settlement was inaccurate due to the following:

- Franchise taxes of \$170,138 and insurance capital tax collections of \$36,308 were not included on the settlement,
- School district tax collections were understated on the settlement by \$270,000, and
- Exoneration increases and decreases were netted on the settlement resulting in adjustments to each of those categories.

The former sheriff did not have controls in place over tax collection reporting to ensure the tax settlement financial statement included all taxes collected and correct exoneration increases and decreases to ensure compliance with state law.

FRANKLIN COUNTY  
PAT MELTON, FORMER SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Period April 17, 2018 Through January 6, 2019  
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY: (Continued)

2018-003 The Former Franklin County Sheriff's Tax Settlement Was Inaccurate (Continued)

---

The former Franklin County Sheriff's tax settlement financial statement was adjusted by a net amount of \$268,575 to ensure the settlement included all collections, charges, credits and payments made to each district in compliance with state law.

Strong internal controls dictate that all tax collections, charges and credits should be included on the tax settlement reported by the sheriff.

KRS 134.192(5) requires the tax settlement to 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 the all taxing districts.

We recommend the sheriff's office implement controls to ensure that all taxes charged, collected and paid were reported on the tax settlement financial statement accurately to comply with state law.

*Former Sheriff's Response: No response provided.*