

**REPORT OF THE AUDIT OF THE
FORMER BULLITT COUNTY
SHERIFF**

**For The Period
March 1, 2017 through December 31, 2017**



**MIKE HARMON
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jerry Summers, Bullitt County Judge/Executive
The Honorable Donnie Tinnell, Former Bullitt County Sheriff
The Honorable Walt Sholar, Bullitt County Sheriff
Members of the Bullitt County Fiscal Court

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying Statement of Receipts and Disbursements - Regulatory Basis of the former Sheriff of Bullitt County, Kentucky, and the Statement of Receipts, Disbursements, and Fund Balances of the Sheriff's Operating Fund and County Fund with the State Treasurer - Regulatory Basis for the period March 1, 2017 through December 31, 2017, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements 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 County Fee Officials* 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 statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, 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 statements 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 statements.

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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The Honorable Jerry Summers, Bullitt County Judge/Executive
The Honorable Donnie Tinnell, Former Bullitt County Sheriff
The Honorable Walt Sholar, Bullitt County Sheriff
Members of the Bullitt County Fiscal Court

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

As described in Note 1 of the financial statements, the financial statements are prepared by the former Bullitt County Sheriff on the basis of the 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 statements 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 statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the former Bullitt County Sheriff, for the period March 1, 2017 through December 31, 2017, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the receipts and disbursements of the former Bullitt County Sheriff and the receipts, disbursements, and fund balances of the former Bullitt County Sheriff's operating fund and county fund with the state treasurer for the period March 1, 2017 through December 31, 2017, 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 March 26, 2019, on our consideration of the former Bullitt County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely 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. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance.

The Honorable Jerry Summers, Bullitt County Judge/Executive
The Honorable Donnie Tinnell, Former Bullitt County Sheriff
The Honorable Walt Sholar, Bullitt County Sheriff
Members of the Bullitt 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:

- 2017-001 The Former Bullitt County Sheriff Was Noncompliant With State Law By Operating A Tow Lot And Collecting Fees For Towing And Vehicle Storage
- 2017-002 The Former Bullitt County Sheriff Did Not Have Adequate Controls Over Disbursements
- 2017-003 The Former Bullitt County Sheriff's Office Was Not In Compliance With Bid Requirements
- 2017-004 The Former Bullitt County Sheriff's Internal Controls Over Payroll Processing Were Not Adequate
- 2017-005 The Former Bullitt County Sheriff's Office Lacked Adequate Controls Over Drug Buy Funds
- 2017-006 The Former Bullitt County Sheriff's Office Lacked Adequate Segregation Of Duties Over Receipts And Disbursements
- 2017-007 The Former Bullitt County Sheriff Had Weak Control Over Secondary Employment

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

March 26, 2019

BULLITT COUNTY
DONNIE TINNELL, FORMER SHERIFF
STATEMENT OF RECEIPTS AND DISBURSEMENTS - REGULATORY BASIS

For The Period March 1, 2017 Through December 31, 2017

Receipts

State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)	\$	151,858	
State Fees for Services:			
Finance and Administration Cabinet	\$	23,656	
Sheriff Security Service		154,738	
Prisoner Transport		22,213	200,607
Fiscal Court			
E911 Salaries		244,375	
E911 FICA		15,747	
E911 Retirement		37,487	
E911 Health Insurance		30,577	
Election Commissions		280	
Retirement Reimbursement		501,464	
FICA Reimbursement		144,176	
Health Insurance Reimbursement		307,847	
DARE		20,833	
Transport Prisoners		31,667	
Fiscal Court Support		800,000	2,134,453
County Clerk - Delinquent Taxes			40,760
Commission on Taxes		1,112,718	
Commission on School Taxes		838,681	1,951,399
Fees Collected for Services:			
Auto Inspections		16,554	
Accident/Police Reports		10,694	
Serving Papers		111,514	
Carry Concealed Deadly Weapon Permits		25,750	
Carry Concealed Deadly Weapon Photos		4,965	
Traffic Court		1,003	
Transport Prisoners		1,621	
School Resource Officer		32,133	204,234

The accompanying notes are an integral part of the financial statements.

BULLITT COUNTY
DONNIE TINNELL, FORMER SHERIFF
STATEMENT OF RECEIPTS AND DISBURSEMENTS - REGULATORY BASIS
For The Period March 1, 2017 Through December 31, 2017
(Continued)

Receipts (Continued)

Other:

Add-On Fees	\$ 103,380	
Miscellaneous	7,159	
Tow Lot Fees	<u>158,725</u>	\$ 269,264

Interest Earned		<u>32</u>
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Total Receipts		4,952,607
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Disbursements

Operating Disbursements:

Tow Lot:

Wrecker Service Fees	\$ 45,576	
Supplies and Equipment	22,443	
Miscellaneous Fees	9,809	
Postage	<u>534</u>	78,362

Capital Outlay:

Vehicles	57,494	
Lease Payment	<u>14,000</u>	<u>71,494</u>

Total Disbursements		<u>149,856</u>
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Net Receipts		4,802,751
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Payments to State Treasurer:

75% Operating Fund *	4,464,445	
25% County Fund	<u>329,438</u>	<u>4,793,883</u>

Balance Due at Completion of Audit		<u>\$ 8,868</u>
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* Includes reimbursed expenses in the amount of \$3,476,131 for the audit period.
See Note 1 of Notes to Financial Statements.

The accompanying notes are an integral part of the financial statements.

BULLITT COUNTY
DONNIE TINNELL, FORMER SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
FUND BALANCES OF THE SHERIFF'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS

For The Period March 1, 2017 Through December 31, 2017

	75% Operating Fund	25% County Fund	Totals
Fund Balance - March 1, 2017	\$ (502,901)	\$	\$ (502,901)
<u>Receipts</u>			
Fees Paid to State - Operating Funds (75%)	4,464,445		4,464,445
Fees Paid to State - County Funds (25%)		329,438	329,438
Total Funds Available	3,961,544	329,438	4,290,982
<u>Disbursements</u>			
Bullitt County Fiscal Court		329,438	329,438
Personnel Services-			
Official's Statutory Maximum	91,163		91,163
Official's Training Incentive	1,013		1,013
Deputies' Salaries	2,354,801		2,354,801
Employee Benefits-			
Employer's Share Social Security	182,646		182,646
Employer's Share Retirement	600,685		600,685
Employer's Share Health Insurance	403,453		403,453
Contracted Services-			
Advertising	1,476		1,476
Hardware/Software Agreements	54,050		54,050
Supplies and Materials-			
Office Supplies	15,216		15,216
Uniforms/Equipment	3,126		3,126
Data Processing	19,684		19,684
Other Charges-			
Dues/Insurance	3,121		3,121
Juror Meals	396		396
Miscellaneous	20,251		20,251
Postage	17,107		17,107
Supplies	2,866		2,866
Telephone/Fax/Cellular	23,010		23,010
Training	5,453		5,453
Transport	5,111		5,111

The accompanying notes are an integral part of the financial statements.

BULLITT COUNTY
DONNIE TINNELL, FORMER SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
FUND BALANCES OF THE SHERIFF'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS
For The Period March 1, 2017 Through December 31, 2017
(Continued)

	75%	25%	
	Operating	County	
	Fund	Fund	Totals
	<u> </u>	<u> </u>	<u> </u>
<u>Disbursements (Continued)</u>			
Auto Expenses-			
Gasoline	\$ 101,631	\$	\$ 101,631
Maintenance and Repairs	<u>49,886</u>		<u>49,886</u>
Total Disbursements	<u>3,956,145</u>	<u>329,438</u>	<u>4,285,583</u>
Fund Balance - December 31, 2017	<u>\$ 5,399</u>	<u>\$ 0</u>	<u>\$ 5,399</u>

The accompanying notes are an integral part of the financial statements.

BULLITT COUNTY
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. 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.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount due from the sheriff as determined by the audit.

KRS 64.350 establishes that a fee official in counties with a population over 70,000 has two funds with the state treasurer for the deposit of fees collected. Seventy-five percent (75%) of the fees collected are deposited in the sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected are deposited to the county fiscal court fund and paid to the fiscal courts, urban-county governments, or consolidated local governments of the respective counties quarterly no later than April 15, July 15, October 15, and March 15. These funds are closed at the end of each official term by paying the balances to the respective county government.

Also, some revenues of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are treated as revenue in the 75 percent fund.

The financial statements have been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, receipts and disbursements are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31:

- Interest receivable
- Collection on accounts due from others for 2017 services
- Reimbursements for 2017 activities
- Payments due other governmental entities for December tax and fee collections
- Payroll expenditures incurred but not paid
- Payments due vendors for goods or services provided in 2017

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).

BULLITT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017
(Continued)

Note 2. Employee Retirement System and Other Post-Employment Benefits

The county official and employees have elected to participate, pursuant to KRS 78.530, in the County Employees Retirement System (CERS), which is administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). This is a cost-sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute.

The sheriff's contribution for calendar year 2015 was \$630,554, calendar year 2016 was \$669,321, January and February 2017 \$136,915 and March through December 2017 was \$600,685.

Nonhazardous

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute six percent of their salary to be allocated as follows: five percent will go to the member's account and one percent will go to the KRS insurance fund.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own accounts. Nonhazardous covered employees contribute five percent of their annual creditable compensation and one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A nonhazardous member's account is credited with a four percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008, must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

The county's contribution rate for nonhazardous employees was 18.68 percent for the period March 1, 2017 through June 30, 2017 and 19.18 percent for the last six months.

Hazardous

Hazardous covered employees are required to contribute eight percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008, are required to contribute nine percent of their salary to be allocated as follows: eight percent will go to the member's account and one percent will go to the KRS insurance fund.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan.

BULLITT COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2017
 (Continued)

Note 2. Employee Retirement System and Other Post-Employment Benefits (Continued)

Hazardous (Continued)

Members in the plan contribute a set percentage of their salary each month to their own account. Hazardous members contribute eight percent of their annual creditable compensation and one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A hazardous member's account is credited with a seven and one half percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008, aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

The county's contribution rate for hazardous employees was 31.06 percent for the period March 1, 2017 through June 30, 2017 and 31.55 percent for the last six months.

Health Insurance Coverage

CERS also provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Hazardous employees whose participation began on or after July 1, 2003, earn 15 dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, the employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

BULLITT COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2017
 (Continued)

Note 2. Employee Retirement System and Other Post-Employment Benefits (Continued)

KRS issues a publicly available annual financial report that includes financial statements and required supplementary information on CERS. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

KRS also issues a proportionate share audit report that includes the total pension liability for CERS determined by actuarial valuation as well as each participating county's proportionate share. The Schedules of Employer Allocations and Pension Amounts by Employer report and the related actuarial tables are available online at <https://kyret.ky.gov>. The complete actuarial valuation report, including all actuarial assumptions and methods, is also available on the website or can be obtained as described in the paragraph above.

Note 3. Deposits

The former Bullitt County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (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 Bullitt 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, 2017, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Lease Agreements

The Bullitt County Sheriff's office was committed to the following lease agreements as of December 31, 2017:

Item Purchased	Monthly Payment (*Annual Payment)	Term of Agreement	Ending Date	Principal Balance December 31, 2017
Hardware	\$ 3,155	36 Months	11/1/2018	\$ 31,550
Software	2,000	12 Months	6/27/2018	12,000
Software	250	12 Months	10/1/2018	2,250
Vehicles*	88,501	4 Years	7/2/2018	88,501
Vehicles*	44,424	3 Years	5/17/2018	44,424
Total				<u>\$ 178,725</u>

BULLITT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017
(Continued)

Note 5. DARE Account

The former sheriff's office maintained an account for the deposit of donations to be used for Drug Abuse Resistance Education (DARE) activities. The balance on March 1, 2017, was \$1,327. During the audit period, receipts totaled \$2,069 and disbursements were \$1,752. The balance on December 31, 2017, was \$1,644.

Note 6. State Drug Confiscated Property Account

The former sheriff's office maintained an account for the deposit and disbursement of funds received as a result of property confiscated during drug-related law enforcement activities. These funds are to be expended for law enforcement purposes. The balance on March 1, 2017, was \$1,380. During the audit period, receipts totaled \$169,502 and disbursements were \$155,272. The balance on December 31, 2017, was \$15,610.

Note 7. Credit Card Account

The former sheriff's office maintained an account for tax and fee credit card payments to the sheriff's office. The balance on March 1, 2017, was \$0. During the audit period, there were receipts and disbursements of \$200,111. The balance on December 31, 2017, was \$0.

Note 8. Federal Asset Forfeiture Account

The former sheriff's office maintained an account for the deposit and disbursement of funds received as a result of cash confiscated during federal drug-related law enforcement activities. The balance on March 1, 2017, was \$16,929. During the audit period, receipts totaled \$3,141 and disbursements were \$17,395. The balance on December 31, 2017, was \$2,675.

Note 9. High Intensity Drug Enforcement Unit Account

The former sheriff's office maintained an account for the deposit and disbursement of funds associated with the seizure of funds held until the court system issues orders on what to do with the funds. The balance on March 1, 2017, was \$218,865. During the audit period, receipts totaled \$262,129 and disbursements were \$135,093. The balance on December 31, 2017, was \$345,901.

Note 10. Explorer Account

The former sheriff's office maintained an account to run an explorer post. The balance on March 1, 2017, was \$5,204. During the audit period, disbursements totaled \$5,204 and this account was closed.

Note 11. Donation Account

The former sheriff's office opened an account to collect donations for bulletproof vests in September 2015. The balance on March 1, 2017, was \$26. During the audit period, receipts totaled \$100 and disbursements totaled \$0. The balance on December 31, 2017, was \$126.

Note 12. Contingencies

The Bullitt County Sheriff's office was involved in multiple lawsuits that arose from the normal course of doing business. While individually they may not be significant, in the aggregate they could negatively impact the sheriff's financial position. Due to the uncertainty of the litigation, a reasonable estimate of the financial impact on the county cannot be made at this time.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jerry Summers, Bullitt County Judge/Executive
The Honorable Donnie Tinnell, Former Bullitt County Sheriff
The Honorable Walt Sholar, Bullitt County Sheriff
Members of the Bullitt County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements 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 Statement of Receipts and Disbursements - Regulatory Basis of the former Sheriff of Bullitt County, Kentucky, the Statement of Receipts, Disbursements, and Fund Balances of the former Sheriff's Operating Fund and County Fund with the State Treasurer - Regulatory Basis for the period March 1, 2017 through December 31, 2017, and the related notes to the financial statements, and have issued our report thereon dated March 26, 2019. The Bullitt County Sheriff's financial statements are 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 statements, we considered the former Bullitt 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 statements, but not for the purpose of expressing an opinion on the effectiveness of the former Bullitt County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Bullitt 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 certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 statements 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 item 2017-002 and 2017-006 to be material weaknesses.

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Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements 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 deficiencies described in the accompanying Schedule of Findings and Responses as items 2017-004, 2017-005, and 2017-007 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the former Bullitt County Sheriff's financial statements are 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 2017-001, 2017-002, 2017-003, and 2017-007.

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

March 26, 2019

SCHEDULE OF FINDINGS AND RESPONSES

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BULLITT COUNTY
DONNIE TINNELL, FORMER SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Period March 1, 2017 through December 31, 2017

FINANCIAL STATEMENT FINDINGS:

2017-001 The Former Bullitt County Sheriff Was Noncompliant With State Law By Operating A Tow Lot And Collecting Fees For Towing And Vehicle Storage

The Bullitt County Sheriff's office began operating a tow lot in February 2017. The vehicle owner is charged with a towing fee and a daily charge of \$25 per day to store the vehicle on the lot. They are given a certain time to pick up their vehicle and pay their fees or the vehicle ownership will be turned over to the sheriff's office. The sheriff's office is selling all vehicles where ownership has been turned over to them. They are depositing fees received into a tow lot bank account.

The former Bullitt County Sheriff was operating a tow lot and charging towing fees and vehicle storage fees to increase revenue for the office. These fees are not allowed to be collected by a sheriff per state law. Also, by depositing the fees collected in a separate bank account, the former sheriff is not turning over these fees to the state as other fees deposited in the fee account. This significantly increases the risk that the tow lot fees collected are not used appropriately by the sheriff's office.

KRS 64.410 mandates that the sheriff cannot collect fees he is not mandated to by state law per KRS 64.090. KRS 64.090 provides a list of fees a sheriff is authorized to collect. Towing fees and related storage fees are not allowable fees for a sheriff to collect per this state law.

We recommend the sheriff's office cease operations of the tow lot, and stop collecting towing fees and daily vehicle storage fees to be in compliance with state law. We recommend the balance of the tow lot bank account be paid to the 75% account.

Former Sheriff's Response: The former sheriff did not provide a response.

2017-002 The Former Bullitt County Sheriff Did Not Have Adequate Controls Over Disbursements

The former Bullitt County Sheriff did not have adequate controls over disbursements. The following deficiencies were noted:

- Original invoices were not kept.
- Invoices were not date stamped when received.
- Invoices were not effectively canceled in order to prevent duplicate payments.
- Fuel credit card receipts were not maintained and not compared to the monthly fuel invoices.

These deficiencies were caused by a lack of internal controls and a lack of oversight of disbursements. Failure to maintain adequate supporting documentation for expenditures could result in disallowed expenditures, requiring personal funds to be deposited into the account. Failure to properly maintain the original invoice, to document the date received, and to effectively cancel invoices, as required by the Department for Local Government could lead to fraudulent invoices being paid or duplicate payments.

The *Financial Operation in Counties with Population of 70,000 or More* manual issued by the Finance and Administration Cabinet Office of the Controller requires the official to attach the vendor's original bill or invoice with the date stamped on the lower left hand corner, and retain a copy for their own records. Strong internal controls dictate that invoices or other documents should be effectively cancelled in order to prevent duplicate payments.

BULLITT COUNTY
 DONNIE TINNELL, FORMER SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Period March 1, 2017 through December 31, 2017
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-002 The Former Bullitt County Sheriff Did Not Have Adequate Controls Over Disbursements
 (Continued)

We recommend the sheriff's office ensure that all original invoices are maintained and are properly date stamped when received in the lower left hand corner as required by the *Financial Operation in Counties with Population of 70,000 or More* manual. Original invoices should be effectively cancelled to prevent duplicate payments. Additionally, we recommend the sheriff's office implement a policy to ensure that all fuel bill original receipts are turned in to the deputy in charge of the monthly fuel bill reconciliation. These receipts should be compared to the monthly credit card invoice and evidenced by initials or a signature.

Former Sheriff's Response: The former sheriff did not provide a response.

2017-003 The Former Bullitt County Sheriff's Office Was Not In Compliance With Bid Requirements

The Bullitt County Sheriff's office purchased two vehicles totaling \$39,200. Proper bidding requirements were not followed for purchases over \$20,000. Adequate supporting documentation was not maintained. Lack of management oversight resulted in noncompliance with state regulations over bid procedures. By not ensuring that proper bidding procedures have been followed prior to authorization and payment of invoices exceeding \$20,000, the former sheriff was not in compliance with KRS 424.260.

KRS 424.260 states, "[e]xcept where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district, or board or commission of a city or county, or sheriff or county clerk, may make a contract, lease, or other agreement for materials, supplies except perishable meat, fish, and vegetables, equipment, or for contractual services other than professional, involving an expenditure of more than twenty thousand dollars (\$20,000) without first making newspaper advertisement for bids. This subsection shall not apply to the transfer of property between governmental agencies as authorized in KRS 82.083(4)(a)." In addition, the *Financial Operation in Counties with Population of 70,000 or More* requires the official to attach the vendor's original bill or invoice.

We recommend the sheriff's office follow KRS 424.260 for purchases exceeding \$20,000 and maintain the vendor's original invoice.

Former Sheriff's Response: The former sheriff did not provide a response.

2017-004 The Former Bullitt County Sheriff's Internal Controls Over Payroll Processing Were Not Adequate

This is a repeat finding and was included in the prior year audit report as finding 2016-002. The sheriff's office lacks segregation of duties over payroll processing. The office manager prepares the Excel file for each pay period to calculate payroll and uploads it to Kentucky Human Resource Information System (KHRIS) for payroll processing with no independent review to ensure pay rates are correct and payroll is calculated correctly.

When controls over payroll are weak, employees can be paid incorrectly, either by incorrect hours or using a pay rate that is not authorized. Furthermore, leave balances can be misstated.

BULLITT COUNTY
DONNIE TINNELL, FORMER SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Period March 1, 2017 through December 31, 2017
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-004 The Former Bullitt County Sheriff's Internal Controls Over Payroll Processing Were Not Adequate
(Continued)

Strong internal controls dictate that payroll processing functions should be segregated between data entry, approval of payroll before checks are issued, withholdings taken are documented and verified, pay rate changes are documented in personnel files, and authorization is documented.

We recommend the sheriff's office implement the following procedures:

- Payroll is calculated by one employee and the sheriff or his designee reviews the calculations to ensure pay rates are correct and calculations are correct and that payroll is correctly entered into KHRIS.
- Pay rate changes are documented in the employee's personnel file with evidence that the sheriff has authorized any pay rate changes.
- Withholdings authorizations are maintained for each employee to support the amounts withheld on their paychecks.

Former Sheriff's Response: The former sheriff did not provide a response.

2017-005 The Former Bullitt County Sheriff's Office Lacked Adequate Controls Over Drug Buy Funds

This is a repeat finding and was included in the prior year audit report as finding 2016-003. The following control weaknesses were noted during the review of controls and testing of drug buys:

- No independent reviews of balance sheet for drug buys
- No independent cash counts performed
- Withdrawal for buy money was in the form of a check written to the deputy for buy money, not to the bank or for cash.
- Some deputies had small amounts of cash they were holding for drug buys with no official policy on how much to keep, where to secure it when not in use, etc.
- No record or ledger is kept for each deputy performing drug buys to document and track how much money each deputy has on hand for drug buys.

The former sheriff was not aware of significant controls needed over cash used for drug buys, such as:

- To have ledgers prepared and maintain to document deputies' use of funds for drug buys to reflect the amount they have on hand,
- To have ledgers reviewed for accuracy and completeness,
- To have supporting documentation reviewed to ensure there is adequate documentation to show how funds are used, including if a deputy returns funds he has out for drug buys, and
- To perform and document random cash counts, agreeing cash on hand to amount reported on the ledgers for that date.

BULLITT COUNTY
 DONNIE TINNELL, FORMER SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Period March 1, 2017 through December 31, 2017
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-005 The Former Bullitt County Sheriff's Office Lacked Adequate Controls Over Drug Buy Funds
 (Continued)

Without implementing strong controls over cash used for drug buys, there is a significant risk that cash used for drug buys may be misappropriated. Strong internal controls dictate that cash used for drug buys and related transactions should be recorded accurately on ledgers, adequately supported with documentation showing use of funds or return of funds by deputy, and to ensure that cash on hand is secured in the sheriff's office, and agrees to the supporting ledgers.

We recommend the sheriff's office:

- Develop and implement policies to document how much funds each deputy performing drug buys is permitted to maintain on hand at a time, including that the funds held should be maintained and secured in the sheriff's office at all times.
- Develop and implement a document for the lieutenant colonel to complete to request funds from the sheriff's bank account to use for drug buys.
- Ensure checks for drug buy funds are written to cash or to the bank, not a specific person.

We recommend the following for the former sheriff or his designee:

- Develop and maintain ledgers for each deputy who performs drug buys, to calculate the balance of cash available, including the date and amount of each transaction they complete for drug buys and if they return any funds not used.
- Conduct and document independent reviews of the drug buy ledgers for each deputy to ensure they are complete and accurate.
- Conduct and document independent cash counts for funds held by the deputies for drug buys.

Former Sheriff's Response: The former sheriff did not provide a response.

2017-006 The Former Bullitt County Sheriff's Office Lacked Adequate Segregation Of Duties Over Receipts
 And Disbursements

The Bullitt County Sheriff's office lacked adequate segregation of duties. The former sheriff's bookkeeper collected payments from customers, issued receipts, posted transactions to the receipts ledger, prepared the quarterly reports, and performed the monthly bank reconciliations. Daily checkout sheets were prepared by a deputy clerk who also collected payments from customers and prepared the deposit tickets. Oversight by either the former sheriff or another employee was not always documented for these activities. The former sheriff indicated that this condition was a result of a limited budget, which restricted the number of employees the sheriff could hire or delegate duties to. Lack of oversight could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as Department for Local Government.

The segregation of duties over various accounting functions such as opening mail, preparing deposits, recording receipts and disbursements, and preparing monthly reports, or the implementation of compensating controls is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

BULLITT COUNTY
 DONNIE TINNELL, FORMER SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Period March 1, 2017 through December 31, 2017
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-006 The Former Bullitt County Sheriff's Office Lacked Adequate Segregation Of Duties Over Receipts And Disbursements (Continued)

We recommend the sheriff's office separate the duties involved in receiving cash, preparing deposits, writing checks, posting to ledgers, preparing monthly bank reconciliations, and comparing financial reports to ledgers. If due to a limited budget, this is not feasible, cross checking procedures could be implemented and documented by the individual performing the procedure.

Former Sheriff's Response: The former sheriff did not provide a response.

2017-007 The Former Bullitt County Sheriff Had Weak Control Over Secondary Employment

This is a repeat finding and was included in the prior year audit report as finding 2016-004. The former Bullitt County Sheriff did not maintain disclosures of outside employment for employees as is required by his office policy on secondary employment. The auditor was told by a sheriff's employee that he and another employee had outside employment in 2016. Upon review of the outside employment disclosures, the auditor did not find disclosures for those two employees. There were a few disclosures provided by the chief deputy, additional disclosures provided by another sheriff employee, and a few noted in personnel files.

The former Bullitt County Sheriff did not adhere to his office's secondary employment policy, resulting in increased risk that sheriff's employees worked outside employment and did not notify and receive approval from their supervisor, and that the employees could have worked their outside employment while reporting that they worked time for the sheriff's office, so they could have been paid by both employers for the same hours worked.

The former sheriff's secondary employment policy requiring those deputies with outside employment to provide written notice to describe the type of work performed and the maximum number of hours per week the employee will engage in the outside employment. Also, the policy requires the employee to receive approval of the employment through their chain of command and final approval by the former sheriff. (Section IV, B, C).

We recommend the sheriff's office review the secondary employment policy with all employees and ensure that each employee who has outside employment completes a disclosure, and obtains written approval from the supervisor and the sheriff, according to the policy. We also recommend the sheriff's office ensure all outside employment disclosures are kept on file for all employees.

Former Sheriff's Response: The former sheriff did not provide a response.