

**REPORT OF THE AUDIT OF THE
GARRARD COUNTY
SHERIFF**

**For The Year Ended
December 31, 2015**



**MIKE HARMON
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EXECUTIVE SUMMARY
AUDIT OF THE
GARRARD COUNTY SHERIFF

For The Year Ended
December 31, 2015

The Auditor of Public Accounts has completed the Garrard County Sheriff's audit for the year ended December 31, 2015. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the receipts, disbursements, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$17,817 from the prior year, resulting in excess fees of \$23,550 as of December 31, 2015. Receipts decreased by \$13,529 from the prior year and disbursements decreased by \$31,346.

Debt Obligations:

Total debt principal as of December 31, 2015, was \$66,376. Future collections of \$66,376 are needed over the next year to pay all debt principal and interest.

Lease principal agreements totaled \$7,415 as of December 31, 2015. Future principal and interest payments of \$7,415 are needed to meet these obligations.

Report Comments:

- 2015-001 The Sheriff Transferred \$15,000 In Federal Forfeiture Funds To The 2015 Fee Account
- 2015-002 The Garrard County Sheriff's Office Lacks Adequate Internal Controls Over Payroll
- 2015-003 Court Security Officers' Time Sheets Did Not Reflect Correct Hours Worked
- 2015-004 The Garrard County Sheriff Failed To Properly Classify Employees As Hourly Or Salaried

Deposits:

The sheriff's deposits as of November 4, 2015 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$656,944

The sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the sheriff's deposits in accordance with the security agreement.

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CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	1
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS	3
NOTES TO FINANCIAL STATEMENT	6
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	13
COMMENTS AND RECOMMENDATIONS	17

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable John Wilson, Garrard County Judge/Executive
The Honorable Tim Davis, Garrard County Sheriff
Members of the Garrard County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the Sheriff of Garrard County, Kentucky, for the year ended December 31, 2015, 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, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the 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 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 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.



The Honorable John Wilson, Garrard County Judge/Executive
 The Honorable Tim Davis, Garrard County Sheriff
 Members of the Garrard 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 Garrard 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 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 financial position of each fund of the Garrard County Sheriff, as of December 31, 2015, 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 statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the Garrard County Sheriff for the year ended December 31, 2015, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

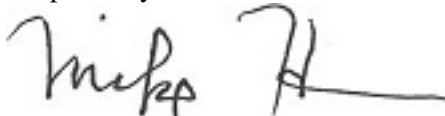
Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 1, 2018, on our consideration of the Garrard 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 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.

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

- 2015-001 The Sheriff Transferred \$15,000 In Federal Forfeiture Funds To The 2015 Fee Account
- 2015-002 The Garrard County Sheriff's Office Lacks Adequate Internal Controls Over Payroll
- 2015-003 Court Security Officers' Time Sheets Did Not Reflect Correct Hours Worked
- 2015-004 The Garrard County Sheriff Failed To Properly Classify Employees As Hourly Or Salaried

Respectfully submitted,



Mike Harmon
 Auditor of Public Accounts

May 1, 2018

GARRARD COUNTY
TIM DAVIS, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2015

Receipts

Federal Grants		\$ 1,739
State Grants		27,336
State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)		28,653
State Fees For Services:		
Finance and Administration Cabinet	\$ 75,891	
Sheriff Security Service	<u>4,775</u>	80,666
Circuit Court Clerk:		
Fines and Fees Collected		1,799
Fiscal Court		66,048
County Clerk - Delinquent Taxes		24,893
Commission On Taxes Collected		299,118
Other Fees On Taxes Collected		32,199
Fees Collected For Services:		
Auto Inspections	3,430	
Serving Papers	29,034	
Carry Concealed Deadly Weapon Permits	<u>7,765</u>	40,229
Other:		
Fingerprints	1,462	
School Security	33,999	
Hold Harmless	4,728	
Miscellaneous	<u>479</u>	40,668
Borrowed Money:		
State Advancement		<u>180,000</u>
Total Receipts		823,348

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

GARRARD COUNTY
TIM DAVIS, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2015
(Continued)

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$ 257,183	
Court Security Gross Salaries	69,141	
Other Gross Salaries	30,000	
Overtime Gross Salaries	14,332	
KLEFPF Salaries	28,602	

Employee Benefits-

Employer's Share Social Security	34,766	
Employer Paid Health Insurance	20,600	

Contracted Services-

Court Security Office Expense	771	
Vehicle Maintenance and Repairs	10,274	

Materials and Supplies-

Office Materials and Supplies	9,706	
Uniforms	4,798	

Auto Expense-

Gasoline	2,903	
Vehicle Expense	21	

Other Charges-

Conventions and Travel	1,275	
Computer Services and Equipment	2,745	
Tax Expense	1,634	
K-9	2,546	
Dues	527	
County Filing Fees	5,760	
Unemployment	4,089	
Miscellaneous	1,052	\$ 502,725

Debt Service:

State Advancement	180,000	
Vehicles	35,000	
Interest	4,247	219,247

Total Disbursements \$ 721,972

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

GARRARD COUNTY
TIM DAVIS, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2015
(Continued)

Net Receipts	\$ 101,376
Less: Statutory Maximum	<u>76,841</u>
Excess Fees	24,535
Less: Training Incentive Benefit	<u>985</u>
Excess Fees Due County for 2015	23,550
Payment to Fiscal Court - March 1, 2016	<u>23,338</u>
Balance Due Fiscal Court at Completion of Audit	<u>\$ 212</u>

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

GARRARD COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2015

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, including excess fees, due from the sheriff as determined by the audit. KRS 134.192 requires the sheriff to settle excess fees with the fiscal court at the time he files his annual settlement with the fiscal court on or before September 1 of each year. KRS 64.830 requires an outgoing sheriff to settle excess fees with the fiscal court of his county by March 15 immediately following the expiration of his term of office.

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. 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 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2015 services
- Reimbursements for 2015 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2015

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the county treasurer in the subsequent year.

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).

GARRARD COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2015
 (Continued)

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

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 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.

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 the plan. The county's contribution rate for nonhazardous employees was 17.67 percent for the first six months and 17.06 percent for the last six months.

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. Members contribute five percent (nonhazardous) 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 member's account is credited with a four percent (nonhazardous) 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.

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%

GARRARD COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2015
(Continued)

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

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.

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.

Note 3. Deposits

The Garrard 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 Garrard 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 December 31, 2015, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of November 4, 2015, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$656,944

Note 4. Note Payable

The Garrard County Sheriff's office is liable for a secured note payable to First Southern National Bank in the amount of \$66,376. The purpose of the note was to purchase three police cruisers. The note matures on July 1, 2016, and the interest rate is 2.8 percent. The Garrard County Sheriff's office was in compliance with the terms of the agreement as of December 31, 2015.

Note 5. Lease Agreement

The Garrard County Sheriff's office was committed to a lease agreement with Bamill, LLC for a copier. The agreement requires a monthly payment of \$185 for 48 months to be completed on May 15, 2019. The total remaining balance of the agreement was \$7,415 as of December 31, 2015.

GARRARD COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2015
(Continued)

Note 6. Forfeiture Accounts

Under terms mandated by the United States Department of Justice and the Commonwealth of Kentucky, the Garrard County Sheriff's office receives proceeds from the confiscation, surrender, or sale of real and personal property involved in drug related convictions. These funds are used exclusively for law enforcement disbursements against drug related activities and are not included in excess fees.

A. State Forfeiture Account

The balance in the account as of January 1, 2015, was \$48,523. During 2015, receipts were \$173 and disbursements were \$16,035. The balance as of December 31, 2015, was \$32,661.

B. Federal Forfeiture Account

The balance in the account as of January 1, 2015, was \$32,616. During 2015, receipts were \$30,367 and disbursements were \$25,414. The balance as of December 31, 2015, was \$37,569.

Note 7. Garrard County DARE Program Account

The Garrard County Sheriff's office maintains the Garrard County DARE Program Account. The balance in the account as of January 1, 2015, was \$23. During 2015, receipts were \$3,396 and disbursements were \$2,603. The balance in the account as of December 31, 2015, was \$816.

Note 8. Grant Account

The Garrard County Sheriff's office maintains an account for the receipt of online payments for accident reports and Law Enforcement Protection Program (LEPP) grant funds. The balance in this account on January 1, 2015, was \$65. During 2015, receipts were \$5,921 and disbursements were \$65. The balance in the account as of December 31, 2015, was \$5,921.

Note 9. Donation Account

The Garrard County Sheriff's office maintains an account for the receipt of donations. These funds may be used for the operation of the sheriff's office as established by KRS 61.310. The balance in this account on January 1, 2015, was \$282. During 2015, receipts were \$267 and disbursements were \$0. The balance in the account as of December 31, 2015, was \$549.

Note 10. Federal Highway Safety Grant

The Garrard County Sheriff's office was awarded a Highway Safety Grant for targeted enforcement, saturation patrols and/or traffic safety checkpoints in partnership with the Kentucky Transportation Cabinet office of Highway Safety. This is a reimbursement grant. The sheriff's office received \$1,739 in calendar year 2015.

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

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable John Wilson, Garrard County Judge/Executive
The Honorable Tim Davis, Garrard County Sheriff
Members of the Garrard 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 Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the Garrard County Sheriff for the year ended December 31, 2015, and the related notes to the financial statement and have issued our report thereon dated May 1, 2018. The Garrard 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 Garrard 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 Garrard County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Garrard 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 comments and recommendations, we identified a certain deficiency in internal control that we consider to be a material weakness 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 statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comments and recommendations as item 2015-002 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)

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 comments and recommendations as items 2015-003 and 2015-004 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Garrard 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying comments and recommendations as item 2015-001.

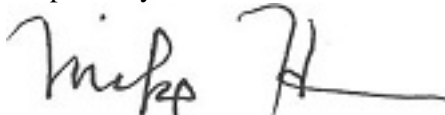
Sheriff's Responses to Findings

The Garrard County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. The Garrard County Sheriff's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

May 1, 2018

COMMENTS AND RECOMMENDATIONS

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GARRARD COUNTY
TIM DAVIS, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2015

STATE LAWS AND REGULATIONS:

2015-001 The Sheriff Transferred \$15,000 In Federal Forfeiture Funds To The 2015 Fee Account

Our review of the sheriff's bank statements indicates the sheriff transferred \$15,000 of federal forfeiture funds to the fee account in January 2015. These funds were returned to the federal forfeiture account in February 2016. Inquiries of the sheriff and bookkeeper indicate these funds were transferred to cover January payroll expenses. Funds for January payroll were not available in the 2015 fee account because the sheriff's application for state advancement was not submitted timely. Additionally, the sheriff was not aware that federal forfeiture funds are considered one-time monies and once spent should not be reimbursed.

Failure to submit the application for state advancement timely resulted in the sheriff not having fee account funds available to make the initial 2015 payroll. When federal forfeiture funds are transferred to the fee account they lose their identity and make it extremely difficult to determine if they were spent for the intended purposes.

The U.S. Department of Justice has issued *A Guide to Equitable Sharing for State and Local Law Enforcement Agencies* (Guide) that "seeks to assist state and local law enforcement agencies participating in the program by clarifying the directives they must follow to obtain and use equitably shared funds." As stated in the guide, "equitably shared funds shall be used by law enforcement agencies for law enforcement purposes only." Federal guidelines also include 'impermissible uses' of equitable sharing funds; specifically, one of the 'impermissible uses' is salaries. The Guide states, "[e]quitably sharing funds may not be used to pay the salaries and benefits of sworn or non-sworn law enforcement personnel."

We recommend the sheriff discontinue the practice of transferring federal forfeiture funds to the fee account to cover payroll or fee account expenses. We also recommend the sheriff restrict the expenditure of federal forfeiture funds to those items defined in federal guidelines. Furthermore, we recommend the sheriff make timely application for participation in the state advancement program which is designed to assist sheriffs in obtaining funds necessary to operate the office when fees are not available.

Sheriff's Response: Taking steps to correct this like adding to advancement amount, new payroll system/practices.

INTERNAL CONTROL - MATERIAL WEAKNESS:

2015-002 The Garrard County Sheriff's Office Lacks Adequate Internal Controls Over Payroll

Garrard County Sheriff's employees are separated into three groups for payroll purposes. The Garrard County Sheriff's Office prepares payroll for road deputies, court security officers, and administrative staff including the sheriff. The personnel in each of these groups have various requirements for employment such as full-time, part-time, and salaried and our testing of payroll included an examination of these requirements and the documentation maintained by the sheriff to support payroll expenditures.

GARRARD COUNTY
TIM DAVIS, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2015
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESS: (Continued)

2015-002 The Garrard County Sheriff's Office Lacks Adequate Internal Controls Over Payroll (Continued)

The Garrard County Sheriff does not have appropriate internal controls over the payroll process. During 2015 the following issues were noted:

- The bookkeeper does not have a timesheet.
- One timesheet in the test period was not signed by the employee.
- All deputies' timecards were processed without supervisor approval.
- Three employees were paid without timecard documentation.
- Comparisons of the 911 logs to the timesheets indicated three deputies had 15 instances of days worked or at least a partial day that was not included on the employee's timesheet.
- Deputies' timesheets did not reasonably agree to the 911 activity log.
- The county personnel policy requires a lunch period to be taken. Documentation of lunch period was not annotated on timesheets.
- Employees did not always work sufficient hours to be considered full-time employees.
- Timesheets did not accurately reflect actual employee activity such as sick, vacation, or transport.

Weak internal controls over payroll did not prevent or detect these issues.

The sheriff is not in compliance with federal and state labor regulations or the county's Personnel Policy and Procedure code.

KRS 337.320(1) requires every employer to "keep a record of: (a) [t]he amount paid each pay period to each employee; (b) [t]he hours worked each day and each week by each employee; and (c) [s]uch other information as the commissioner requires."

Timesheets should be kept for payroll verification, as a record of leave time used, and to document employees are working at least the minimum number of hours to be eligible for full-time benefits such as retirement and health insurance.

The Garrard County Personnel Policy and Procedures policy states, "[l]unch periods will be taken in the period between 11:00 a.m. and 2:00 p.m., except in the case of emergency or necessity as determined by the County Official or Department head."

The United States Department Of Labor – Wage and Hour Division defines Kentucky's "Minimum Length of Meal Period Required under State Law for Adult Employees in Private Sector" as "[r]easonable off-duty period, ordinarily ½ hour but shorter period permitted under special conditions, between 3rd and 5th hour of work. Not counted as time worked. Coffee breaks and snack time not to be included in meal period."

The Garrard County Personnel Policy and Procedures policy states, "[r]egular full-time employees are those scheduled to work at least 37.5 hours per week. These employees will be eligible for county benefits. Regular Full-Time employees are those scheduled to have at least 1,820 paid hours of work per year and are listed in Groups I, II, III."

GARRARD COUNTY
TIM DAVIS, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2015
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESS: (Continued)

2015-002 The Garrard County Sheriff's Office Lacks Adequate Internal Controls Over Payroll (Continued)

We recommend the Garrard County Sheriff strengthen internal controls over payroll by requiring employees and supervisors to sign timecards, ensure timecards reflect actual hours worked, require all employees to maintain timecards, and require employees to document lunch periods on timecards. We further recommend the official ensure employees are in compliance with the U.S. Department of Labor, state law, and the county's personnel policy.

Sheriff's Response: Issues being corrected through better understanding of payroll software. Talked with employees about better record keeping as to timesheets.

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES:

2015-003 Court Security Officers' Time Sheets Did Not Reflect Correct Hours Worked

Garrard County Court Security Officers (CSOs) maintained individual timesheets which employees prepared on a monthly basis. The timesheets prepared reflect time in and time out on the days worked. Timesheet information is then transferred to a Court Security Schedule on a bi-weekly basis. The Court Security Schedule including the hours worked is sent to the bookkeeper who then issues payroll checks the following Tuesday. Our test procedures included a comparison of CSOs' timesheets to the Court Security Schedule and then to the actual payroll issued for December 2015. Our test procedures indicated that payroll is being paid based on the court security schedules not actual timesheets. Our test procedures further revealed the following inconsistencies when compared to the court security schedules used to issue payroll checks:

- Eight hours worked per the timesheet, but the court security schedule reflected no hours worked on that day
- Thirteen instances of hours being calculated incorrectly on the timesheet and subsequently transferred to the court security schedule used to calculate payroll
- One instance of over-recording hours when transferring from the employees timesheet to the court security schedule
- Twenty-five instances of employees working over five hours but having no lunch break
- Three instances of transport time does not appear to be included on the time sheets

The sheriff took office in January 2015 and he was unaware of many of the U.S. Department of Labor requirements and Kentucky Revised Statutes (KRS) that govern payroll. Additionally, human error combined with the lack of internal controls have allowed these payroll issues to be undocumented and uncorrected.

The lack of controls over payroll have allowed employees to be both overpaid and underpaid. Additionally, sufficient supporting documentation for payroll has not been maintained and numerous issues of noncompliance were noted with regard to KRS. Timesheets under and overstated the hours the CSOs actually worked. Misstatements in the amount of hours worked could have prevented employees from receiving benefits they were entitled to, such as retirement.

GARRARD COUNTY
TIM DAVIS, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2015
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2015-003 Court Security Officers' Time Sheets Did Not Reflect Correct Hours Worked (Continued)

KRS 337.320(1) requires every employer to “keep a record of: (a) [t]he amount paid each pay period to each employee; (b) [t]he hours worked each day and each week by each employee; and (c) [s]uch other information as the commissioner requires.”

Timesheets should be kept for payroll verification, as a record of leave time used, and to document employees are working at least the minimum number of hours to be eligible for full-time benefits such as retirement and health insurance.

KRS 337.355 requires that "[e]mployers, except those subject to the Federal Railway Labor Act, shall grant their employees a reasonable period for lunch, and such time shall be as close to the middle of the employee's scheduled work shift as possible. In no case shall an employee be required to take a lunch period sooner than three (3) hours after his work shift commences, nor more than five (5) hours from the time his work shift commences.”

We recommend the Garrard County Sheriff strengthen internal controls over payroll by ensuring timecards reflect actual hours worked and that paychecks are subsequently based on actual hours worked during the period, requiring employees to document lunch periods on timecards, and ensuring compliance with KRS regarding payroll.

Sheriff's Response: New timesheets created and issued to all employees. Explained timesheets and importance of doing them correctly with all employees.

2015-004 The Garrard County Sheriff Failed To Properly Classify Employees As Hourly Or Salaried

The Garrard County Sheriff's office paid its deputies and bookkeeper on a monthly basis. Payroll checks were issued around the 25th of each month. Paycheck amounts were the same (based on the individual's 'salary') regardless of the number hours worked and were for the whole month (i.e. March 1 through March 31). A comparison of timesheets to the E-911 call log indicates deputies do not always work a 40 hour work-week but could also work over 40 hours in a week. The bookkeeper did not maintain a timesheet; therefore, hours could not be verified, nor could it be determined if the employee worked sufficient hours to be considered a full-time employee. Although the sheriff did keep a calendar of deputies' time off for sick leave or personal days, there was not a total of cumulative time allowed or used and the timesheets did not always reflect the employees' correct status. Additionally, not all timesheets could be located for review and some details (such as the year) were not documented on the timesheets.

For payroll purposes, a significant portion of the Garrard County Sheriffs' employees (road deputies and bookkeeper) were being treated as salaried.

A schedule of four days on and four days off for road deputies, without consideration as to the actual work-week start or end, has allowed road deputies to be overpaid some weeks and underpaid in other weeks. The sheriff's bookkeeper and road deputies also did not maintain sufficient time records to ensure full-time employment status as defined by the county's personnel policy.

GARRARD COUNTY
TIM DAVIS, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2015
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2015-004 The Garrard County Sheriff Failed To Properly Classify Employees As Hourly Or Salaried (Continued)

KRS 337.320(1) requires every employer to “keep a record of: (a) [t]he amount paid each pay period to each employee; (b) [t]he hours worked each day and each week by each employee; and (c) [s]uch other information as the commissioner requires.”

Timesheets should be kept for payroll verification, as a record of leave time used, and to document employees are working at least the minimum number of hours to be eligible for full-time benefits such as retirement and health insurance.

KRS 337.285(1) states, “[n]o employer shall employ any of his employees for a work week longer than forty (40) hours, unless such employee receives compensation for his employment in excess of forty (40) hours in a work week at a rate of not less than one and one-half (1-1/2) times the hourly wage rate at which he is employed.”

OAG 79-448, discusses Section 3 of the Kentucky Constitution stating that Section 3 “is unequivocal on the point that public emolument to any person must be based on the consideration of public services. By the strongest implication this means ‘public services actually rendered.’ It does not mean ‘public services to be rendered.’”

803 KAR 1:070 Section 3(3)(a) states that “[t]o qualify for the administrative exemption, an employee’s primary duty shall include the exercise of discretion and independent judgment with respect to matters of significance. The exercise of discretion and independent judgment shall involve the comparison and the evaluation of possible courses of conduct, and acting or making a decision after the various possibilities have been considered. The term ‘matters of significance’ refers to the level of importance or consequence of the work performed.” 803 KAR 1:070 Section 3(b) states in part, “[f]actors to consider if determining whether an employee exercises discretion and independent judgment with respect to matters of significance include, but are not limited to. . .whether the employee has authority to commit the employer in matters that have significant financial impact; whether the employee has authority to waive or deviate from established policies and procedures without prior approval; whether the employee has authority to negotiate and bind the company on significant matters[.]”

803 KAR 1:070 section 10 defines a salaried employee as one being paid “on a salary basis” meaning an employee regularly receives a predetermined amount of compensation each pay period on a weekly, or less frequent, basis. The predetermined amount cannot be reduced because of variations in the quality or quantity of the employee’s work. Subject to certain exceptions, an exempt employee must receive the full salary for any week in which the employee performs any work, regardless of the number of days or hours worked. In addition, to qualify for exemption, employees generally must be paid at not less than \$455 per week on a salary basis. If the employer makes deductions from an employee’s predetermined salary, i.e., because of the operating requirements of the business, that employee is not paid on a “salary basis.”

We recommend the Garrard County Sheriff strengthen internal controls over payroll by requiring employees to complete and sign accurate timesheets and by having the timesheets reviewed and approved by the supervisors (documented by signing or initialing the timesheet). The timesheets could then be provided to the bookkeeper after the hours have been worked which would help to ensure accurate wages are being paid as well as ensure the wages are earned prior to payroll checks being issued. We recommend the sheriff document his policy for sick, vacation, and personal time and ensure the timesheets accurately reflect the use of these days. We further recommend the sheriff contact the county attorney and/or the department of labor to obtain an opinion if any employee under his supervision can be considered a salaried employee.

GARRARD COUNTY
TIM DAVIS, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2015
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2015-004 The Garrard County Sheriff Failed To Properly Classify Employees As Hourly Or Salaried (Continued)

Sheriff's Response: Personnel has been classified as hourly per recommendations of auditors.

Auditor's Reply: We did not recommend that particular classifications be made; however, we do recommend that management classify employees in accordance with applicable guidance based on documented support. As stated above, we also recommend that management seek outside guidance for further clarification.