REPORT OF THE AUDIT OF THE FORMER HENRY COUNTY SHERIFF

For The Year Ended
December 31, 2017

MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov

209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable John Logan Brent, Henry County Judge/Executive
The Honorable Danny Cravens, Former Henry County Sheriff
The Honorable Keith Perry, Henry County Sheriff
Members of the Henry 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 former Sheriff of Henry County, Kentucky, for the year ended December 31, 2017, 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 this 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 and budget laws. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Audit Guide for 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 Logan Brent, Henry County Judge/Executive
The Honorable Danny Cravens, Former Henry County Sheriff
The Honorable Keith Perry, Henry County Sheriff
Members of the Henry County Fiscal Court

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

As described in Note 1 of the financial statement, the financial statement is prepared by the former Henry 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 former Henry County Sheriff, as of 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 statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the former Henry County Sheriff for the year ended 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 May 16, 2019, on our consideration of the former Henry 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 former Henry County Sheriff's internal control over financial reporting and compliance.

The Honorable John Logan Brent, Henry County Judge/Executive
The Honorable Danny Cravens, Former Henry County Sheriff
The Honorable Keith Perry, Henry County Sheriff
Members of the Henry County Fiscal Court

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

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

2017-001 The Former Sheriff Overspent His Approved Budget
2017-002 The Former Sheriff Failed To Have A Written Agreement In Place To Ensure Deposits Were Sufficiently Collateralized

Respectfully submitted,

Mike Harmon
Auditor of Public Accounts

May 16, 2019

HENRY COUNTY
DANNY CRAVENS, FORMER SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2017

Receipts		
State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)		$ 23,640
State Fees For Services:		
Finance and Administration Cabinet	$ 45,569	
Sheriff Security Service	20,707	66,276
Circuit Court Clerk:		
Fines and Fees Collected		2,042
Fiscal Court		25,000
County Clerk - Delinquent Taxes		16,042
Commission On Taxes Collected		341,106
Fees Collected For Services:		
Auto Inspections	4,500	
Accident/Police Reports	3,589	
Serving Papers	34,829	
Carry Concealed Deadly Weapon Permits	7,440	
Henry County School Resource Officer	37,725	
City of Pleasureville Contract	26,711	
City of New Castle Contract	22,112	
Traffic School	2,243	139,149
Other:		
Add-On Fees		38,756
Interest Earned		1
Borrowed Money:		
State Advancement		80,000
Total Receipts		732,012

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

HENRY COUNTY
DANNY CRAVENS, FORMER SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2017
(Continued)

Disbursements

Operating Disbursements and Capital Outlay:	
Personnel Services-	
Deputies' Salaries	$ 190,164
Part-Time Salaries	105,875
Other Salaries	40,884
Overtime	10,314
KLEFPF	18,171
Employee Benefits-	
Employer's Share KLEFPF Retirement	5,469
Contracted Services-	
Advertising	1,111
Vehicle Maintenance and Repairs	13,461
Materials and Supplies-	
Office Materials and Supplies	7,797
Uniforms	7,963
Auto Expense-	
Gasoline	22,680
Maintenance and Repairs	897
Mileage	222
Other Charges-	
Conventions and Travel	2,332
Serving Papers	6,640
Telephone	1,727
Miscellaneous Officer Equipment	12,993
Safety Equipment	1,561
Dues	656
Postage	4,684
Rent	7,200
Utilities	9,578
Cell Phones	9,736
Prisoner Transport Expenses	770
MIW Transport Expenses	168
Specialty Equipment Maintenance	1,711
Technology Updates	6,710
Renewals and Repairs	11,818
Training	4,315
Grounds Keeping	1,780
Marijuana Eradication	22
Miscellaneous	14,244

HENRY COUNTY
DANNY CRAVENS, FORMER SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2017
(Continued)

Disbursements (Continued)			
Operating Disbursements and Capital Outlay: (Continued)			
Capital Outlay-			
Office Equipment	$ 3,393		
Vehicles	34,972	$ 562,018	
Debt Service:			
State Advancement		80,000	
Total Disbursements			$ 642,018
Net Receipts			89,994
Less: Statutory Maximum			85,085
Excess Fees Due County for 2017			4,909
Payment to Fiscal Court -February 25, 2018			4,909
Balance Due Fiscal Court at Completion of Audit			$ 0

HENRY COUNTY
NOTES TO FINANCIAL STATEMENT

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, 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 2017 services
- Reimbursements for 2017 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2017

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).

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 former sheriff's contribution for the KLEFPF portion of retirement for calendar year 2015 was $5,407, calendar year 2016 was $5,020, and calendar year 2017 was $5,469.

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 members 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 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 first six months 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.

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

Hazardous (Continued)

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. 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 first six months 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.

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.

Note 3. Deposits

The former Henry 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. These requirements were not met because the sheriff did not have a written agreement with the bank.

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 Henry 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. On October 31, 2017 and December 31, 2017, the former sheriff's bank balance was exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured on October 31, 2017 $5,938,751
- Uncollateralized and Uninsured on December 31,2017 $837,548

Note 4. Lease Agreement

The former Henry County Sheriff's office was committed to a lease agreement for two Ford F-150's. The agreement requires an annual payment of $23,842 for 48 months to be completed on February 5, 2019. The total remaining balance of the agreement was $47,685, as of December 31, 2017.

Note 5. Contract With The City of New Castle

The former sheriff's office entered into an agreement with city of New Castle, Kentucky, on January 10, 2011 to provide a minimum of fifteen (15) hours of police patrol per week within the city limits of New Castle. The sheriff shall provide comprehensive reports of law enforcement activity to the New Castle City Commission at its regular monthly meetings. The sheriff shall also provide traffic control and security for all special events conducted within the city. The city of New Castle shall pay a sum of $20,000 per annum to the sheriff's office to be paid quarterly. The sheriff's deputies performing work under this contract are paid directly by the sheriff's office. The city of New Castle, per the agreement, shall provide the use of one of its vehicles and all related equipment, provide the use of a cleaning bay at the New Castle Fire Department, and provide use of the office formerly used by the New Castle Police Department and its computer, subject to FBI computer lab inspection.

Note 6. Contract With The City of Pleasureville

The former sheriff's office entered into an agreement with city of Pleasureville, Kentucky, on June 13, 2012 to provide a minimum of fifteen (15) hours of police patrol per week within the city limits of Pleasureville. The sheriff shall provide comprehensive reports of law enforcement activity to the Pleasureville City Commission at its regular monthly meetings. The sheriff shall also provide traffic control and security for all special events conducted within the city. The city of Pleasureville shall pay a sum of $20,000 per annum to the sheriff's office to be paid quarterly. The sheriff's deputies performing work under this contract are paid directly by the sheriff's office.

Note 7. Other Accounts

A. The former sheriff's office had an escrow account used for the former sheriff's horse sales and auctions. The beginning balance on January 1, 2017 was $1. There were no receipts and disbursements during calendar year 2017. The ending balance as of December 31, 2017 was $1.

B. The former sheriff's office had an account used for the receipt of donations on equipment. The beginning balance on January 1, 2017 was $3,336. The receipts were $500 and no disbursements during calendar year 2017. The ending balance as of December 31, 2017 was $3,836.

C. The former sheriff's office had an account used for donations received from the sale of advertisements on the sheriff's calendars. Disbursements from the account are for public purposes. The beginning balance on January 1, 2017, was $5,649. The receipts were $1,401 and the disbursements were $4,305. The ending balance as of December 31, 2017 was $2,745.

D. The former sheriff's office had an account used for the receipt of funds forfeited as a result of drug related cases. These funds are to be used to purchase law enforcement equipment and conduct drug related investigations. The beginning balance on January 1, 2017 was $1,506. There receipts were $6,164 and disbursements were $2,370 during calendar year 2017. The ending balance as of December 31, 2017 was $5,300.

Note 8. Subsequent Events

The former sheriff retired on September 30, 2018 and a new sheriff was appointed by the county judge/executive on October 1, 2018.

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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 Logan Brent, Henry County Judge/Executive
The Honorable Danny Cravens, Former Henry County Sheriff
The Honorable Keith Perry, Henry County Sheriff
Members of the Henry 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 former Henry County Sheriff for the year ended December 31, 2017, and the related notes to the financial statement and have issued our report thereon dated May 16, 2019. The former Henry County Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statement, we considered the former Henry County Sheriff's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former Henry County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Henry County Sheriff's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

209 St. Clair Street
Frankfort, KY 40601-1817
Telephone 502.564.5841
Facsimile 502.564.2912
www.auditor.ky.gov

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the former Henry 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 are described in the accompanying Schedule of Findings and Responses as items 2017-001 and 2017-002.

Purpose of this Report

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

Respectfully submitted,

Mike Harmon
Auditor of Public Accounts

May 16, 2019

SCHEDULE OF FINDINGS AND RESPONSES

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HENRY COUNTY
DANNY CRAVENS, FORMER SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2017

STATE LAWS AND REGULATIONS:

2017-001 The Former Sheriff Overspent His Approved Budget

This is a repeat finding from the prior year audit as finding 2016-001. During our audit, we noted the former Henry County Sheriff's operating disbursements exceeded the budget approved by the Henry County Fiscal Court. The former Henry County Sheriff's operating disbursement's budget was not monitored throughout the year. The Henry County Fiscal Court approved the former sheriff's budget for operating disbursements of $687,288; however, the former sheriff expended $727,103.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Pursuant to KRS 68.210, the state local finance officer has prescribed minimum accounting and reporting standards in the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*. The state local finance officer requires the fiscal court to approve a calendar year budget for each fee office as a component of the county's budget preparation process by January 15 of each year.

We recommend the Henry County Sheriff's office monitor their budget throughout the year and request budget amendments as necessary from the fiscal court, before year end, as required by DLG.

Former Sheriff's Response: No response.

2017-002 The Former Sheriff Failed To Have A Written Agreement In Place To Ensure Deposits Were Sufficiently Collateralized

The former sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). The former sheriff failed to have a written security agreement in place to pledge or provide sufficient collateral. On October 31, 2017 and December 31, 2017, the former sheriff's deposits of public funds were uninsured and unsecured in the amount of $5,938,751 and $837,548, respectively.

The former sheriff was not in compliance with KRS requirements on having a written security agreement in place to pledge or provide sufficient collateral. The former sheriff's deposits would have been at risk on October 31, 2017 and December 31, 2017, should the financial institution have failed*:*

According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC).

We recommend the sheriff's office require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. Additionally, we recommend the sheriff's office enter into a written agreement with the depository institution to secure the sheriff's office interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (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

Former Sheriff's Response: No response.