

**REPORT OF THE AUDIT OF THE  
LAUREL COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2020**



**MIKE HARMON  
AUDITOR OF PUBLIC ACCOUNTS  
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**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable David Westerfield, Laurel County Judge/Executive  
The Honorable John Root, Laurel County Sheriff  
Members of the Laurel 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 Laurel County, Kentucky, for the year ended December 31, 2020, 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.

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The Honorable David Westerfield, Laurel County Judge/Executive  
The Honorable John Root, Laurel County Sheriff  
Members of the Laurel 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 Laurel 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 the Laurel County Sheriff, as of December 31, 2020, 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 Laurel County Sheriff for the year ended December 31, 2020, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2021, on our consideration of the Laurel 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 Laurel County Sheriff’s internal control over financial reporting and compliance.

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:

- 2020-001 The Laurel County Sheriff’s Office Did Not Have Strong Controls Over Disbursements
- 2020-002 The Laurel County Sheriff Did Not Have A Written Collateral Security Agreement With Depository Institution

Respectfully submitted,



Mike Harmon  
Auditor of Public Accounts

November 15, 2021

LAUREL COUNTY  
JOHN ROOT, SHERIFF  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2020

Receipts

Federal Grants:

US Marshall Service Agreement	\$ 4,334	
HIDTA Grant	28,033	
US Forest Service Agreement	11,253	
US Army Corps of Engineers Agreement	3,408	
Highway Safety Grant	<u>50,347</u>	\$ 97,375

State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF) 140,268

State Fees For Services:

Sheriff Security Service	125,856	
Finance and Administration Cabinet	15,731	
House Bill 452	37,212	
Cabinet For Health And Family Services	<u>10</u>	178,809

Circuit Court Clerk:

Fines and Fees Collected 25,612

Fiscal Court

Fiscal Court Support	927,840	
CSO Reimbursement	14,896	
Juvenile Transports	6,203	
CARES Reimbursement	<u>824,474</u>	1,773,413

County Clerk - Delinquent Taxes 85,850

Commission On Taxes Collected	793,776	
Telecommunication Commission	9,613	
Motel Tax Commission	<u>16,555</u>	819,944

Fees Collected For Services:

Auto Inspections	27,470	
Accident/Police Reports	6,646	
Serving Papers	92,576	
Carry Concealed Deadly Weapon Permits	18,640	
Restitution	565	
Transports	5,500	
School Resource Officer	<u>10,748</u>	162,145

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

LAUREL COUNTY  
 JOHN ROOT, SHERIFF  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2020  
 (Continued)

Receipts (Continued)

Other:

Add-On Fees	\$ 94,699	
Miscellaneous	<u>41,001</u>	\$ 135,700
Interest Earned		970
Borrowed Money:		
State Advancement		<u>400,000</u>
Total Receipts		3,820,086

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$ 1,297,978
Part-Time Salaries	114,775
Other Salaries	171,659
Overtime	95,582

Employee Benefits-

Employer's Share Social Security	129,447
Employer's Share Retirement	27,206
Employer's Share Unemployment Insurance	6,144
Employer Paid Health Insurance	252,692

Contracted Services-

GUTS Tax Program	1,545
Postage Meter	4,095
Copier	3,644

Materials and Supplies-

Office Materials and Supplies	11,627
Uniforms	97,247
Guns and Ammunition	34,540
Miscellaneous	35,801

Auto Expense-

Gasoline	107,506
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The accompanying notes are an integral part of this financial statement.





LAUREL COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2020

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 is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. This basis 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 2020 services
- Reimbursements for 2020 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2020

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).

LAUREL COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2020  
(Continued)

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

The sheriff's office has 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 2018 was \$23,509, calendar year 2019 was \$23,548, and calendar year 2020 was \$27,206.

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. Nonhazardous members also contribute 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 KRS Board of Directors 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 24.06 percent for the year.

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.

LAUREL COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2020  
 (Continued)

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 39.58 percent for the year.

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS 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:

<b>Years of Service</b>	<b>% Paid by Insurance Fund</b>	<b>% Paid by Member through Payroll Deduction</b>
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.

LAUREL COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2020  
 (Continued)

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

Other Post-Employment Benefits (OPEB) (Continued)

A. Health Insurance Coverage - Tier 1 (Continued)

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.

Benefits are covered under KRS 161.714 with exception of COLA and retiree health benefits after July 2003.

B. Health Insurance Coverage - Tier 2 and Tier 3 - Nonhazardous

Once members reach a minimum vesting period of 15 years, 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 by 1.5 percent. This was established for Tier 2 members during the 2008 Special Legislative Session by House Bill 1. During the 2013 Legislative Session, Senate Bill 2 was enacted, creating Tier 3 benefits for members.

The monthly insurance benefit has been increased annually as a 1.5 percent cost of living adjustment (COLA) since July 2003 when the law changed. The annual increase is cumulative and continues to accrue after the member's retirement.

Tier 2 member benefits are covered by KRS 161.714 with exception of COLA and retiree health benefits after July 2003. Tier 3 members are not covered by the same provisions.

C. Health Insurance Coverage - Tier 2 and Tier 3 - Hazardous

Once members reach a minimum vesting period of 15 years, earn fifteen 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 by 1.5 percent. 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 was established for Tier 2 members during the 2008 Special Legislative Session by House Bill 1. During the 2013 Legislative Session, Senate Bill 2 was enacted, creating Tier 3 benefits for members.

The monthly insurance benefit has been increased annually as a 1.5 percent COLA since July 2003 when the law changed. The annual increase is cumulative and continues to accrue after the member's retirement.

D. Cost of Living Adjustments - Tier 1

The 1996 General Assembly enacted an automatic cost of living adjustment (COLA) provision for all recipients of KRS benefits. During the 2008 Special Session, the General Assembly determined that each July beginning in 2009, retirees who have been receiving a retirement allowance for at least 12 months will receive an automatic COLA of 1.5 percent. The COLA is not a guaranteed benefit. If a retiree has been receiving a benefit for less than 12 months, and a COLA is provided, it will be prorated based on the number of months the recipient has been receiving a benefit.

LAUREL COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2020  
 (Continued)

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

Other Post-Employment Benefits (OPEB) (Continued)

E. Cost of Living Adjustments - Tier 2 and Tier 3

No COLA is given unless authorized by the legislature with specific criteria. To this point, no COLA has been authorized by the legislature for Tier 2 or Tier 3 members.

F. Death Benefit

If a retired member is receiving a monthly benefit based on at least 48 months of service credit, KRS will pay a \$5,000 death benefit payment to the beneficiary designated by the member specifically for this benefit. Members with multiple accounts are entitled to only one death benefit.

KRS Annual Financial Report and Proportionate Share Audit Report

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 proportionate share audit reports for both total pension liability and other post-employment benefits for CERS determined by actuarial valuation as well as each participating county's proportionate share. Both the Schedules of Employer Allocations and Pension Amounts by Employer and the Schedules of Employer Allocations and OPEB Amounts by Employer reports 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 Laurel County Sheriff maintained deposits of public funds with federally insure institutions as required by the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Manual*. The DLG Manual strongly recommends perfected pledges of securities covering all public funds except direct federal obligations and funds protected by federal insurance. In order to be perfected 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 Laurel County sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of DLG's *County Budget Preparation and State Local Finance Officer Manual*. On December 31, 2020, the sheriff's bank balance was exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured            \$1,678,103

LAUREL COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2020  
(Continued)

Note 4. Federal Agreements and Grants

- A. The Laurel County Sheriff's office entered into an agreement with the U.S. Army Corps of Engineers for the period of May 25, 2020 through May 24, 2021, for patrol services. During calendar year 2020, funds in the amount of \$3,408 were received and spent.
- B. The Laurel County Sheriff's office entered into an agreement with the USDA Forest Service for the period of April 1, 2020 through September 30, 2020, for patrol services. During calendar year 2020, grant funds in the amount of \$11,253 were received and spent.
- C. The Laurel County Sheriff's office was awarded a grant from the Appalachia High Intensity Drug Trafficking Area (HIDTA) program for the period of January 1, 2020 through December 31, 2020. During calendar year 2020, grant funds in the amount of \$28,033 were received and spent.
- D. The Laurel County Sheriff's office entered into an agreement with U.S. Marshals for the period of October 1, 2019 through September 30, 2020. During calendar year 2020, grant funds in the amount of \$4,334 were received and spent.
- E. The Laurel County Sheriff's office was awarded two Highway Safety grants from the Kentucky Transportation Cabinet's Office of Highway Safety during calendar year 2020.
- For the period of October 1, 2019 through September 30, 2020 funds in the amount of 36,937 were received and spent.
  - The sheriff received an additional grant for the period of October 1, 2020 through September 30, 2021. During calendar year 2020, grant funds in the amount of \$13,410 were received and spent, leaving a balance of \$61,442 to be carried forward to calendar year 2021.

Note 5. Short-term Debt

A. Direct Borrowing

1. State Advancement

During calendar year 2020, the sheriff's office borrowed \$400,000 under the state advancement program to defray necessary official expenses and to apply to the payment of the salaries of the sheriff or the sheriff's deputies and assistants from County Fees Systems Branch, Division of Local Government Services, Kentucky Finance and Administration Cabinet under KRS 64.140(1). Principal was due on or before January 15, 2021 at zero percent interest. In the event of default, the cabinet may obtain payment from the sheriff, his sureties, and the sheriff in his official capacity. The balance of the state advancement was paid in full from the 2020 fee account as of January 29, 2021.

B. Changes in Short-term Debt

	Beginning Balance	Additions	Reductions	Ending Balance
Direct Borrowings	\$	\$ 400,000	\$ 400,000	\$
Total Short-term Debt	<u>\$ 0</u>	<u>\$ 400,000</u>	<u>\$ 400,000</u>	<u>\$ 0</u>

LAUREL COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2020  
 (Continued)

Note 6. Lease Agreements

The Laurel County Sheriff's office was committed to the following lease agreements as of December 31, 2020:

Item Purchased	Monthly Payment	Term of Agreement	Ending Date	Principal Balance December 31, 2020
Postage Meter	\$ 297	48 Months	11/30/2022	\$ 7,128
Copier	257	63 Months	5/6/2023	7,453
Totals	<u>\$ 554</u>			<u>\$ 14,581</u>

Note 7. Federal Seizure Account

As of January 1, 2020, the Laurel County Sheriff's office had a balance of \$363,526 in the federal seizure account. During the calendar year, the sheriff's office received \$8,092 from federal agencies for the Laurel County Sheriff office's share of assets seized as a result of joint investigations with other local, state, and federal agencies. The account also received interest totaling \$670 during 2020. The sheriff's office expended \$242,252, leaving a balance of \$130,036 as of December 31, 2020. These funds are used to enhance law enforcement activities and not to supplant the sheriff's office normal operating budget; therefore, they are not included as a part of excess fees.

Note 8. Court Ordered Forfeiture Account

As of January 1, 2020, the Laurel County Sheriff's office had a balance of \$103,147 in the court ordered forfeitures account. During the calendar year, the sheriff received forfeitures of \$12,824, auction proceeds of \$34,112, and interest income of \$271. There were \$30,889 expenditures, leaving a balance of \$119,465 as of December 31, 2020. The use of these monies is determined by court order granting forfeiture funds to the sheriff's office; therefore, they are not included as part of excess fees.

Note 9. Fiduciary Account - Evidence Account

As of January 1, 2020, the Laurel County Sheriff's office had a balance of \$108,836 in the evidence account. During the calendar year, deposits of \$190,012 were made and disbursements of \$18,223 were made leaving a balance of \$280,625 as of December 31, 2020. Since these monies are held by the sheriff's office pending court adjudication, they are no included as part of excess fees.

Note 10. Donation Account

The Laurel County Sheriff's Office maintains a donation account for private and public donations to the sheriff's office. On January 1, 2020 the balance was \$13,965. During the calendar year 2020, the sheriff's office received \$1,468 for equipment, \$28 in interest earnings, and expenditures totaling \$14,675. The balance in the account was \$786 as of December 31, 2020.



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 David Westerfield, Laurel County Judge/Executive  
The Honorable John Root, Laurel County Sheriff  
Members of the Laurel 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 Laurel County Sheriff for the year ended December 31, 2020, and the related notes to the financial statement and have issued our report thereon dated November 15, 2021. The Laurel 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 Laurel County Sheriff's internal control over financial reporting (internal control) as a basis for designing 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 Laurel County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Laurel County Sheriff's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified a certain deficiency in internal control that we consider to be a material weakness.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2020-001 to be a material weakness.

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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*  
(Continued)

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Laurel 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 financial statement. 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 2020-001 and 2020-002.

**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,

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

Mike Harmon  
Auditor of Public Accounts

November 15, 2021

## SCHEDULE OF FINDINGS AND RESPONSES

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LAUREL COUNTY  
JOHN ROOT, SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2020

FINANCIAL STATEMENT FINDINGS:

2020-001 The Laurel County Sheriff's Office Did Not Have Strong Controls Over Disbursements

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Internal controls over disbursements were not operating as intended during calendar year 2020. The following exceptions were noted:

- The sheriff's office did not advertise for bids and spent over the bid threshold amount for the following: Uniforms from one vendor for \$96,480, emergency equipment for new police cruisers from one vendor in the amount of \$44,687, and the purchase of guns from two vendors in the amount of \$49,135.
- Three invoices were paid 30 days after the date on the invoice.

These deficiencies were allowed to occur due to lack of oversight and proper review of supporting documentation.

By limiting competition or not receiving bids at all, the sheriff's office may not get the benefits of the best price available. Competitive bidding ensures the sheriff's office procures equipment and services at the best price available.

KRS 424.260(1) states, in part, "[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 (\$30,000) without first making newspaper advertisement for bids."

KRS 65.140 requires "invoices to be paid within 30 days of being received."

We recommend the sheriff monitor disbursements to ensure procurement procedures are followed and implement proper internal controls over disbursements and ensure they are operating effectively.

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

LAUREL COUNTY  
JOHN ROOT, SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended December 31, 2020  
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2020-002 The Laurel County Sheriff Did Not Have A Written Collateral Security Agreement With Depository Institution

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The sheriff's bank account balances exceeded the \$250,000 FDIC coverage provided by his bank. The bank had obtained pledges for the sheriff's accounts, however, he did not have a pledge agreement making the pledges valid. On December 31, 2020, the sheriff's bank balances were \$1,928,103. FDIC coverage through his bank was \$250,000, leaving \$1,678,103 unsecured.

The sheriff and bookkeeper were unaware they needed to sign a written collateral security agreement for the new bank they started using during calendar year 2020.

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. \$1,678,103 of the sheriff's deposits were at risk with no agreement with the bank.

The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Manual* strongly recommends perfected pledges of securities covering all public funds except direct federal obligations and funds protected by FDIC insurance (\$250,000). In order to be perfected 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.

We recommend a pledge agreement be obtained from the bank for the bank account balances exceeding the \$250,000 FDIC coverage. If the bank is unable or unwilling to do this, then uncovered accounts should be moved to another bank that will meet the requirements.

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