

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

**For The Year Ended
December 31, 2017**



**MIKE HARMON
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable William Lewis, Leslie County Judge/Executive
The Honorable Delano Huff, Former Leslie County Sheriff
The Honorable Billy Michael Collett, Leslie County Sheriff
Members of the Leslie 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 Leslie 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.

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The Honorable William Lewis, Leslie County Judge/Executive
The Honorable Delano Huff, Former Leslie County Sheriff
The Honorable Billy Michael Collett, Leslie County Sheriff
Members of the Leslie 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 Leslie 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 Leslie 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 Leslie 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 January 16, 2019, on our consideration of the former Leslie 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 Leslie County Sheriff's internal control over financial reporting and compliance.

The Honorable William Lewis, Leslie County Judge/Executive
The Honorable Delano Huff, Former Leslie County Sheriff
The Honorable Billy Michael Collett, Leslie County Sheriff
Members of the Leslie County Fiscal Court

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

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

- 2017-001 The Former Leslie County Sheriff's Office Did Not Issue Receipts For All Auto Inspections And A Deputy Sheriff Received Third Party Compensation For Performing Official Duties
- 2017-002 The Former Leslie County Sheriff's Quarterly Report Was Materially Inaccurate
- 2017-003 The Former Leslie County Sheriff's Office Lacked Adequate Segregation Of Duties Over Receipts, Disbursements, And Reconciliations
- 2017-004 The Former Leslie County Sheriff Has Not Received Telecommunications Tax Commissions Due To His Fee Account
- 2017-005 The Former Leslie County Sheriff Has Not Settled 2016 Fee Account Receivables And Liabilities
- 2017-006 The Former Leslie County Sheriff Has Not Settled 2015 Fee Account Receivable And Liability Due Per Audit

Respectfully submitted,

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

Mike Harmon
Auditor of Public Accounts

January 16, 2019

LESLIE COUNTY
 DELANO HUFF, FORMER SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2017

Receipts

| | | |
|---|--------------|---------------|
| Federal Grants | \$ | 15,095 |
| State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF) | | 5,254 |
| State Fees For Services: | | |
| Sheriff Security Service | \$ 1,122 | |
| Cabinet For Health And Family Services | <u>299</u> | 1,421 |
| Circuit Court Clerk: | | |
| Fines and Fees Collected | | 2,429 |
| Fiscal Court | | 25,648 |
| County Clerk - Delinquent Taxes | | 19,938 |
| Commission On Taxes Collected | | 131,166 |
| Fees Collected For Services: | | |
| Auto Inspections | 3,631 | |
| Accident and Police Reports | 345 | |
| Arrest Fees | 661 | |
| Serving Papers | 8,510 | |
| Carry Concealed Deadly Weapon Permits | 2,220 | |
| AOC Fees | <u>2,020</u> | 17,387 |
| Other: | | |
| Telecommunications Commissions | 3,074 | |
| Add-On Fees | 18,644 | |
| Miscellaneous | <u>967</u> | 22,685 |
| Borrowed Money: | | |
| State Advancement | | <u>30,000</u> |
| Total Receipts | | 271,023 |

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

LESLIE COUNTY
 DELANO HUFF, 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 | \$ | 51,814 |
| Other Salaries | | 27,519 |
| Overtime | | 4,447 |
| Contracted Services- | | |
| Data Expense | | 5,520 |
| Contract Labor | | 56 |
| Materials and Supplies- | | |
| Office Materials and Supplies | | 3,226 |
| Uniform and Equipment | | 3,702 |
| Auto Expense- | | |
| Maintenance and Repairs | | 8,275 |
| Other Charges- | | |
| Dues | | 456 |
| Postage | | 9,972 |
| Training | | 458 |
| Transport | | 174 |
| Service Charge | | 115 |
| Reimbursement | | 1,410 |
| Capital Outlay- | | |
| Office Equipment | | 2,395 |
| | \$ | 119,539 |
| Debt Service: | | |
| State Advancement | | 30,000 |
| Total Disbursements | | <u>\$ 149,539</u> |
| Net Receipts | | 121,484 |
| Less: Statutory Maximum | | <u>83,059</u> |
| Excess Fees Due Fiscal Court At Completion Of Audit | | <u>\$ 38,425</u> |

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

LESLIE 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.

LESLIE COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2017
 (Continued)

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

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.

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.

LESLIE COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2017
 (Continued)

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

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

Note 3. Deposits

The former Leslie 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 former sheriff's deposits may not be returned. The former Leslie County Sheriff does 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 November 7, 2017, and December 31, 2017, the former sheriff's bank balance was exposed to custodial credit risk because the bank did not adequately collateralize the former sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured (November 1, 2017) \$1,577,376
- Uncollateralized and Uninsured (December 31, 2017) \$20,769

Note 4. Lease Agreements

The former Leslie County Sheriff's office was committed a lease agreement for a copier. The agreement requires a monthly payment of \$199 for 36 months to be completed on September 1, 2018. The total remaining balance of the agreement was \$1,597, as of December 31, 2017.

Note 5. Federal Grant

The former Leslie County Sheriff's office entered into a cooperative agreement with the U.S. Army Corps of Engineers for law enforcement service at Buckhorn Lake for the period of May 1, 2017 through September 30, 2017. The sheriff received payroll reimbursements totaling \$15,095, during the calendar year.

Note 6. Subsequent Events

Subsequent to the financial statement date of December 31, 2017, a former sheriff's deputy of the Leslie County Sheriff's office was indicted on charges of theft of over \$10,000. Both the former and current sheriff are aware of the charges. Adjustments to the financial statement for the period ending December 31, 2017, were not necessary.

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 William Lewis, Leslie County Judge/Executive
The Honorable Delano Huff, Former Leslie County Sheriff
The Honorable Billy Michael Collett, Leslie County Sheriff
Members of the Leslie 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 Leslie County Sheriff for the year ended December 31, 2017, and the related notes to the financial statement and have issued our report thereon dated January 16, 2019. The former Leslie 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 Leslie 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 Leslie County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Leslie County Sheriff's internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2017-001, 2017-002, and 2017-003 to be material weaknesses.

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Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards*
(Continued)

Internal Control over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2017-004 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the former Leslie 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2017-001, 2017-002, 2017-005, and 2017-006.

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

January 16, 2019

SCHEDULE OF FINDINGS AND RESPONSES

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LESLIE COUNTY
DELANO HUFF, FORMER SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2017

FINANCIAL STATEMENT FINDINGS:

2017-001 The Former Leslie County Sheriff's Office Did Not Issue Receipts For All Auto Inspections And A Deputy Sheriff Received Third Party Compensation For Performing Official Duties

This is a repeat finding that was included in the prior year audit report as 2016-002 with additional related findings for the period of January 1, 2017 through December 31, 2017.

The former sheriff's office collected fees for inspecting vehicles during the title application process. Auto inspection fees are \$5 per vehicle if the inspection is performed at the sheriff's office or \$15 for the first inspection and \$5 for each subsequent inspection if the inspection is performed off-site. These funds are to be deposited into the sheriff's official account and used for the lawful purposes of the office.

The former sheriff and bookkeeper informed auditors that a deputy had turned in \$400 cash subsequent to calendar year 2017. The deputy stated the money was collected for auto inspections performed during a furlough period between April 2017 and October 2017 when all of the former sheriff's paid deputies were laid off. The deputy stated the money was for auto inspections that he had kept in his police cruiser and forgotten about.

Two Perry County auto dealerships confirmed that amounts of \$5,829 and \$551 that were paid by check directly to the deputy for auto inspections during calendar year 2017. These funds were not deposited into the former sheriff's fee account. The deputy's endorsement is on the cancelled checks provided by the dealerships. In addition to the checks written to the former Leslie County sheriff's deputy, the dealerships also wrote checks to the former Leslie County sheriff's office for vehicle inspection fees totaling \$475 and \$1,085. The dealership stated that the deputy charged \$15 for the first inspection and \$10 for additional inspections. The amount charged for additional inspections is \$5 more than allowed per statute.

Based on a five day sample of records from the Perry County clerk's office, the same Leslie County deputy performed at least 18 additional auto inspections in Perry County in 2017 and only two receipts were traced back to deposits of the former sheriff's fee account, leaving an estimated \$80 that was not deposited into the former Leslie County sheriff's fee account. When performing auto inspections in Perry County, the deputy would sign the auto inspection as a deputy of Perry County. Perry County sheriff's office payroll records do not have this deputy included as a Perry County deputy.

During May 2017, the former Leslie County sheriff's deputies performed 37 auto inspections based on records filed with Leslie County Clerk's Office. Eight receipts for auto inspections were deposited into the former sheriff's fee account, leaving 29 receipts for auto inspections unaccounted for, and an estimated \$145 that was not deposited into the former Leslie County sheriff's fee account for the month of May 2017.

The former sheriff acknowledged that the deputy brought in cash for auto inspections. It is unknown if the former sheriff was aware that the deputy was receiving direct compensation for performing auto inspections. The auto dealership would contact the deputy directly when they needed auto inspections performed.

The former sheriff's office did not have internal controls in place to ensure that receipts were issued for all auto inspections or that fees were deposited.

Because a former sheriff's deputy was receiving outside compensation for performing normal duties, performing auto inspections in another county, and receipts were not being properly issued, the former sheriff's office is not in compliance with state laws and regulations. Based on the confirmed amount paid directly to the former sheriff's deputy, the former sheriff could have also overcharged for services.

LESLIE COUNTY
 DELANO HUFF, FORMER SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2017
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-001 The Leslie County Sheriff's Office Did Not Issue Receipts For All Auto Inspections And A Deputy Sheriff Received Third Party Compensation For Performing Official Duties (Continued)

The former sheriff's deputy received \$6,380 during calendar year 2017 directly from auto dealerships. In addition, \$145 for auto inspections performed during May 2017 were not deposited into the former Leslie County sheriff's fee account. A larger amount may have been due to the fee account if additional months were examined.

KRS 61.310(2) states in part, "[a] peace officer shall not receive any compensation or remuneration, directly or indirectly, from any person for the performance of any service or duty. . . Any peace officer who violates this subsection may be removed from office, under the provisions of KRS 63.170."

KRS 64.410(2) states in part, "[n]o officer shall demand or receive for his services: (a) Any other or greater fee than is allowed by law[.]"

KRS 186A.115(2)(b) sets the fee for automobile inspections at \$5, payable to the sheriff's office. KRS 186A.115(c) states, "[t]here shall be an additional fee of ten dollars (\$10) per trip when it becomes necessary for the certified inspector to travel to the site of the vehicle rather than bringing the vehicle to the sheriff's inspection area[.]" In addition, KRS 64.840(1) requires, "all county officials shall, upon the receipt of any fine, forfeiture, tax, or fee, [to] prepare a receipt that meets the specifications of the state local finance officer[.]"

KRS 186A.115(1)(a) states the vehicle is to be inspected, "by a certified inspector in the county in which the application for title is to be submitted to the county clerk." KRS 186A.115(2)(a) states, [t]he certified inspector shall be certified through the Department of Vehicle Regulation. . . and shall be designated by the county sheriff." 601 KAR 9:085 and 9:090 require that the inspection occur in the county where the application is submitted and by an inspector designated by that county's sheriff.

The former sheriff should have implemented internal controls to ensure that all receipts of the office were deposited into the fee account, deputies only complete auto inspections where they have jurisdiction, and deputies should not receive compensation from third parties for normal duties. We recommend the former sheriff deposit personal funds of \$145 to the 2017 fee account for the auto inspections not deposited. This finding will be referred to the Kentucky Office of the Attorney General.

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

2017-002 The Former Leslie County Sheriff's Quarterly Report Was Materially Inaccurate

This is a repeat finding that was included in the prior year audit report as 2016-001. The former sheriff's fourth quarter report was not an accurate representation of the financial activity of the former sheriff's office for calendar year 2017. Multiple items were incorrectly classified and had to be adjusted to correct account classifications in order for the report to be accurate. In total, the receipts were misstated by \$327,986 and the disbursements were misstated by \$302,151. The fourth quarter report should accurately detail all of the fees collected and disbursed from the former sheriff's fee account.

The former sheriff's bookkeeper did not accurately post transactions to correct line items in the bookkeeping software. As a result, the fourth quarter report was materially inaccurate.

LESLIE COUNTY
 DELANO HUFF, FORMER SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2017
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-002 The Former Leslie County Sheriff's Quarterly Report Was Materially Inaccurate (Continued)

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 *County Budget Preparation and State Local Finance Officer Policy Manual*.

Additionally, KRS 43.075(3) states in part, "[t]he uniform audit standards and procedures promulgated by the Auditor shall include but need not be limited to the requirement that each person performing an audit shall determine whether the fiscal court or county official is complying with the requirements of the uniform system of accounts adopted under KRS 68.210, whether there is accurate recording of receipts by source and expenditures by payee[.]"

The former sheriff should have ensured all postings to the bookkeeping software are accurate and reviewed the fourth quarter financial report for accuracy. We recommend the sheriff's office ensure postings are accurate and reports are reviewed for accuracy.

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

2017-003 The Former Leslie County Sheriff's Office Lacked Adequate Segregation Of Duties Over Receipts, Disbursements, And Reconciliations

This is a repeat finding that was included in the prior year audit report as finding 2016-003. The former sheriff's office lacked adequate segregation of duties over receipts, disbursements, and bank reconciliations. The bookkeeper may collect and issue receipts, prepare the daily checkout sheet, and prepare the daily deposit. The bookkeeper may also prepare the daily checkout sheet, post to the receipts ledger, prepare and sign disbursements, and prepare the monthly bank reconciliations.

The lack of adequate segregation of duties within the former sheriff's office was the result of limited staff size which prevented the former sheriff from segregating accounting duties to different individuals within the former sheriff's office. Lack of segregation of duties could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the Department for Local Government.

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

The former sheriff, or his designee, should have implemented compensating controls to limit the severity of the lack of adequate segregation of duties. Examples of the compensating controls include:

- The former sheriff or his designee could have periodically recounted and deposited cash receipts. This review could have been documented by initialing the daily checkout sheet and deposit ticket.
- The former sheriff could have reviewed supporting documentation for all disbursements. This review could have been documented by initialing the invoice.
- The former sheriff could have required two signatures on all checks, including the former sheriff's signature.

LESLIE COUNTY
DELANO HUFF, FORMER SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2017
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-003 The Former Leslie County Sheriff's Office Lacked Adequate Segregation of Duties Over Receipts, Disbursements, And Reconciliations (Continued)

- The former sheriff could have received bank statements unopened, and reviewed for any unusual items prior to giving them to the individual performing the bank reconciliations.

We recommend the sheriff's office implement compensating controls to mitigate the risk of lack of segregation of duties.

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

2017-004 The Former Leslie County Sheriff Has Not Received Telecommunication Tax Commissions Due To His Fee Account

Every month, the Kentucky Department of Revenue electronically deposits funds totaling \$256 into a fee account of the former sheriff for telecommunication tax commissions. These funds are due to the current sheriff and could be used to operate his office.

The former sheriff has not followed up with the Kentucky Department of Revenue to instruct them to direct these funds to an account maintained by the current sheriff.

As a result, 12 monthly payments totaling \$3,074 were not received by the former sheriff, and are now due to the fiscal court as excess fees. These funds could have been used for the other lawful purposes of the former sheriff's office.

Good internal controls require the former sheriff make efforts to collect funds due to his office for the operation of his office.

We recommend the former sheriff contact the Kentucky Department of Revenue to resolve the situation and contact the former sheriff to have the funds deposited into his account written over to the current sheriff.

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

LESLIE COUNTY
 DELANO HUFF, FORMER SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2017
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-005 The Former Leslie County Sheriff Has Not Settled 2016 Fee Account Receivables and Liabilities

The following 2016 fee audit receivables and liabilities have not been properly settled:

Assets

| | | |
|---|----------|----------|
| Cash in Bank | | \$ 6,131 |
| Uncollected Receivables: | | |
| Disallowed Payroll Costs - Due From Sheriff | \$ 7,887 | |
| Due from 2017 Fee Account - December 2016 Delinquent Tax | 148 | |
| Due from Paul Howard 2011 Fee Account - Telecommunications | | |
| Commissions | 1,537 | |
| Due Personally from Sheriff - Auto Inspections | 65 | |
| Due from Tax Account - November 2016 Commissions | 5,636 | |
| Due back from Bank or Personally from Sheriff for 2017 Bank | | |
| Service Fees | 38 | 15,311 |
| | | <hr/> |
| Total Assets | | 21,442 |

Liabilities

| | | |
|--|--|-----------|
| Unpaid Obligations: | | |
| Due to 2017 Tax Account | | 4,544 |
| Due to 2017 Fee Account (Army Corp of Engineers) | | 6,063 |
| | | <hr/> |
| Total Liabilities | | 10,607 |
| | | <hr/> |
| Due to Fiscal Court as 2016 Excess Fees | | \$ 10,835 |
| | | <hr/> |

The former sheriff's bookkeeper failed to settle the 2016 fee account amounts and the former sheriff did not have any controls in place to ensure the 2016 fee account was properly settled. As a result of not settling the account, money due to the county that can be used for expenses of the county, has not been turned over to them.

KRS 134.192(12) states in part, "the sheriff shall pay to the governing body of any county any fees, commissions, and other income of his or her office[.]" The former sheriff did not receive the payments noted above and did not personally deposit funds to cover the deficit amount noted. As a result, the former sheriff did not collect the funds necessary to pay excess fees over to the fiscal court.

We recommend the former sheriff personally deposit \$7,952 to the 2016 fee account. After this deposit is made, the former sheriff should deposit the receivables identified above and remit remaining liabilities to the fiscal court in order to properly settle all receivables and liabilities.

LESLIE COUNTY
 DELANO HUFF, FORMER SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2017
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-005 The Former Leslie County Sheriff Has Not Settled 2016 Fee Account Receivables and Liabilities
 (Continued)

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

2017-006 The Former Leslie County Sheriff Has Not Settled 2015 Fee Account Receivables and Liabilities
 Due Per Audit

The following 2015 fee audit receivable and liability has not been properly settled:

| | |
|-----------------------------------|-------------|
| Beginning Balance | \$ 0 |
| Receivables: | |
| Tax Commissions | 13,151 |
| Liabilities: | |
| 2015 Excess Fees Due Fiscal Court | 13,151 |
| Ending Balance | <u>\$ 0</u> |

The former sheriff's bookkeeper failed to settle the 2015 fee account amounts and the former sheriff did not have any controls in place to ensure it was properly settled. As a result of not settling the amounts, money due to the county that can be used for expenses of the county, has not been turned over to them.

KRS 134.192(12) states in part, "the sheriff shall pay to the governing body of any county any fees, commissions, and other income of his or her office[.]" The former sheriff did not receive tax commissions as noted above to settle the 2015 fee account. As a result, the former sheriff did not collect the funds necessary to pay excess fees over to the fiscal court.

We recommend the former sheriff deposit the receivable identified above and remit remaining 2015 excess fees to the fiscal court.

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

