

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

**For The Year Ended
December 31, 2018**



**MIKE HARMON
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Harold Stilts, Metcalfe County Judge/Executive
The Honorable Rondal Shirley, Former Metcalfe County Sheriff
The Honorable Lonnie Hodges, Metcalfe County Sheriff
Members of the Metcalfe 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 Metcalfe County, Kentucky, for the year ended December 31, 2018, 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 Harold Stilts, Metcalfe County Judge/Executive
The Honorable Rondal Shirley, Former Metcalfe County Sheriff
The Honorable Lonnie Hodges, Metcalfe County Sheriff
Members of the Metcalfe 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 Metcalfe 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 former Metcalfe County Sheriff, as of December 31, 2018, 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 Metcalfe County Sheriff for the year ended December 31, 2018, 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 14, 2019, on our consideration of the former Metcalfe 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 Metcalfe County Sheriff's internal control over financial reporting and compliance.

The Honorable Harold Stilts, Metcalfe County Judge/Executive
The Honorable Rondal Shirley, Former Metcalfe County Sheriff
The Honorable Lonnie Hodges, Metcalfe County Sheriff
Members of the Metcalfe 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:

- 2018-001 The Former Metcalfe County Sheriff Had \$83 In Disallowed Disbursements
- 2018-002 The Metcalfe County Sheriff's Office Lacked Adequate Segregation Of Duties Over Recording, Reporting, And Reconciliations
- 2018-003 The Former Metcalfe County Sheriff's Fourth Quarter Financial Report Was Inaccurate

Respectfully submitted,

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

Mike Harmon
Auditor of Public Accounts

November 14, 2019

METCALFE COUNTY
 RONDAL SHIRLEY, FORMER SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2018

Receipts

State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)	\$	25,403
State Fees For Services:		
Finance and Administration Cabinet	\$	70,619
Sheriff Security Service		6,001
Cabinet For Health And Family Services		4,705
		81,325
Circuit Court Clerk:		
Fines and Fees Collected		1,179
Fiscal Court		109,211
County Clerk - Delinquent Taxes		11,798
Commission On Taxes Collected		172,046
Fees Collected For Services:		
Auto Inspections		3,085
Accident and Police Reports		814
Serving Papers		19,246
Carry Concealed Deadly Weapon Permits		7,210
		30,355
Other:		
Add-On Fees		13,940
Metcalfe County Schools - School Resource Officer		20,000
Miscellaneous		585
		34,525
Interest Earned		160
Borrowed Money:		
State Advancement		39,217
		39,217
Total Receipts		505,219

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

METCALFE COUNTY
 RONDAL SHIRLEY, FORMER SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2018
 (Continued)

Disbursements

Operating Disbursements:

Personnel Services-

Deputies' Gross Salaries	\$ 106,865
Part Time Gross Salaries	50,670
Office Clerk's Gross Salaries	43,917
School Resource Officer Gross Salary	27,428
KLEFPF Gross Salaries	19,666
Former Sheriff's Salary Calendar Year 2017-	
Underpayment Statutory Maximum	181
Payments To IRS For Calendar Year 2017	856
Penalties and Interest To Department of Revenue	83

Employee Benefits-

Employer's Share Social Security	25,506
Employer's Share KLEFPF Retirement	3,906

Contracted Services-

Advertising	136
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Materials and Supplies-

Office Materials and Supplies	3,526
Uniforms	2,704

Auto Expense-

Gasoline	19,389
Maintenance and Repairs	6,259

Other Charges-

HB 577	4,705
Dues	365
Postage	1,678
Employee Training	844
Carry Concealed Deadly Weapon Permits	1,150
Miscellaneous	1,833
	\$ 321,667

Debt Service:

State Advancement	39,217
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Total Disbursements \$ 360,884

Less: Disallowed Disbursements -

Penalties and Interest To Department of Revenue	83
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Total Allowable Disbursements 360,801

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

METCALFE COUNTY
 RONDAL SHIRLEY, FORMER SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2018
 (Continued)

Net Receipts	\$ 144,418
Less: Statutory Maximum*	<u>80,674</u>
Excess Fees	63,744
Less: Training Incentive Benefit	<u>4,137</u>
Excess Fees Due County for 2018	59,607
Payment to Fiscal Court - March 11, 2019	<u>59,461</u>
Balance Due Fiscal Court at Completion of Audit**	<u>\$ 146</u>

* - The former sheriff's statutory maximum for calendar year 2018 was \$80,674 as noted above. The former sheriff was paid \$80,732 during calendar year 2018 resulting in \$58 due to the fiscal court at the completion of the audit. The additional \$88 due to the fiscal court at the completion of the audit is a result of bank balance of \$5 and disallowed disbursements of \$83.

** - The former sheriff reimbursed the 2018 fee account \$141 from personal funds on October 2, 2019 and presented a check in the amount of \$146 to the fiscal court for excess fees on October 4, 2019.

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2018

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 2018 services
- Reimbursements for 2018 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2018

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).

METCALFE COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2018
 (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 office contribution for retirement on KLEFP salaries for calendar year 2016 was \$2,479, calendar year 2017 was \$3,685, and calendar year 2018 was \$3,906.

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 19.18 percent for the first half of the year and 21.48 percent for the second half of 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:

METCALFE COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2018
 (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)

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.

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. 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.

METCALFE COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2018
 (Continued)

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

Other Post-Employment Benefits (OPEB) (Continued)

D. 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.

E. 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 former Metcalfe 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 former 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 Metcalfe County Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 66.480(1)(d) and KRS 41.240. As of December 31, 2018, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of December 7, 2018, public funds were 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 \$649,673

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2018
(Continued)

Note 4. Drug Eradication Account

The Metcalfe County Sheriff's office maintains a drug eradication account, which is funded by proceeds from the confiscation, surrender, or sale of real and personal property involved in drug related convictions. These funds are to be used for law enforcement activities. The balance in this account on January 1, 2018, was \$440. During calendar year 2018, receipts of this account were \$906 and disbursements were \$1,187, leaving a balance of \$159, as of December 31, 2018. The former sheriff transferred this balance to incoming Sheriff Ricky Brooks on January 1, 2019.

Note 5. Donation Account

The Metcalfe County Sheriff's office maintains a donation account, which is used to account for donations of money or goods to be used for public purposes of the sheriff's office. The balance in this account on January 1, 2018, was \$50. During calendar year 2018, this account had no receipts and no disbursements, leaving a balance of \$50, as of December 31, 2018. The former sheriff transferred this balance to incoming Sheriff Ricky Brooks on January 1, 2019.

Note 6. Subsequent Events

The former Sheriff Rondal Shirley retired on December 31, 2018. The Metcalfe County Judge/Executive appointed Ricky Brooks as the new sheriff on January 1, 2019. The former Sheriff Ricky Brooks passed away August 3, 2019. The Metcalfe County Judge/Executive appointed Lonnie Hodges as sheriff on August 7, 2019. Then Lonnie Hodges was elected sheriff during the general election on November 5, 2019 with his term beginning on November 15, 2019.

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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 Harold Stilts, Metcalfe County Judge/Executive
The Honorable Rondal Shirley, Former Metcalfe County Sheriff
The Honorable Lonnie Hodges, Metcalfe County Sheriff
Members of the Metcalfe 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 Metcalfe County Sheriff for the year ended December 31, 2018, and the related notes to the financial statement and have issued our report thereon dated November 14, 2019. The former Metcalfe 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 Metcalfe 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 Metcalfe County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Metcalfe 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 2018-002 and 2018-003 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 2018-001 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the former Metcalfe 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Views of Responsible Official and Planned Corrective Action

The former Metcalfe County Sheriff's views and planned corrective action for the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The former Metcalfe Sheriff's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

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

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

November 14, 2019

SCHEDULE OF FINDINGS AND RESPONSES

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METCALFE COUNTY
 RONDAL SHIRLEY, FORMER SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2018

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2018-001 The Former Metcalfe County Sheriff Had \$83 In Disallowed Disbursements

The former Metcalfe County Sheriff paid \$83 in penalties and interest to the Kentucky Department of Revenue during calendar year 2018. These charges are not necessary disbursements in the operation of the former sheriff's office. The former sheriff's bookkeeper stated that a problem with the system of the former sheriff's office in March 2018 prevented her from submitting the payment for state payroll taxes timely for February 2018 resulting in penalties and interest of \$29. She also stated that they were unable to submit state payroll taxes timely for July 2018 due to the state's online system not working correctly in August 2018 resulting in penalties and interest of \$54. Paying penalties and interest which were not necessary or beneficial to the public reduced the amount of operating funds for the former sheriff's office and also reduced the amount of excess fees paid to the fiscal court.

In Funk v. Milliken, 317 S.W.2d 499 (Ky. 1958), Kentucky's highest court ruled that county fee officials' disbursements of public funds will be allowable only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not primarily personal in nature. Good internal controls dictate the sheriff's office should monitor disbursements to ensure compliance with state laws and regulations and to ensure payments are timely to avoid penalties and interest charges.

The former sheriff reimbursed the 2018 fee account \$83 from personal funds for disallowed disbursements on October 2, 2019. This amount was turned over to the fiscal court as additional excess fees from 2018 on October 4, 2019. We recommend the sheriff's office monitor disbursements to ensure all disbursements are for allowable purposes.

Former Sheriff's Response: There was a problem with the computer system at the former Sheriff's office in March 2018 and also with the reporting site in August 2018. We have sent a request to have these fees waived and when the Sheriff's Office receives this credit the former Sheriff will be reimbursed for the amount he has paid out of pocket. We have learned as a result of this that payments can be made over the phone in the event that this happens again.

INTERNAL CONTROL - MATERIAL WEAKNESSES:

2018-002 The Metcalfe County Sheriff's Office Lacked Adequate Segregation Of Duties Over Recording, Reporting, And Reconciliations

This is a repeat finding and was included in the prior year audit report as finding 2017-003. The Metcalfe County Sheriff's office lacked adequate segregation of duties over the recording, reporting, and reconciling process. The former sheriff's office manager/bookkeeper collected receipts, prepared deposits, prepared daily checkout sheets, prepared and signed checks, and prepared payroll. In addition, she posted to the receipts and disbursements ledgers, prepared financial statements and monthly reports, and reconciled the monthly bank statements. However, no review of the ledgers, monthly reports, bank reconciliations or payroll reports was documented.

The lack of segregation of duties occurred because the former sheriff failed to segregate incompatible duties. A lack of oversight could have resulted in undetected misappropriation of assets or inaccurate financial reporting to external agencies such as Department for Local Government.

METCALFE COUNTY
 RONDAL SHIRLEY, FORMER SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2018
 (Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES: (Continued)

2018-002 The Metcalfe County Sheriff's Office Lacked Adequate Segregation Of Duties Over Recording, Reporting, And Reconciliations (Continued)

Adequate segregation of duties over accounting functions would prevent the same person from having a significant role in multiple accounting functions such as preparing deposits, preparing payroll, posting to the receipts and disbursements ledgers, preparing monthly and quarterly reports, and preparing monthly bank reconciliations. The sheriff can implement oversight when duties cannot be segregated.

We recommend the sheriff's office segregate duties over preparation of ledgers, preparation of monthly reports, and preparation of monthly bank reconciliations. If segregation of duties is not feasible due to lack of staff, then strong oversight over those areas should occur and involve an employee not currently performing any of those functions. Additionally, the sheriff could provide this oversight. The individual providing the oversight should initial the source document as evidence of the review.

Former Sheriff's Response: Although the staff is small the bookkeeper indicates that the office is currently adding more over sights to their routine. Although we have been checking and rechecking each other's work we have failed to always initial as evidence to the review. Every ledger, monthly reports, bank statements and also the budget quarterly's and final budget will be checked, rechecked and initialed to comply with this recommendation.

2018-003 The Former Metcalfe County Sheriff's Fourth Quarter Financial Report Was Inaccurate

This is a repeat finding and was included in the prior year audit report as finding 2017-004. The former Metcalfe County Sheriff's fourth quarter financial report was not accurate. The fourth quarter financial report was not reconciled to the receipts and disbursements ledgers or reviewed for accuracy prior to submission to the Department for Local Government (DLG) or the Metcalfe County Fiscal Court. Therefore, total receipts and disbursements per the fourth quarter financial report were not accurate. The following deficiencies were noted:

- Reclassifications were necessary to correct the receipts and disbursements on the quarterly report totaling \$15,411 and \$24,229, respectively.
- Receipts and disbursements were not included on the fourth quarter financial report totaling \$5,630 and \$8,988, respectively.
- Receipts and disbursements were overstated on the fourth quarter financial report due to incorrectly reporting amounts totaling \$31,966 and \$4, respectively.

The reclassifications and errors resulted from a lack of oversight over the financial recording process and preparation of the fourth quarter financial report. Although the fourth quarter financial report was signed by the former sheriff and the county judge/executive, it was inaccurate. Also, no documented review of comparing the fourth quarter financial report to the receipts and disbursements ledgers was noted. The lack of oversight could result in undetected misappropriation of assets or inaccurate financial reporting to external agencies such as DLG and the fiscal court.

Good internal controls dictate that oversight over all aspects of the financial reporting process be implemented to ensure accuracy. Strong internal controls over financial reporting are vital in ensuring the financial reports of the sheriff's office accurately reflect the financial activity of the sheriff's office. These controls should include an individual independent of the accounting function reviewing the financial reports and comparing amounts reported to the amounts on the ledgers.

METCALFE COUNTY
RONDAL SHIRLEY, FORMER SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2018
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES: (Continued)

2018-003 The Former Metcalfe County Sheriff's Fourth Quarter Financial Report Was Inaccurate
(Continued)

We recommend the sheriff's office implement stronger internal controls over the financial reporting process to ensure amounts reported on the quarter financial reports are accurate. Internal controls such as a thorough review of quarterly financial reports by someone independent of the accounting function can help detect misstatements and errors that have occurred. This review should include tracing transactions posted to the receipts and disbursements ledgers to actual bank statement transactions. It should also include agreeing book balances between the quarterly financial reports and bank reconciliations, agreeing bank balances per the bank statements to the quarterly financial reports and bank reconciliations, checking for mathematical accuracy, and verification of bank reconciliation amounts. Ledgers should also be reviewed to verify transactions have been recorded to the correct account codes. Once the ledgers and reconciliations are deemed accurate, the reviewer should document that fact and submit the review to the sheriff for approval. By implementing these procedures, the sheriff's office can strengthen its internal control system, and help ensure accurate financial reporting.

Former Sheriff's Response: It should be noted that the monthly bank statements and the quarterly budget reporting were accurate and balanced to the bank statements. The final 4th Quarter errors in reporting were due partially to an operation system failure that occurred when we moved from our former office into the new office and although that is only part of the cause all the reports were lost and had to be manually reentered into the system which resulted in the errors noted. As indicated above stronger oversight measures are being put into place and all reports will be checked and double checked. Every report will be initialed by the preparer and the reviewer.