



Auditor of Public Accounts
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Harmon Releases Audit of Powell County Sheriff's Office

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2016 financial statement of Powell County Sheriff Danny Rogers. State law requires the auditor to annually audit the accounts of each county sheriff. In compliance with this law, the auditor issues two sheriff's reports each year: one reporting on the audit of the sheriff's tax account, and the other reporting on the audit of the fee account used to operate the office.

Auditing standards require the auditor's letter to communicate whether the financial statement presents fairly the receipts, disbursements, and excess fees of the Powell County Sheriff in accordance with accounting principles generally accepted in the United States of America. The sheriff's financial statement did not follow this format. However, the sheriff's financial statement is fairly presented in conformity with the regulatory basis of accounting, which is an acceptable reporting methodology. This reporting methodology is followed for all 120 sheriff audits in Kentucky.

As part of the audit process, the auditor must comment on noncompliance with laws, regulations, contracts, and grants. The auditor must also comment on material weaknesses involving the internal control over financial operations and reporting.

The audit contains the following comments:

The sheriff was not involved in the daily financial activities of his office: This is a repeat finding and was included in the prior year audit report as Finding 2015-001. The sheriff was not involved in the financial daily activities of his office. Numerous weaknesses in the control environment of the Powell County Sheriff's office significantly increase the risk of fraud and misappropriation of funds, and decrease the accuracy of records provided.

This condition is a result of poorly designed policies and procedures; inconsistent, incomplete, and inaccurate implementation of controls; and lack of management oversight and involvement. The noted weaknesses, such as inadequate segregation of duties and inaccurate or incomplete financial reports and ledgers, could affect the sheriff's ability to ensure that financial data is recorded, processed, and reported in an accurate and reliable manner. This impacts the sheriff's ability to ensure that assets were sufficiently safeguarded. The cumulative effect of these control weaknesses increases the risk of material misstatement caused by error or fraud.

Management has a responsibility to design and implement internal controls that provide reasonable assurance regarding the reliability of financial reporting. Internal control is a management process for keeping an entity on course in achieving its business objectives. Internal controls should ensure resources are protected from waste, loss, and misuse and ensure reliable data is obtained, maintained, and fairly disclosed. Entities are required to establish controls to provide reasonable assurance that the recording, processing, and reporting of data is properly performed within the framework of financial management systems.

The following recommendations are supplemented by additional recommendations presented throughout this report:

- The sheriff should be more diligent in the day-to-day operations of his office by providing direct oversight of financial reporting for all receipts and disbursements.
- The sheriff should implement internal controls over the financial accounting system that ensure an adequate internal control structure, including management oversight; provides reasonable assurance that assets are safeguarded and transactions are processed in accordance with applicable laws and regulations; and transactions are recorded, reconciled, processed, and summarized to permit the preparation of reliable financial data.
- The sheriff should segregate duties so that no one person can both create and conceal fraudulent activity or commit an undetected material error.
- The sheriff should train employees to ensure that each employee understands both the activities and the accounting principles needed for their positions.
- The sheriff should implement sufficient supervisory review of key functions and activities, and ensure managers clearly understand their roles in the supervisory process. All supervisory reviews should be evidenced in writing.

Sheriff's Response: No response.

The sheriff's office lacks adequate segregation of duties: This is a repeat finding and was included in the prior year audit report as Finding 2015-002. The sheriff's office lacks adequate segregation of duties. The sheriff's bookkeeper collects payments from customers, prepares deposits, writes checks, posts transactions to the receipts ledger, post checks to the disbursements ledger, and prepares monthly and quarterly reports. The sheriff or another employee did not document oversight of any of these activities.

The sheriff indicated this was caused by a limited budget, which restricts the number of employees the sheriff can hire or delegate duties to. A lack of oversight could result in the undetected

misappropriation of assets and inaccurate financial reporting to external agencies, such as the Department for Local Government.

Segregation of duties over various accounting functions such as opening the mail, preparing deposits, recording receipts and disbursements, and preparing monthly reports, or the implementation of compensating controls, 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 sheriff should separate the duties involved in receiving cash, preparing deposits, posting to ledgers, preparing monthly bank reconciliations, and comparing financial reports to ledgers. If this is not feasible, due to a limited budget, cross checking procedures could be implemented and documented by the individual performing the procedure.

Sheriff's Response: No response.

The sheriff did not settle his 2016 fee account or present a final settlement to the fiscal court: The sheriff did not settle his 2016 fee account and he did not present a final settlement to the fiscal court for calendar year 2016. In order to settle the account, the sheriff should collect and pay the following:

Assets

Cash in Bank		\$	(3,251)
Receivables:			
Due from Sheriff - Disallowed Disbursements	\$	1,154	
Due From 2015 Tax Account - Add-on Fees		<u>8,612</u>	
Total Receivables			<u>9,766</u>
Total Assets			6,515

Liabilities

Unpaid Obligations:			
Due to Fiscal Court - Serving Paper Fees			<u>3,650</u>
Total Liabilities			<u>3,650</u>
Excess Fees Due County for 2016		\$	<u>2,865</u>

The sheriff does not have procedures in place to ensure that an annual settlement is presented to the fiscal court and that excess fees are properly paid. Also, the sheriff does not have procedures in place to ensure that disbursements are paid from the appropriate bank accounts. The failure to

pay liabilities timely causes taxing districts and other governmental agencies to be deprived of funds for significant time periods.

KRS 134.192 states that each sheriff shall annually settle his or her accounts with the department, the county, and any district for which the sheriff collects taxes on or before September 1 of each year. A complete statement of all funds received by his or her office for official services, showing separately the total income received by his office for services rendered, exclusive of his commissions for collecting taxes, and the total funds received as commissions for collecting state, county, and school taxes; and a complete statement of all expenditures of his or her office, including his salary, compensation of deputies and assistants, and reasonable expenses. We recommend the sheriff take the necessary steps to ensure the amounts above are collected and paid as soon as possible. We further recommend the sheriff settle his accounts before September 1 of each year hereafter.

Sheriff's Response: We are working to resolve this issue.

The sheriff did not settle his 2015 fee account: This is a repeat finding and was included in the prior year audit report as Finding 2015-003. The sheriff did not settle his 2015 fee account. In order to settle the account, the sheriff should collect and pay the following:

Assets

Cash in Bank		\$	10,413
Receivables:			
Due from Sheriff - Disallowed Disbursements	\$	885	
Due from 2015 Tax Account - Commissions		<u>2,624</u>	
Total Receivables			<u>3,509</u>
Total Assets			13,922

Liabilities

Unpaid Obligations:			
Due to 2016 Fee Account - Deposited into 2015 in Error		2,663	
Due to Fiscal Court - Serving Paper Fees		<u>3,670</u>	
Total Unpaid Obligations			<u>6,333</u>
Excess Fees Due The County For Calendar Year 2015		\$	<u>7,589</u>

The sheriff does not have procedures in place to ensure that disbursements are paid from the appropriate bank accounts. Also, there were disallowed disbursements in the 2015 audit. The failure to pay liabilities timely causes taxing districts and other governmental agencies to be deprived of funds for significant time periods. After all amounts are collected and paid, the sheriff will have excess fees due to the county in the amount of \$7,589.

KRS 134.192 states that each sheriff shall annually settle his or her accounts with the department, the county, and any district for which the sheriff collects taxes on or before September 1 of each year. Further, KRS 64.820 states that “[t]he fiscal court shall collect any amount due the county from county officials as determined by the audit of the official conducted pursuant to KRS 43.070 and KRS 64.810 if the amount can be collected without suit.” In the event the fiscal court cannot collect the amount due the county from the county official without suit, the fiscal court shall then direct the county attorney to institute suit for the collection of the amount reported by the Auditor or certified public accountant to be due the county within ninety (90) days from the date of receiving the Auditor’s or certified public accountant’s report. We recommend the sheriff take the necessary steps to ensure the amounts above are collected and paid as soon as possible. This matter will be referred to the Powell County Attorney.

Sheriff’s Response: We are working to resolve this issue.

The sheriff did not settle his 2014 fee account: This is a repeat finding and was included in the prior year audit report as Finding 2015-004. The sheriff did not settle his 2014 fee account. In order to settle the account, the sheriff should collect and pay the following:

Assets

Cash in Bank:

School Resource Officer Account	\$ 6,526
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Receivables:

Due from Sheriff - Disallowed Expenditures	4,075 *
Due from 2013 Fee - '13 Exp Pd from '14, Dep Error, Loan Pmt	<u>1,861</u>

Total Receivables	<u>5,936</u>
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Excess Fees Due The County For Calendar Year 2014	<u>\$ 12,462</u>
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* This amount has been reduced from the amount reported in the calendar year 2014 audit due to the sheriff paying \$900 in personal funds to the 2014 fee account after the date of that audit report.

The sheriff does not have procedures in place to ensure that disbursements are paid from the appropriate bank accounts. Also, there were disallowed disbursements in the 2014 audit. The failure to pay liabilities timely causes taxing districts and other governmental agencies to be deprived of funds for significant time periods. After all amounts are collected and paid, the sheriff will have excess fees due to the county in the amount of \$20,676.

KRS 134.192 states that each sheriff shall annually settle his or her accounts with the department, the county, and any district for which the sheriff collects taxes on or before September 1 of each year. Further, KRS 64.820 states that “[t]he fiscal court shall collect any amount due the county from county officials as determined by the audit of the official conducted pursuant to KRS 43.070 and KRS 64.810 if the amount can be collected without suit.” In the event the fiscal court cannot collect the amount due the county from the county official without suit, the fiscal court shall then

direct the county attorney to institute suit for the collection of the amount reported by the Auditor or certified public accountant to be due the county within 90 days from the date of receiving the Auditor's or certified public accountant's report.

We recommend the sheriff take the necessary steps to ensure the amounts above are collected and paid as soon as possible. This matter will be referred to the Powell County Attorney.

Sheriff's Response: We are working to resolve this issue.

The sheriff did not settle his 2013 fee account: This is a repeat finding and was included in the prior year audit report as Finding 2015-005. The sheriff did not settle his 2013 fee account. In order to settle the account, the sheriff should collect and pay the following:

Assets

Cash in Bank - 2013 Fee Account	\$	0
Receivables:		
Due From 2012 Fee Account - Deposit Errors	\$	10,043
Due From Sheriff - Overpayment of Salary		750
Due From Sheriff - Disallowed Expenditures		<u>419</u>
Total Receivables		<u>11,212</u>
Total Assets		11,212

Liabilities

Unpaid Obligations:		
Due To 2014 Fee Account - Various Errors		1,861
Due To Fiscal Court - Paper Fees		<u>3,594</u>
Total Unpaid Obligations		<u>5,455</u>
Excess Fees Due The County For Calendar Year 2013	<u>\$</u>	<u>5,757</u>

The sheriff does not have procedures in place to ensure that disbursements are paid from the appropriate bank accounts. Also, there were disallowed disbursements in the 2013 audit. The failure to pay liabilities timely causes taxing districts and other governmental agencies to be deprived of funds for significant time periods. After all amounts are collected and paid, the sheriff will have excess fees due to the county in the amount of \$5,757.

KRS 134.192 states that each sheriff shall annually settle his or her accounts with the department, the county, and any district for which the sheriff collects taxes on or before September 1 of each year. Further, KRS 64.820 states that “[t]he fiscal court shall collect any amount due the county from county officials as determined by the audit of the official conducted pursuant to KRS 43.070 and KRS 64.810 if the amount can be collected without suit.” In the event the fiscal court cannot

collect the amount due the county from the county official without suit, the fiscal court shall then direct the county attorney to institute suit for the collection of the amount reported by the Auditor or certified public accountant to be due the county within 90 days from the date of receiving the Auditor's or certified public accountant's report. We recommend the sheriff take the necessary steps to ensure the amounts above are collected and paid as soon as possible. This matter will be referred to the Powell County Attorney.

Sheriff's Response: We are working to resolve this issue.

The sheriff did not resolve the deficit in his 2012 fee account: This is a repeat finding and was included in the prior year audit report as Finding 2015-006. After all known unpaid liabilities were accounted for, the sheriff had a deficit of \$11,449 in his 2012 fee account. In order to settle the account, the sheriff should collect and pay the following:

Assets

Cash in Bank - 2012 Fee Account	\$	0
Receivables:		
Due From Sheriff - Disallowed Disbursements		947
Total Assets		947

Liabilities

Unpaid Obligations:		
Due To 2013 Fee Account - Deposit Errors	\$	10,043
Due To Fiscal Court - Paper Fees		2,353
Total Unpaid Obligations		12,396
Total Fund Balance as of December 31, 2012	\$	(11,449)

This deficit was caused by deposit errors and disallowed disbursements. The sheriff received a deposit of in lieu of tax money in error and did not reimburse it when received; however, they used the receipts to fund his 2012 fee account. These funds were paid back to the fiscal court on April 29, 2013, from the 2013 fee account. Since 2012 expenditures cannot be paid by the 2013 fee account, these funds must be reimbursed to this account from the sheriff. The failure to pay liabilities timely causes taxing districts and other governmental agencies to be deprived of funds for significant time periods.

KRS 64.820 states that “[t]he fiscal court shall collect any amount due the county from county officials as determined by the audit of the official conducted pursuant to KRS 43.070 and KRS 64.810 if the amount can be collected without suit.” In the event the fiscal court cannot collect the amount due the county from the county official without suit, the fiscal court shall then direct the county attorney to institute suit for the collection of the amount reported by the Auditor or certified public accountant to be due the county within 90 days from the date of receiving the Auditor's or certified public accountant's report. We recommend the sheriff take the necessary steps to ensure

the amounts above are collected and paid as soon as possible. This matter will be referred to the Powell County Attorney.

Sheriff's Response: This issue is due to a check deposited into the Sheriff's Account with same documentation as the Forestry Payment we received for our Co-op. We did not know that this was PILT money which was supposed to have been paid to the County. Whenever this was brought to our attention the money was paid to the Fiscal Court from the Commission of the 2012 Taxes from the 2013 Fee Account. Since this time we have received PILT several times and have had the Bank return said PILT and since that time County has finally set up their SAM account so that it is deposited in the correct account.

Auditor's Reply: Although the deposit error has been corrected, the 2012 deficit remains and is the responsibility of the sheriff.

The sheriff lacks adequate controls over disbursements: This is a repeat finding and was reported in the prior year audit as Finding 2015-007. The sheriff's office lacked strong internal controls over disbursements. The lack of adequate controls over disbursements, inadequate segregation of duties, and absence of review procedures, as discussed in Comments 2016-001 and 2016-002, led to multiple discrepancies as follows:

- There were disallowed disbursements totaling \$1,154 (see Finding 2016-009).
- Invoices were paid as much as 10 months late (see Finding 2016-010).
- Disbursements were not posted to the ledgers (see Finding 2016-021).
- Invoices were not sufficiently detailed to support disbursements (see Finding 2016-011).
- Lease payments were not paid timely and were not paid in accordance with the lease agreement (see Finding 2016-012).

There were not adequate review procedures in place, as described in Finding 2016-001, to detect, eliminate, or reduce errors. Taxpayer funds were misspent as noted by disallowed disbursements. Invoices and lease payments not being paid timely could result in substantial late fees, penalties, or other ramifications. Disbursements not properly posted to the ledgers result in incomplete and misstated financial statements. Invoices without adequate detail could lead to improper or disallowed disbursements.

Strong internal controls require that adequate documentation and sufficient review of all disbursements are necessary to reduce the risk of errors and misstatements. We recommend the sheriff implement procedures that strengthen controls over disbursements to eliminate the exceptions noted above in the future.

Sheriff's Response: We are working to resolve these issues.

The sheriff had \$1,154 in disallowed disbursements: This is a repeat finding and was reported in the prior year audit report as Finding 2015-008. The sheriff expended a total of \$1,154 for the following disallowed items:

- Items not necessary for the operation of the sheriff's office totaling \$667 (coffee, late fees, personal parking fees, coloring books, and drug prevention bracelets).

- Items not adequately documented totaling \$181. The invoices for these items did not provide sufficient detail to determine if the item was an allowable expense of the sheriff's office.
- Overdraft bank charges totaling \$306.

This is the result of a lack of internal controls over disbursements, as described in Finding 2016-008 and lack of management oversight as described in Finding 2016-001. The disallowed disbursements result in taxpayer funds being spent inappropriately. In addition, the sheriff personally owes \$848 to the 2016 fee account to reimburse these disallowed disbursements.

In Funk v. Milliken, 317 S.W.2d 499 (Ky. 1958), Kentucky's highest court ruled that county fee officials' expenditures of public funds will be allowed only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not primarily personal in nature. We recommend that the sheriff reimburse \$1,154 to the 2016 fee account from his personal funds for these disallowed disbursements. Furthermore, we recommend that the sheriff only expend funds for allowable purposes in the future.

Sheriff's Response: No response.

The sheriff did not pay invoices timely: This is a repeat finding and was reported in the prior year audit report as Finding 2015-012. At least four invoices in our sample of 48 disbursements were not paid within 30 working days, some as much as 10 months late.

This is a result of a lack of internal controls over disbursements as described in Finding 2016-008 and lack of management oversight as described in Finding 2016-001. Failure to pay invoices timely results in noncompliance with statutes and can result in late fees and other penalties.

KRS 65.140 states, "[a]ll bills shall be paid within thirty (30) working days of receipt of goods and services or a vendor's invoice." In order to avoid late fees and penalties and to comply with KRS 65.140, we recommend the sheriff pay invoices within 30 days.

Sheriff's Response: We are working to resolve this issue.

Related party transaction invoices are not sufficiently detailed: The sheriff's office expended \$4,058 with an auto repair shop during calendar year 2016. This will be disclosed in the audit report (notes to the financial statement) as a related party transaction. The owner of this business is a special deputy for the sheriff's office. Invoices for this vendor are not sufficiently detailed. The invoices list parts and labor but do not list the amount for each item noted. A total amount due is listed on the invoice.

The sheriff's office did not have adequate controls in place to ensure all invoices are sufficiently detailed to support payments made. Without detailed invoices, the risk of paying improper payments increases. In addition, since this vendor is a related party transaction, it is important to know the price of each part and each labor increment in order to make comparisons to other vendors to ensure prices are reasonable.

A strong internal control system requires detailed, itemized invoices to support each transaction. We recommend the sheriff ensure that all invoices contain sufficiently detailed information to support payments, including but not limited to itemized lists of all goods and services procured, individual dollar amounts for each, total dollar amount of the invoice, and other items as necessary.

Sheriff's Response: We have advised all vendors that invoices need to be detailed in order to pay.

The sheriff did not make lease payments in accordance with the lease agreement: This is a repeat finding and was reported in the prior year audit report as Finding 2015-009. On February 24, 2011, the sheriff entered into a 60 month lease agreement for a copier/printer that requires monthly payments of \$105 plus applicable monthly usage fees for copies exceeding the monthly allotment stipulated in the agreement. The sheriff did not make lease payments timely during calendar year 2016 and did not make payments in accordance with the lease agreement. The sheriff made two monthly payments in August and 10 monthly payments in December. The lease was eventually paid off in June 2017 with funds from the 2015 fee account.

This condition is a result of a lack of internal controls over disbursements as described in Finding 2016-008 and lack of management oversight as described in Finding 2016-001. The sheriff is in violation of the lease terms outlined in the lease agreement and is in violation of KRS 65.140.

Per the agreement, the sheriff should have remitted minimum monthly lease payments in the amount of \$105 plus applicable print charges. Furthermore, KRS 65.140 states, “[a]ll bills shall be paid within thirty (30) working days of receipt of goods and services or a vendor’s invoice.” In order to fulfill contractual agreements, avoid late fees and penalties, and comply with KRS 65.140, we recommend the sheriff remit lease payments timely.

Sheriff's Response: No response.

The sheriff did not pay fiscal court fees collected for the service of subpoenas and civil summons to the fiscal court: This is a repeat finding and was included in the prior year audit report as Finding 2015-010. The sheriff did not pay fiscal court fees collected for serving subpoenas and civil summons for the fiscal court. During calendar year 2016, the sheriff collected \$18,400 in civil summons fees and subpoena fees. Of this amount, \$3,650 constituted fees belonging to the fiscal court.

The sheriff is aware of the ordinance and chose not to pay the required amount to the fiscal court. The failure to pay fees timely resulted in an unpaid obligation of \$3,650 to the fiscal court, as noted in Finding 2016-003.

As authorized under Judicial Branch Budget Bill (HB 577) and KRS 64.091, and approved by the Powell County Fiscal Court in Ordinance 00-06-29A, an additional fee of \$10 shall be charged for the service of a subpoena and for the service of a civil summons. Amounts collected should be turned over to the fiscal court monthly. We recommend the sheriff pay amounts due to the fiscal court monthly as required by ordinance. We further recommend the sheriff implement controls to ensure all future amounts due the fiscal court are paid timely.

Sheriff's Response: No response.

The sheriff wrote checks on accounts which had insufficient funds to cover the disbursements: This is a repeat finding and was reported in the prior year audit as Finding 2015-011. The sheriff wrote checks on the 2016 fee and the school resource officer bank accounts at least nine times when the bank balance was insufficient to cover the disbursement and was charged overdraft fees by the bank totaling \$306. The sheriff was not adequately reconciling the fee account to the bank balance throughout the year.

The sheriff does not have controls in place to ensure that the cash balance in the bank was sufficient to cover all checks written. As a result, the bank charged \$306 in overdraft penalties, which the sheriff will have to personally pay back to the fee account.

The State Local Finance Officer, under the authority of KRS 68.210, established minimum accounting requirements which include reconciling receipts and disbursements to monthly bank statements. We recommend the sheriff properly utilize bank reconciliations in order to determine the available funds in all accounts. We further recommend the sheriff reimburse the accounts a total of \$306 from his personal funds for these disallowed disbursements, as recommended in Finding 2015-009.

Sheriff's Response: No response.

The sheriff lacked adequate controls over payroll: This is a repeat finding and was reported in the prior year audit report as Finding 2015-013. The sheriff's office lacked adequate internal controls over the processing of payroll, specifically over timesheets and gross wage calculations. A total of 22 timesheets were tested for 13 employees and numerous issues were noted. Review procedures were in place, however they were not adequately performed to eliminate or reduce errors.

Due to the lack of effective controls, numerous exceptions were noted as follows:

- One instance in which one employee was paid their regular pay and vacation pay for the same day.
- One instance in which one full time employee did not have daily totals listed on the timesheet, only a grand total was included.
- Six instances in which three part time "salary" employees did not have daily totals nor total hours listed on the timesheet.
- Three instances in which three employees did not sign the timesheet.

Due to issues noted with timesheets, payroll has not been documented adequately and may not be calculated correctly.

Good internal controls dictate that adequate controls and sufficient review are necessary to reduce the risk of errors and misstatements. One necessary element for internal controls over payroll is that every timesheet list the hours worked each day and each pay period. KRS 337.320 states that every employer shall keep a record of the amount paid each pay period to employees and the hours

worked each day and each week for employees. In addition, the hours paid must agree to the hours documented. Finally, each timesheet should be signed by the employee and a supervisor.

We recommend the sheriff review the procedures that are in place and strengthen controls over the payroll process. The sheriff should ensure compliance with the applicable laws and regulations and ensure all hours worked are completely and accurately documented, timesheets are signed by employees and supervisors, and payroll calculations are accurate.

Sheriff's Response: We are working to resolve this issue.

The sheriff has not resolved a possible conflict of interest: This is a repeat finding and was reported in the prior year audit report as Finding 2015-015. An employee of the sheriff's office is also serving as a magistrate of the fiscal court, which may constitute a conflict of interest. On June 5, 2012, the sheriff hired an individual to serve as deputy sheriff for the sheriff's office. On January 1, 2015, this person was elected to serve as a magistrate of the fiscal court, an incompatible office. The deputy sheriff did not vacate the first office of employment upon being elected to serve on the fiscal court. The employee chose to accept both positions and did not consult with the county attorney or Attorney General regarding the potential conflict of interest in doing so. When this person accepted an appointment as a deputy sheriff then accepted the office of magistrate, his position of deputy sheriff could be vacated as a matter of law. Any actions he has taken as a deputy sheriff after accepting the magistrate appointment may be null and void.

Per the Attorney General's *Conflicts of Interest and Incompatible Offices* manual, a county officer may not serve as a county employee. KRS 61.080(12) makes the positions of magistrate (justice of the peace) and deputy sheriff incompatible. Also, KRS 61.090 states, "The acceptance by one (1) in office of another office or employment incompatible with the one (1) he holds shall operate to vacate the first." In addition, this may constitute a common law incompatibility of office because the office of deputy sheriff as an employee of the county is subordinate to the position of magistrate. OAG 83-252; Hermann v. Lampe, 194 S.W. 122 (Ky. 1917). We recommend the sheriff seek advice from the county attorney and comply with his recommendations in order to ensure that there are no conflicts of interest.

Sheriff's Response: No response.

The sheriff did not prepare IRS Form 1099s for all applicable contract labor: This is a repeat finding and was reported in the prior year audit report as Finding 2015-016. As a trustee/agent, the sheriff is responsible for reporting contract labor payments to the appropriate agencies in a timely manner. We noted four vendors for which an Internal Revenue Service (IRS) Form 1099 appeared necessary. The sheriff did not issue any 1099s during calendar year 2016. The bookkeeper indicated that she and the sheriff were unaware of 1099 reporting requirements. If 1099 forms are not properly issued to all applicable vendors, it increases the risk that taxable income will not properly be reported to state and federal agencies. In addition, the sheriff is in violation of IRS regulations and could be subject to fines or penalties associated with such violations.

The IRS requires Form 1099 be issued to individual contractors for services resulting in income of \$600 or more. We recommend the sheriff take the appropriate steps necessary to ensure Form 1099 is prepared and submitted for all vendors that meet the IRS criteria.

Sheriff's Response: We had never been advised we needed to prepare these until 2017 during this Audit and did prepare for 2017 once we were made aware.

Auditor's Reply: Management is responsible for being familiar with and complying with all state and federal laws and regulations.

The sheriff did not provide a written policy and procedures manual for calendar year 2016:

This a repeat finding and was reported in the prior year audit report as Finding 2015-017. The sheriff was unable to provide auditors with a written policy and procedures manual established for his office to address administrative and personnel standards nor had he adopted the county's policy. There were several issues noted during the audit that would have been clarified had the sheriff enacted a policy and procedures manual or administrative code or adopted the county's administrative code. For example, some deputies earn compensatory time. Without a policy in place, we cannot determine if compensatory time was earned and paid appropriately. Special deputies utilize the fuel purchase system. Without a policy in place, it is not clear if this is an allowable practice and it increases the risk of misuse of fuel cards.

The sheriff failed to adopt a policy and procedures manual or administrative code for 2016. Auditors were unable to determine if the sheriff was compliant and consistent with office policies and procedures.

Good internal controls dictate consistent treatment of personnel and properly executed policies be established and distributed to all affected parties.

We recommend the sheriff establish an office-wide policy and procedures manual or adopt the county's administrative code. If he chooses to implement his own policies, he should review them for reasonableness, ensure they do not violate any statutes, put them in writing, and communicate them to all employees.

Sheriff's Response: No response.

The sheriff did not prepare or submit an annual asset forfeiture report: This is a repeat finding and was reported in the prior year audit report as Finding 2015-018. The sheriff did not comply with KRS 218A.440, which requires law enforcement agencies to file an annual asset forfeiture report. The report was not filed due to lack of controls over report preparation and lack of oversight by the sheriff to ensure all applicable regulations and statutes are followed. Failure to prepare or submit an annual forfeiture report constitutes noncompliance with KRS 218A.440, a lack of availability of records to approving authorities, and potential ramifications as outlined in the statute.

KRS 218A.440(1) states, "Each law enforcement agency seizing money or property pursuant to KRS 218A.415 shall, at the close of each fiscal year, file a statement with the Auditor of Public Accounts, and with the secretary of justice and public safety containing, a detailed listing of all

money and property seized in that fiscal year and the disposition thereof. The listing shall identify all property so seized.” We recommend the sheriff comply with KRS 218A.440 by preparing an annual forfeiture asset report and submitting it to all agencies as required.

Sheriff's Response: No response.

The sheriff did not submit all quarterly reports to the Department for Local Government as required: This is a repeat finding and was included in the prior year audit report as Finding 2015-020. The sheriff did not submit a second or fourth quarter report to the Department for Local Government (DLG) as required. This was caused by the lack of management oversight. Failure to comply with these regulations results in a lack of availability of financial records to approving authorities.

KRS 68.210 states that “[t]he administration of the county uniform budget system shall be under the supervision of the state local finance officer who may inspect and shall supervise the administration of accounts and financial operations and shall prescribe and shall install, by July 1, 1985, a system of uniform accounts for all counties and county officials.” The State Local Finance Officer requires a cumulative quarterly report be submitted by the 30th day following the close of each quarter. We recommend the sheriff provide all financial records to the Department for Local Government when required.

Sheriff's Response: We will work on getting those to Local Government in a more timely manner.

The sheriff's fourth quarter report did not accurately reflect total receipts and total disbursements: This is a repeat finding and was included in the prior year audit report as Finding 2015-021. The sheriff's fourth quarter report, which serves as the sheriff's financial statement, reflected discrepancies in total receipts and total disbursements for calendar year 2016, requiring material audit adjustments. Controls were not in place to ensure that all receipts and disbursements were posted correctly to the sheriff's ledgers. As a result, the sheriff's fourth quarter report, was materially misstated.

KRS 134.192(11) states that, in counties with population of less than 70,000, the sheriff's annual settlement shall include: “[a] complete statement of all funds received by his or her office for official services, showing separately the total income received by his or her office for services rendered, exclusive of his or her commissions for collecting taxes, and the total funds received as commissions for collecting state, county, and school taxes [,]” and “[a] complete statement of all expenditures of his or her office [.]” We recommend the sheriff ensure a complete and accurate fourth quarter report is prepared in order to ensure all receipts and disbursements are accounted for properly.

Sheriff's Response: No response.

The sheriff's responsibilities include collecting property taxes, providing law enforcement and performing services for the county fiscal court and courts of justice. The sheriff's office is funded through statutory commissions and fees collected in conjunction with these duties.

The audit report can be found on the [auditor's website](#).

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The Auditor of Public Accounts ensures that public resources are protected, accurately valued, properly accounted for, and effectively employed to raise the quality of life of Kentuckians. Call 1-800-KY-ALERT or visit our website to report suspected waste and abuse.

