

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

**For The Year Ended
December 31, 2010**



**ADAM H. EDELEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FORMER GRAVES COUNTY SHERIFF

**For The Year Ended
December 31, 2010**

The Auditor of Public Accounts has completed the former Graves County Sheriff's audit for the year ended December 31, 2010. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$2,216 from the prior year, resulting in excess fees of \$8,637 as of December 31, 2010. Revenues decreased by \$17,099 from the prior year and expenditures decreased by \$19,315.

Report Comments:

- 2010-01 The Former Sheriff's Office Overspent The Fiscal Court Approved Budget
- 2010-02 The Former Sheriff Should Maintain Proper Supporting Documentation Of Disbursements And Repay \$1,576 To The Forfeiture Account
- 2010-03 The Former Sheriff Had Disallowed Disbursements in His Fee Account

Deposits:

The former Sheriff's deposits were insured and collateralized by bank securities.

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Tony Smith, Graves County Judge/Executive
The Honorable John L. Davis, Former Graves County Sheriff
Members of the Graves County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the former Sheriff of Graves County, Kentucky, for the year ended December 31, 2010. This financial statement is the responsibility of the former Sheriff. Our responsibility is to express an opinion on this 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the former Sheriff for the year ended December 31, 2010, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated November 10, 2011 on our consideration of the former Graves County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is 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. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Tony Smith, Graves County Judge/Executive
The Honorable John L. Davis, Former Graves County Sheriff
Members of the Graves County Fiscal Court

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

- 2010-01 The Former Sheriff's Office Overspent The Fiscal Court Approved Budget
- 2010-02 The Former Sheriff Should Maintain Proper Supporting Documentation Of Disbursements And Repay \$1,576 To The Forfeiture Account
- 2010-03 The Former Sheriff Had Disallowed Disbursements in His Fee Account

This report is intended solely for the information and use of the former Sheriff and Fiscal Court of Graves County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

November 10, 2011

GRAVES COUNTY
 JOHN L. DAVIS, FORMER SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2010

Revenues

State Grants

Drug Task Force	\$ 25,000	
Highway Safety	10,664	
Law Enforcement Service Fee	<u>14,090</u>	\$ 49,754

State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF) 26,642

State Fees For Services:

Fee Claims	38,162	
Fugitive Returns	11,513	
Cabinet for Health and Family Services	28,165	
Telecommunication Tax	2,592	
Sheriff Security Service	<u>37,737</u>	118,169

Circuit Court Clerk:

Fines and Fees Collected 14,365

Fiscal Court 143,410

County Clerk - Delinquent Taxes 18,926

Commission On Taxes Collected 378,147

Fees Collected For Services:

Auto Inspections	16,400	
Accident and Police Reports	4,281	
Serving Papers	52,667	
Carrying Concealed Deadly Weapon Permits	7,980	
Sheriff Fees	<u>41,084</u>	122,412

Other:

Second Notice Fees	4,190	
Miscellaneous	3,606	
Extra Security	3,963	
Vehicle Sale	6,650	
Insurance Claim Payment	10,526	
Restitution	<u>991</u>	29,926

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

GRAVES COUNTY
 JOHN L. DAVIS, FORMER SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2010
 (Continued)

Revenues (Continued)

Interest Earned		\$	1,048
Borrowed Money:			
State Advancement			<u>180,000</u>
Total Revenues			1,082,799

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-			
Deputies' Salaries	\$	401,327	
Part-Time Salaries		99,314	
Court Security Salaries		35,477	
Employee Benefits-			
Employer's Share Social Security		43,848	
Contracted Services-			
Extra Court Security		20,369	
Materials and Supplies-			
Office Materials and Supplies		19,748	
Uniforms		3,415	
Auto Expense-			
Gasoline		52,708	
Maintenance and Repairs		29,863	
Other Charges-			
Training		4,756	
Dues		955	
Postage		8,236	
Transports		6,308	
K-9 Expense		651	
Claim Settlement		600	
Miscellaneous		1,854	
Capital Outlay-			
Office Equipment		<u>14,269</u>	\$ <u>743,698</u>

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

GRAVES COUNTY
 JOHN L. DAVIS, FORMER SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2010
 (Continued)

Expenditures (Continued)

Debt Service:

State Advancement	\$	180,000	
Notes		58,579	
Interest		1,786	\$ 240,365
			<hr/>

Total Expenditures			\$ 984,063
Less: Disallowed Expenditures			
Late Fees and Finance Charges			<hr/> 501
Total Allowable Expenditures			<hr/> 983,562
Net Revenues			99,237
Less: Statutory Maximum			<hr/> 86,976
Excess Fees			12,261
Less: Training Incentive Benefit			<hr/> 3,624
Excess Fees Due County for 2010			8,637
Payment to Fiscal Court - February 14, 2011			<hr/> 8,136
Balance Due Fiscal Court at Completion of Audit			<hr/> <hr/> \$ 501

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

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2010

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 revenues over expenditures 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 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures 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 2010 services
- Reimbursements for 2010 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2010

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

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, 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).

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2010
(Continued)

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. 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.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.16 percent for the first six months and 16.93 percent for the last six months.

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 (members 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.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. 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 Graves 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(4), 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 Sheriff's deposits may not be returned. The former Graves County Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of December 31, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

GRAVES COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2010
 (Continued)

Note 4. Note Payable

The Office of the Sheriff was liable for a secured note payable to FNB Bank in the amount of \$213,647. The purpose of the note was to refinance a bank note from the 2006 calendar year, which was used to purchase new police vehicles in 2006. The note matured in 2010 and the interest rate was 5 percent. As of December 31, 2010, the principle balance of the loan was \$0. The Office of the Sheriff was in compliance with the terms of the agreement as of December 31, 2010.

Note 5. Payroll Withholding Account

The Graves County Sheriff maintains a Community Activities Fund established January 5, 2006. Receipts result from payroll withholdings from employees. The funds are spent for payroll taxes, Christmas Club, United Way, flowers, scholarship, and miscellaneous items. The beginning balance of this account was \$2,289. During calendar year 2010, receipts were \$129,608 and expenditures, including a transfer of \$2,119 to the new Sheriff to close the account, were \$131,897, leaving an ending balance of \$0 as of December 31, 2010.

Note 6. Special Account

The Graves County Sheriff's Office maintains a separate account for donations, calendar program, interest on the account, and other miscellaneous receipts. The beginning balance of this account was \$15,983. During calendar year 2010, receipts were \$13,870 and expenditures, including a transfer to the new Sheriff to close the account, were \$29,853, leaving an ending balance of \$0 as of December 31, 2010.

Note 7. Forfeiture Account

The Graves County Sheriff maintains a Forfeiture Fund established by an order of the Circuit Court in 2006. The account is to be funded by receipts from forfeiture of money and property, court ordered payments from individuals, and interest received on deposits of forfeiture funds. The funds are to be used for supplies, equipment, vehicles, and drug awareness programs. The beginning balance of the account was \$64,316. During the calendar year 2010, receipts were \$2,713 and expenditures, including a transfer of \$48,887 to the new Sheriff to close the account, were \$67,029, leaving an ending balance of \$0 as of December 31, 2010.

Note 8. State Grants

During calendar year 2010, the former Sheriff's office received funds from state grants entitled:

Drug Task Force	\$25,000
Highway Safety Grant	\$10,644
Law Enforcement Service Fee	\$14,090

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2010
(Continued)

Note 9. Kentucky Law Enforcement Foundation Program Fund

The former Graves County Sheriff's office participated in the Kentucky Law Enforcement Foundation Program Fund (KLEFPF). This program, administrated by the Kentucky Justice Cabinet, is designed to provide adequate training to the Sheriff's deputies. During the year, the former Graves County Sheriff's office received \$26,642 from this program.

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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



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Tony Smith, Graves County Judge/Executive
The Honorable John L. Davis, Former Graves County Sheriff
Members of the Graves 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**

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the former Graves County Sheriff for the year ended December 31, 2010, and have issued our report thereon dated November 10, 2011. The former Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit 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.

Internal Control Over Financial Reporting

Management of the former Graves County Sheriff's office is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the former Graves County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures 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 Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the former Sheriff's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



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

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Graves County Sheriff's financial statement for the year ended December 31, 2010, 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 comments and recommendations as items 2010-01, 2010-02, and 2010-03.

The former Graves County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the former Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Graves County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

November 10, 2011

COMMENTS AND RECOMMENDATIONS

GRAVES COUNTY
JOHN L. DAVIS, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2010

STATE LAWS AND REGULATIONS:

2010-01 The Former Sheriff's Office Overspent The Fiscal Court Approved Budget

During our audit, we noted the former Sheriff's operating expenditures exceeded the budget approved by the Graves County Fiscal Court. The Graves County Fiscal Court approved the former County Sheriff's budget for official expenses at \$828,952; however, the former County Sheriff expended \$896,893.

The state local finance officer requires the fiscal court to approve a calendar year budget for each fee office as a component of the county's budget preparation process by January 15th of each year. KRS 68.210 states that the 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 a system of uniform accounts for all counties and county officials.

Former Sheriff's Response: No Response.

2010-02 The Former Sheriff Should Maintain Proper Supporting Documentation Of Disbursements And Repay \$1,576 To The Forfeiture Account

During testing of Forfeiture Account disbursements, we noted the Sheriff could not find supporting documentation for one disbursement in the amount of \$652, another was paid over 30 days late and incurred finance charges in the amount of \$27, another disbursement included payment for non-official travel in the amount of \$397, and another was for a donation in the amount of \$500, totaling \$1,576. Without an invoice, the expenditure is not adequately supported and cannot be verified as official use; invoices should be paid within 30 days so finance charges are not incurred; spouse are allowed to attend functions with the official, however the expense cannot be incurred by the accounts entrusted to the official; and donations are not allowed. Based on the Funk v. Milliken case (317 S.W2nd 499 (KY 1958)), expenditures should be necessary, reasonable in amount, beneficial to the public, not primarily personal in nature, and adequately supported by documentation. Maintaining proper supporting documentation of disbursements is essential for providing evidence of reasonableness, adequately supported and beneficial to the public. Without proper supporting documentation, the disbursement is disallowed, resulting in reimbursement by the official to the Forfeiture Account for the expenditure. We recommend the former Sheriff reimburse the Forfeiture Account in the amount of \$1,576 from personal funds.

GRAVES COUNTY
JOHN L. DAVIS, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2010
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2010-02 The Former Sheriff Should Maintain Proper Supporting Documentation Of Disbursements And Repay \$1,576 To The Forfeiture Account (Continued)

Former Sheriff's Response:

\$653 – No Supporting documentation

Enclosed please find a copy of the cancelled check # 1099 written on May 12, 2010 and payable to Discrete Electronics for the amount of \$651.70 got covert equipment used in drug enforcement. Also, please see the copy of the back of this check where it was deposited in the account of Discrete Electronics. This should satisfy this concern

\$27 – Late fees and finance charges

I can only assume I owe this amount and it will be paid

\$397 – Non-official travel

This amount was originally for travel to the National Sheriff's in California in 2010 which was cancelled. I was told it was for a trip to Ft. Lauderdale, FL and part was for my wife's travel. The Ft Lauderdale trip was actually in 2009 and was reported that year and was proven to be incorrect since personal funds were used to reimburse the office account. This amount in 2010 was used for travel to Jacksonville, FL by a deputy who went for training. The amount was less than the California trip and the difference was refunded by the airlines as noted by the auditor. This should explain and satisfy this concern.

\$500 – Donation

I was told that donations are not allowed out of the forfeiture account. I tried to explain that this is not a donation as normally understood. I have understood for years that the forfeiture account could be used for any purpose except for salaries or supplanting budgeted items. This \$500.00 was for the local animal shelter to reimburse them for costs they incurred as part of a drug case. The defendant, DeBarry, was charged with drug offenses and had 40+ dogs on his property that appeared to have been neglected or used for fighting. The dogs were taken to the animal shelter. This money was used to replace the dog food used by the dogs in this case. I feel this is a legitimate use for these funds.

Auditor's Reply: In order for auditors to determine if expenditures are for official use, an invoice detailing what was purchased and the amount charged must be kept by the Sheriff to support the expenditure.

GRAVES COUNTY
JOHN L. DAVIS, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2010
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2010-03 The Former Sheriff Had Disallowed Disbursements in His Fee Account

During testing of Fee Account disbursements, we noted \$501 in late fees and finance charges that are not allowable expenditures. Invoices should be paid timely in order to avoid late fees and finance charges. Based on the court case, Funk v. Milliken (317 S.W2nd 499 (KY 1958)), expenditures should be reasonable, adequately supported, and for official use. We recommend the former Graves County Sheriff repay the \$501 in disallowed expenditures from personal funds and turn the funds over to the fiscal court as additional excess fess.

Former Sheriff's Response: No Response.

