

**REPORT OF THE AUDIT OF THE
CALLOWAY COUNTY
SHERIFF**

**For The Year Ended
December 31, 2021**



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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

Independent Auditor's Report

The Honorable Kenneth Imes, Calloway County Judge/Executive
The Honorable Nicky Knight, Calloway County Sheriff
Members of the Calloway County Fiscal Court

Report on the Audit of the Financial Statement

Opinions

We have audited the accompanying Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the Sheriff of Calloway County, Kentucky, for the year ended December 31, 2021, and the related notes to the financial statement.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the accompanying financial statement presents fairly, in all material respects, the receipts, disbursements, and excess fees of the Calloway County Sheriff for the year ended December 31, 2021, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

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 section of our report, the financial statement does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Calloway County Sheriff, for the year ended December 31, 2021, or changes in financial position or cash flows thereof for the year then ended.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Audit Program for County Fee Officials*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statement section of our report. We are required to be independent of the Calloway County Sheriff and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



The Honorable Kenneth Imes, Calloway County Judge/Executive
 The Honorable Nicky Knight, Calloway County Sheriff
 Members of the Calloway County Fiscal Court

Basis for Opinion (Continued)

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 Calloway 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 and budget laws, 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 and pervasive.

Responsibilities of Management 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 Responsibilities for the Audit of the Financial Statement

Our objectives are to obtain reasonable assurance about whether the financial statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statement.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement.
- Obtain an understanding of internal control relevant to the audit 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 Calloway County Sheriff's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statement.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Calloway County Sheriff's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we have identified during the audit.

The Honorable Kenneth Imes, Calloway County Judge/Executive
The Honorable Nicky Knight, Calloway County Sheriff
Members of the Calloway County Fiscal Court

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2022, on our consideration of the Calloway 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 effectiveness of 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 Calloway County Sheriff's internal control over financial reporting and compliance.

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

- 2021-001 The Calloway County Sheriff's Fourth Quarter Financial Report Was Materially Misstated
- 2021-002 The Calloway County Sheriff Failed To Properly Bid Vehicle Purchases

Respectfully submitted,

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

Mike Harmon
Auditor of Public Accounts
Frankfort, KY

September 8, 2022

CALLOWAY COUNTY
NICKY KNIGHT, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2021

Receipts

Federal Highway Safety Grant		\$ 15,819
State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)		63,436
State Fees For Services:		
Finance and Administration Cabinet	\$ 126,872	
Sheriff Security Service	12,790	
Cabinet For Health And Family Services	410	
KCPC Transports	<u>1,018</u>	141,090
Circuit Court Clerk:		
Fines and Fees Collected		13,939
Fiscal Court		690,914
County Clerk - Delinquent Taxes		27,093
Commission On Taxes Collected		652,082
Fees Collected For Services:		
Auto Inspections	21,625	
Accident/Police Reports	2,215	
Serving Papers	58,796	
Carry Concealed Deadly Weapon Permits	12,715	
Fingerprints	40	
School Security	77,224	
Tax Research	2,783	
City of Hazel	5,000	
Mental Health Transports	<u>22,094</u>	202,492
Other:		
Add-On Fees	42,783	
Miscellaneous	39,822	
Insurance Reimbursements	49,170	
Surplus Property Sales	7,055	
Towing	1,303	
Traffic School	4,370	
Jury Reimbursement	<u>434</u>	144,937

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

CALLOWAY COUNTY
 NICKY KNIGHT, SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2021
 (Continued)

Receipts (Continued)

Interest Earned	\$ 7,283
Borrowed Money:	
State Advancement	<u>300,000</u>
Total Receipts	2,259,085

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-		
Deputies' Salaries	\$ 1,112,669	
KLEFPF Wages	58,451	
Employee Benefits-		
Employer's Share Social Security	96,896	
Employer's Share Retirement	9,426	
Contracted Services-		
IT Service	5,205	
Materials and Supplies-		
IT Equipment	8,378	
Uniforms	13,162	
Ammunition	7,939	
Computer Software	4,201	
Auto Expense-		
Maintenance and Repairs	68,878	
Vehicle Equipment	34,333	
Other Charges-		
Training and Travel	13,637	
Dues	2,134	
Postage	2,820	
County Ordinance	8,320	
Hiring	1,088	
Miscellaneous	89,762	
Towing	1,908	
Intuit	2,227	
Capital Outlay-		
Vehicles	<u>96,157</u>	\$ 1,637,591

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

CALLOWAY COUNTY
NICKY KNIGHT, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2021
(Continued)

Disbursements (Continued)

Debt Service:

State Advancement \$ 300,000

Total Disbursements \$ 1,937,591

Net Receipts 321,494

Less: Statutory Maximum 98,354

Excess Fees 223,140

Less: Training Incentive Benefit 3,265

Excess Fees Due County for 2021 219,875

Payments to Fiscal Court - February 21, 2022 219,779

Balance Due Fiscal Court at Completion of Audit \$ 96

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2021

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 pay to the governing body of the county any fees, commissions, and other income of his or her office, including income from investments, which exceed the sum of his or her maximum salary as permitted by the Constitution and other reasonable expenses, including compensation of deputies and assistants by March 15 of each year. KRS 64.830 requires an outgoing sheriff to make a final settlement 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) as of December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2021 services
- Reimbursements for 2021 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2021

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).

CALLOWAY COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2021
 (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 Kentucky Public Pensions Authority (KPPA). This is a cost-sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute.

The sheriff's contribution for calendar year 2020 was \$6,169, and calendar year 2021 was \$9,426.

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 CERS 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 CERS Board of Directors based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a four percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008, must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

The county's contribution rate for nonhazardous employees was 24.06 percent for the first six months and 26.95 percent for the last six months.

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:

CALLOWAY COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2021
 (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 78.5536.

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

Once members reach a minimum vesting period of 15 years, they 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 78.5536. 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 Kentucky Retirement Systems 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.

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.

CALLOWAY COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2021
 (Continued)

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

Other Post-Employment Benefits (OPEB) (Continued)

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.

Kentucky Retirement System Annual Financial Report and Proportionate Share Audit Report

Kentucky Retirement System 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.

Kentucky Retirement System 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 Calloway County Sheriff maintained deposits of public funds with federally insured banking institutions as required by the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*. The DLG Manual strongly recommends perfected pledges of securities covering all public funds except direct federal obligations and funds protected by federal insurance. In order to be perfected in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

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 Calloway County Sheriff does not have a deposit policy for custodial credit risk, but rather follows the requirements of the DLG *County Budget Preparation and State Local Finance Officer Policy Manual*. As of December 31, 2021, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2021
(Continued)

Note 4. Federal Grant

The Calloway County Sheriff's office received a Federal Highway Safety Grant in the amount of \$15,100 from the Kentucky Transportation Cabinet's Office of Highway Safety applicable from October 1, 2020 to September 30, 2021. The grant was renewed for an additional \$15,000 for the period October 1, 2021 through September 30, 2022. The main purpose of the grant is to reduce fatalities on Kentucky roadways, minimize injuries to individuals and property, and to educate the public on ways to do this. For calendar year 2021, the Calloway County Sheriff's office was reimbursed \$15,819 from this grant.

Note 5. Short-term Debt

A. Direct Borrowings

1. The sheriff borrowed a state advancement of funds in the amount of \$300,000 to defray the expenses of the office for audit period. The loan was repaid on December 8, 2021.

B. Changes in Short-term Debt

	Beginning Balance	Additions	Reductions	Ending Balance
Direct Borrowings	\$	\$ 300,000	\$ 300,000	\$
Total Short-term Debt	\$ 0	\$ 300,000	\$ 300,000	\$ 0

Note 6. Forfeiture Account

The Calloway County Sheriff maintained a separate account for court ordered forfeitures of money and property. The beginning balance of the account was \$4,421. During the calendar year, receipts totaled \$74,297 and disbursements totaled \$1,057, leaving an ending balance of \$77,661 as of December 31, 2021.

Note 7. Donation Account

The Calloway County Sheriff maintained a donation account. Receipts for this account are interest earned on deposits and donations made to the sheriff's department. The beginning balance of the account was \$1,625. During the calendar year, receipts totaled \$52,744 and disbursements totaled \$50,801, leaving an ending balance of \$3,568 as of December 31, 2021.

Note 8. Sheriff's Drug Enforcement Account

The Calloway County Sheriff maintained a drug enforcement account. Receipts for this account are interest earned on deposits and funding from the Calloway County Fiscal Court to use for drug buys. The beginning balance of the account was \$12,875. During the calendar year receipts totaled \$4,209 and disbursements totaled \$4,350, leaving an ending balance of \$12,734 as of December 31, 2021.

CALLOWAY COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2021
 (Continued)

Note 9. Fiduciary Accounts

A. Sheriff's Evidence Holding Account

The Calloway County Sheriff deposited cash evidence into a custodial bank account. These funds are held until a resolution in the form of a court order is received. The funds are then remitted in accordance with the court order. The account had a beginning balance of \$2,751 with receipts of \$16 and no disbursements for calendar year 2021. The account balance was \$2,767 as of December 31, 2021.

B. Trust Accounts

The Calloway County Sheriff is periodically required by the Calloway County Judicial System to act as the Public Administrator of decedents' estates until these estates can be settled. Additionally, the Calloway County Sheriff is periodically required by the Calloway County Judicial System to act as the Public Administrator for minor beneficiaries until they reach the appropriate age to receive benefits. The Calloway County Sheriff maintains the following custodial accounts:

1. Mattox Estate

The account had a beginning balance of \$1,742 with receipts of \$187. In November 2021, all assets were disbursed and the estate was closed.

2. Strong Beneficiary

The Calloway County Sheriff was appointed conservator of a certificate of deposit (CD) on December 21, 2020. On January 1, 2021, the CD had a balance of \$9,147. The CD earned interest of \$164 during the year, with no disbursements. The balance of the CD was \$9,311 as of December 31, 2021.

3. Shank Beneficiary

The Calloway County Sheriff was appointed conservator of the account in January 2021. The initial deposit into the account was \$4,520. The account earned \$2 in interest during the year, with no disbursements. The account balance was \$4,522 as of December 31, 2021.

Note 10. Escrow Account

The sheriff deposited unrefundable payments in an interest-bearing account. The sheriff's escrowed beginning balance was \$321. The sheriff received \$1,033 and disbursed \$593 resulting in a total ending balance as of December 31, 2021, of \$761. The ending balance consists of escrowed funds of:

2017	\$21
2018	\$388
2019	\$253
2020	\$99

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

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

The Honorable Kenneth Imes, Calloway County Judge/Executive
The Honorable Nicky Knight, Calloway County Sheriff
Members of the Calloway County Fiscal Court

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 Calloway County Sheriff for the year ended December 31, 2021, and the related notes to the financial statement and have issued our report thereon dated September 8, 2022. The Calloway 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 Calloway County Sheriff's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Calloway County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Calloway County Sheriff's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified a certain deficiency in internal control that we consider to be a material weakness 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 deficiency described in the accompanying Schedule of Findings and Responses as item 2021-001 to be a material weakness.



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 2021-002 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Calloway County Sheriff's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statement. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2021-001.

Views of Responsible Official and Planned Corrective Action

The Calloway 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 Calloway County 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
Frankfort, KY

September 8, 2022

SCHEDULE OF FINDINGS AND RESPONSES

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CALLOWAY COUNTY
NICKY KNIGHT, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2021

FINANCIAL STATEMENT FINDINGS:

2021-001 The Calloway County Sheriff's Fourth Quarter Financial Report was Materially Misstated

The Calloway County Sheriff's fourth quarter financial report that was submitted to the Department for Local Government (DLG) was materially inaccurate when compared to the receipt and disbursement ledgers and to the sheriff's final settlement for calendar year 2021. The receipts per the fourth quarter financial report were understated by \$89,946 and the disbursements per the fourth quarter financial report were understated by \$22,061.

The receipts and disbursements per the fourth quarter financial report were understated because the sheriff cut off the quarterly at December 31, 2021, and failed to include receivables and payables that existed at year-end. As a result, the fourth quarter financial report was materially misstated, and the financial information did not reflect an accurate financial accounting of the county sheriff's office as reported to the Department for Local Government.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual* requires officials to ensure accurate and complete financial reporting. Good internal controls dictate that the financial report be accurate and complete.

We recommend the county sheriff prepare an accurate and complete fourth quarter financial report by reporting all accounts receivables and unpaid obligations as of December 31 on the fourth quarter financial report to ensure the financial information submitted to DLG and other users is accurate and complete.

Sheriff's Response: At the end of every calendar year there are both expenses and income for the month of December that are received/disbursed in the month of January. These additional transactions are included in our final reporting for the year to the Fiscal Court, but I was not aware that those additional transactions should also be included on the final Quarterly Report that is sent to the Division of Local Government at the end of the year.

Those transactions will be included on that report at the end of each year.

2021-002 The Calloway County Sheriff Failed To Properly Bid Vehicle Purchases

In June 2021, the Calloway County Sheriff purchased two vehicles from the same vendor without advertising for bids or using the state price contract. While each expenditure was less than \$30,000, the total amount disbursed for the month was \$56,838.

According to personnel of the sheriff's office, each individual disbursement for vehicles was under the \$30,000 bid threshold, therefore, the vehicles were not bid or purchased from the vendor holding the state price contract. Weak internal controls over disbursements allowed these transactions to occur without proper advertisement or procurement procedures. Because the sheriff disbursed over \$30,000 to the same vendor in the calendar year, the sheriff was not in compliance with KRS 424.260.

CALLOWAY COUNTY
NICKY KNIGHT, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2021
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2021-002 The Calloway County Sheriff Failed To Properly Bid Vehicle Purchases (Continued)

According to KRS 424.260(1), “[e]xcept where a statute specifically fixes a larger sum as the minimum for a requirement of advertisements for bids, no city, county, or district, or board or commission of a city or county, or sheriff, or county clerk, may make a contract, lease, or other agreement for:

- (a) Materials;
 - (b) Supplies, except perishable foods such as meat, poultry, fish, egg products, fresh vegetables, and fresh fruits;
 - (c) Equipment; or
 - (d) Contractual services other than professional;
- involving an expenditure of more than thirty thousand dollars (\$30,000) without first making newspaper advertisement for bids.”

We recommend the sheriff comply with the bid requirements of KRS 424.260(1) by soliciting bids on all disbursements over \$30,000. We also recommend the sheriff strengthen internal controls over disbursements so that bid requirements cannot be avoided on future disbursements.

Sheriff's Response: At the time of this purchase, we were allowed to make a purchase that was under \$30,000 without a bid. We purchased a vehicle for \$28,419.00 which is under \$30,000. A few days later I had the opportunity to purchase another vehicle at the same price. Police vehicles have become extremely difficult to purchase and ordering them could take up to a year to be fulfilled. Therefore, when I had the opportunity to make the purchase, I did, not knowing that I was in violation of KRS 424.260 by purchasing two vehicles in one month without bidding. If I had waited and made the purchase in a different month it would not have been a problem.

In the future we will take bids on vehicles, at the first of the year. The bids will be good for one year. This will cover the office on this statute.