

**REPORT OF THE AUDIT OF THE
POWELL COUNTY
SHERIFF**

**For The Year Ended
December 31, 2019**



**MIKE HARMON
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable James Anderson, Powell County Judge/Executive
The Honorable Danny Rogers, Powell County Sheriff
Members of the Powell County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the Sheriff of Powell County, Kentucky, for the year ended December 31, 2019, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Audit Guide for County Fee Officials* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



The Honorable James Anderson, Powell County Judge/Executive
 The Honorable Danny Rogers, Powell County Sheriff
 Members of the Powell County Fiscal Court

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the Powell County Sheriff on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Powell County Sheriff, as of December 31, 2019, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the Powell County Sheriff for the year ended December 31, 2019, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2022, on our consideration of the Powell County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Powell 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:

- 2019-001 The Sheriff Was Not Sufficiently Involved In The Daily Financial Activities Of His Office
- 2019-002 The Sheriff's Office Does Not Have Adequate Segregation Of Duties
- 2019-003 The Sheriff Has Not Settled Prior Year Accounts
- 2019-004 The Sheriff Did Not Submit The Fourth Quarter Financial Report To The Department For Local Government As Required
- 2019-005 The Sheriff Did Not Settle His 2019 Fee Account And Did Not Present A Final Settlement To The Fiscal Court
- 2019-006 The Sheriff Does Not Have Adequate Controls Over Disbursements
- 2019-007 The Sheriff Did Not Pay Invoices Timely
- 2019-008 The Sheriff Does Not Have Adequate Controls In Place Over Fuel Purchases

The Honorable James Anderson, Powell County Judge/Executive
The Honorable Danny Rogers, Powell County Sheriff
Members of the Powell County Fiscal Court

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

2019-009 The Sheriff Does Not Have Adequate Controls Over Payroll
2019-010 The Sheriff Has Not Resolved A Possible Conflict Of Interest

Respectfully submitted,

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

Mike Harmon
Auditor of Public Accounts

June 24, 2022

POWELL COUNTY
DANNY ROGERS, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2019

Receipts

Federal Grant		\$	6,000
State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)			3,294
State Fees For Services:			
Finance and Administration Cabinet	\$	45,259	
Sheriff Security Service		<u>5,005</u>	50,264
Circuit Court Clerk:			
Fines and Fees Collected			4,902
Fiscal Court			5,216
County Clerk - Delinquent Taxes			22,250
Commission On Taxes Collected			191,379
Fees Collected For Services:			
Auto Inspections		1,825	
Accident and Police Reports		446	
Serving Papers		30,360	
Carry Concealed Deadly Weapon Permits		2,970	
Resource Officer		11,000	
Transporting Prisoners		972	
Copies		1,211	
Executions		530	
IVD's		<u>970</u>	50,284
Other:			
Add-On Fees		20,410	
Franchise Auto-Deposit (Telecom Tax)		765	
Traffic Fees		383	
Miscellaneous		<u>1,928</u>	23,486

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

POWELL COUNTY
DANNY ROGERS, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2019
(Continued)

Receipts (Continued)

Interest Earned	\$	127
Borrowed Money:		
State Advancement		<u>19,170</u>
Total Receipts		376,372

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-		
Deputies' Salaries	\$	105,984
KLEFPT		4,481
Resource Officer		8,030
Overtime		14,484
Contracted Services-		
Advertising		499
Copier		1,474
Materials and Supplies-		
Office Materials and Supplies		9,091
Uniforms		12,568
Auto Expense-		
Gasoline		28,117
Maintenance and Repairs		14,161
Equipment		25,166
Other Charges-		
Conventions and Travel		1,975
Dues		484
Postage		7,255
Bond		825
Miscellaneous		1,066
CCDW		80
Dry Cleaning		49
Capital Outlay-		
Vehicles		<u>23,217</u>
	\$	259,006

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

POWELL COUNTY
DANNY ROGERS, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2019
(Continued)

Disbursements (Continued)

Debt Service:

State Advancement	<u>\$ 19,170</u>
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Total Disbursements	<u>\$ 278,176</u>
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Net Receipts	98,196
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Less: Statutory Maximum	<u>88,539</u>
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Excess Fees	9,657
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Less: Training Incentive Benefit	<u>4,216</u>
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Balance Due Fiscal Court at Completion of Audit	<u><u>\$ 5,441</u></u>
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POWELL COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2019

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the sheriff as determined by the audit. KRS 134.192 requires the sheriff to settle excess fees with the fiscal court at the time he files his annual settlement with the fiscal court on or before September 1 of each year. KRS 64.830 requires an outgoing sheriff to settle excess fees with the fiscal court of his county by March 15 immediately following the expiration of his term of office.

The financial statement has been prepared on a regulatory basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. This basis demonstrates compliance with the laws of Kentucky and is a special purpose framework. Under this regulatory basis of accounting, receipts and disbursements are generally recognized when cash is received or disbursed, with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2019 services
- Reimbursements for 2019 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2019

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).

POWELL COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2019
 (Continued)

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

The sheriff's office has elected to participate, pursuant to KRS 78.530, in the County Employees Retirement System (CERS), which is administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). This is a cost-sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute six percent of their salary to be allocated as follows: five percent will go to the member's account and one percent will go to the KRS insurance fund.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on or after January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own accounts. Nonhazardous covered employees contribute five percent of their annual creditable compensation. Nonhazardous members also contribute one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the KRS Board of Directors based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a four percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

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

The county's contribution rate for nonhazardous employees was 21.48 percent for the first half of the year and 24.06 percent for the second half of the year.

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

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%

POWELL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2019
(Continued)

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

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1 (Continued)

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, 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 KRS benefits. During the 2008 Special Session, the General Assembly determined that each July beginning in 2009, retirees who have been receiving a retirement allowance for at least 12 months will receive an automatic COLA of 1.5 percent. The COLA is not a guaranteed benefit. If a retiree has been receiving a benefit for less than 12 months, and a COLA is provided, it will be prorated based on the number of months the recipient has been receiving a benefit.

D. Cost of Living Adjustments - Tier 2 and Tier 3

No COLA is given unless authorized by the legislature with specific criteria. To this point, no COLA has been authorized by the legislature for Tier 2 or Tier 3 members.

E. Death Benefit

If a retired member is receiving a monthly benefit based on at least 48 months of service credit, KRS will pay a \$5,000 death benefit payment to the beneficiary designated by the member specifically for this benefit. Members with multiple accounts are entitled to only one death benefit.

POWELL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2019
(Continued)

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

KRS Annual Financial Report and Proportionate Share Audit Report

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

KRS also issues proportionate share audit reports for both total pension liability and other post-employment benefits for CERS determined by actuarial valuation as well as each participating county's proportionate share. Both the Schedules of Employer Allocations and Pension Amounts by Employer and the Schedules of Employer Allocations and OPEB Amounts by Employer reports and the related actuarial tables are available online at <https://kyret.ky.gov>. The complete actuarial valuation report, including all actuarial assumptions and methods, is also available on the website or can be obtained as described in the paragraph above.

Note 3. Deposits

The Powell County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the sheriff's deposits may not be returned. The Powell County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of December 31, 2019, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Federal Grant

The Powell County Sheriff's office received \$6,000 from the United States Forest Service for patrolling. This was a reimbursement for payroll of officers patrolling the Daniel Boone National Forest.

Note 5. Interlocal Agreement - Powell County Board of Education

In June 2018, the office of the sheriff entered into an agreement with the Powell County Board of Education wherein the school system agreed to reimburse the sheriff's office for the cost of the school resource officer program and two school resource officers' salaries from July 2018 through June 2019, in a sum of \$44,000 to be paid quarterly in installments of \$11,000. The sheriff received one quarterly installment of \$11,000 during calendar year 2019 after which time this interlocal agreement was terminated.

POWELL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2019
(Continued)

Note 6. Notes Payable

A. Truck

On November 30, 2018, the Powell County Fiscal Court entered into a short-term loan for a truck totaling \$14,460 to be used by the sheriff's office. The agreement required three payments with the first one due on December 3, 2019. During calendar year 2019, the sheriff's office paid off the balance of this loan.

B. Vehicle

On December 29, 2018, the Powell County Fiscal Court entered into a short-term loan for a vehicle totaling \$8,988 to be used by the sheriff's office. The agreement required three payments with the first one due on December 29, 2019. During calendar year 2019, the sheriff's office paid off the balance of this loan.

Note 7. Crime Stoppers In Schools

Crime Stoppers in Schools is a school-supported program to decrease crime and increase pride within the school and local community by rewarding valid sharing of information regarding criminal activity. The Powell County Sheriff's Department, Powell County Schools, and Whitaker Bank of Powell County sponsor the program. The beginning balance was \$195. There were no receipts or disbursements for calendar year 2019. The balance as of December 31, 2019, was \$195.

Note 8. Asset Forfeiture Accounts Federal Asset Forfeiture

Federal Asset Forfeiture

The office of the sheriff received monies from federal agencies for funds recovered in drug related cases. The account had a beginning balance of \$186. There were no receipts or disbursements for calendar year 2019. The balance as of December 31, 2019, was \$186.

Non-Federal Asset Forfeiture

The office of the sheriff received monies from the local and state agencies for funds recovered in drug related cases. The account had a beginning balance of \$2,549, receipts of \$1,048, and disbursements of \$909. The balance as of December 31, 2019, was \$2,688.

Note 9. Related Party Transactions

The office of the sheriff does business with a local garage and repair shop. The owner of this repair shop works as a special deputy for the sheriff's office. The total amount paid to this repair shop during 2019 was \$3,259.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable James Anderson, Powell County Judge/Executive
The Honorable Danny Rogers, Powell County Sheriff
Members of the Powell County Fiscal Court

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

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the Powell County Sheriff for the year ended December 31, 2019, and the related notes to the financial statement and have issued our report thereon dated June 24, 2022. The Powell 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 Powell County Sheriff's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Powell County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Powell County Sheriff's internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2019-001, 2019-002, 2019-003, 2019-004, and 2019-005 to be material weaknesses.



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 deficiencies described in the accompanying Schedule of Findings and Responses as items 2019-006, 2019-007, 2019-008, and 2019-009 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Powell County Sheriff's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2019-003, 2019-004, 2019-005, and 2019-010.

Views of Responsible Official and Planned Corrective Action

The Powell 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 Powell 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,

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

Mike Harmon
Auditor of Public Accounts

June 24, 2022

SCHEDULE OF FINDINGS AND RESPONSES

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POWELL COUNTY
DANNY ROGERS, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2019

FINANCIAL STATEMENT FINDINGS:

2019-001 The Sheriff Was Not Sufficiently 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 2018-001. The sheriff was not sufficiently 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. As a result, we have noted the following deficiencies:

- A lack of segregation of duties over receipts and disbursements.
- A final settlement was not presented to the fiscal court and excess fees were not paid timely for 2019.
- Quarterly financial reports were not submitted to the Department for Local Government.
- Prior year accounts have not been settled and amounts due to the fiscal court have not been paid.
- Inadequate controls over disbursements.
- Invoices were not paid timely.

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 provide 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.

Sheriff's Response: I disagree that the sheriff was not involved in the daily financial activities of his office. Someone could not make that assumption only by being here a couple of times a year. I do discuss daily activities with my staff however it may not be documented by handwriting but I am involved in my office and the activities. I not only work the road but I do help in the office taking payments and preparingg [sic] receipts for fees and property taxes.

At what point would auditors consider me involved in my office daily?

**We are a small office and the daily duties are shared.*

**We will try to present final settlements to the fiscal court in a more timely matter.*

**All quarterly reports have been forwarded to DLG.*

POWELL COUNTY
 DANNY ROGERS, SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2019
 (Continued)

FINANCIAL STATEMENT FINDINGS: Continued)

2019-001 The Sheriff Was Not Sufficiently Involved In The Daily Financial Activities Of His Office
 (Continued)

Sheriff's Response:(Continued)

**Some of the prior year accounts have been settled but we have been waiting for the fiscal court to pay refund in order to settle the 2015 tax account. Once that is done we should be able to settle those out.*

**We have since terminated the school resource contract and that has helped with finances. Also we have been receiving franchises from the county clerk on time and that has helped with money coming into our office more frequently.*

2019-002 The Sheriff's Office Does Not Have Adequate Segregation Of Duties

This is a repeat finding and was included in the prior year audit report as finding 2018-002. The sheriff's office does not have adequate segregation of duties. The sheriff's bookkeeper collects payments from customers, prepares deposits, writes checks, posts transactions to the receipts ledger, posts 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.

We recommend the sheriff 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: See response 001. We would love to hire more employees however they do not stay here due to not being able to compete with other counties salaries and their benefits.

**I go over the bank statements along with both clerks each month when accounts are reconciled dated and initialed by myself and both clerks if able.*

2019-003 The Sheriff Has Not Settled Prior Year Accounts

This is a repeat finding and was included in the prior year audit report as findings 2018-003 and 2018-004. Per prior year audits 2014 through 2018, the sheriff had various receivables and liabilities to settle the tax and fee accounts for each year.

POWELL COUNTY
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SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2019
(Continued)

FINANCIAL STATEMENT FINDINGS: Continued)

2019-003 The Sheriff Has Not Settled Prior Year Accounts (Continued)

During our audit period, the sheriff settled all significant receivables and liabilities and closed all old tax and fee accounts. The balances in tax and fee accounts for 2014, 2016, and 2017 were transferred to the 2015 tax account, which resulted in an ending balance of \$11,144 in the 2015 tax account. This entire amount is due to the fiscal court as additional excess fees resulting from the balances of fee accounts for 2014, 2016, and 2017 being transferred to the 2015 tax account. In addition to the balance in the 2015 tax account, the sheriff has a balance of \$7,895 in the 2018 fee account (as reported in the 2018 fee audit) which should also be paid to the fiscal court as additional excess fees. Likewise, \$10,598 is owed to the fiscal court as additional excess fees due to disallowed disbursements in prior periods as noted in the following table:

<u>Amounts due as additional excess fees:</u>		
2018 Fee Audit	\$ 660	Disallowed Disbursements
2017 Fee Audit	1,708	Disallowed Disbursements
2016 Fee Audit	1,154	Disallowed Disbursements
2015 Fee Audit	885	Disallowed Disbursements
2014 Fee Audit	4,075	Disallowed Disbursements
2013 Fee Audit	419	Disallowed Disbursements
2013 Fee Audit	750	Salary overpayment
2012 Fee Audit	<u>947</u>	<u>Disallowed Disbursements</u>
Total	<u>\$ 10,598</u>	

The sheriff did not have adequate controls in place to ensure receivables and liabilities for old accounts were settled correctly and timely. Furthermore, as discussed in finding 2019-001, the sheriff did not implement adequate oversight procedures to follow up on old accounts to ensure corrective action had been taken as instructed in prior audit periods.

As a result, the sheriff has a balance in the 2015 tax account that is actually related to fee account liabilities. The entire balance in the 2015 tax account of \$11,144 (plus any accrued interest), is due to the fiscal court as additional excess fees for 2014, 2016, and 2017 in addition to the balance of \$7,895 in the 2018 fee account. Also, funds totaling \$10,598 for disallowed disbursements are due to the fiscal court as additional excess fees. In addition to being a violation of statute, failure to settle and close accounts for extended periods of time increases the risk of theft, loss, or misappropriation of funds.

KRS 134.192(1) states, “[e]ach 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.”

We recommend the sheriff pay the balance in the 2015 tax account and in the 2018 fee account to the county treasurer and close the account as soon as possible in order to settle excess fees due for prior years. Further, we recommend the sheriff consult with the fiscal court and county attorney to determine how to settle the \$10,598 in additional excess fees due for prior periods resulting from disallowed disbursements in those periods. This finding is being referred to the Powell County Attorney for further review and collection under KRS 64.820.

POWELL COUNTY
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 For The Year Ended December 31, 2019
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-003 The Sheriff Has Not Settled Prior Year Accounts (Continued)

Sheriff's Response: In response to this finding: if I could get the fiscal court to refund the overpayment I would be able settle the 2015 tax account.

**Candy-as addressed many times in prior audits candy was used throughout the year for incentives for school resource. Other public services/activities that it was used for and all not used for personal use it was all used for things involving public/community. I know sometimes we used peppermint in the courtroom if needed or if left over it was on the counter.*

**Greeting cards I don't remember the actual receipts it's been several years, however, that was a rare instance due to the fact that [name redacted] or [name redacted] always personally provide those and not sure of the reason it was on that particular receipt. Once again any and all cards sent from entire sheriff's department not for personal use and were used for mostly sympathy [sic] for people of our community or othe [sic] local government agencies during their loss.*

**Knives are equipment and a useful tool. These are good to cut seat belts. These were purchased as equipment and deputy use them on person and are part of their uniform.*

Please explain why a knife purchase used on person and on equipment a disallowed item?

So I do not agree with these items being disallowed.

We are working on resolving these issues.

Auditor's Reply: Per the finding, all account balances were combined and amounts due are the net still due after all inter-account liabilities and receivables were eliminated. The amount due from the fiscal court was applied to the balance owed by the sheriff to the fiscal court for various tax and fee account liabilities. The fiscal court no longer owes any amount to the sheriff to settle the account as the amount previously owed has been credited against the amount owed by the sheriff to the fiscal court. The balances of any remaining open prior year accounts are due to the fiscal court in addition to \$10,598 owed as additional excess fees due to prior year disallowed disbursements that have not been settled.

Regarding disallowed disbursements, as noted 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 nature, beneficial to the public, and not primarily personal in nature. The items noted did not meet this criteria as has been detailed in audit reports for the periods in which disallowed disbursements were noted.

2019-004 The Sheriff Did Not Submit The Fourth Quarter Financial Report To The Department For Local Government As Required

This is a repeat finding and was included in the prior year audit report as finding 2018-005. The sheriff did not submit the fourth quarter financial report to the Department for Local Government as required. This was caused by the lack of management oversight as described in finding 2019-001. Failure to comply with these regulations results in violation of statute and a lack of availability of financial records to approving authorities.

POWELL COUNTY
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 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2019
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-004 The Sheriff Did Not Submit The Fourth Quarter Financial Report To The Department For Local Government As Required (Continued)

KRS 68.210 states “[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.” Per the *County Budget Preparation and State Local Finance Officer Policy Manual*, 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 reports to the Department for Local Government as required.

Sheriff's Response: All reports should have been sent however time has lapsed [sic] and I would not know when or why they did not received [sic] it.

2019-005 The Sheriff Did Not Settle His 2019 Fee Account And Did Not Present A Final Settlement To The Fiscal Court

This is a repeat finding and was included in the prior year audit report as finding 2018-004. The sheriff did not settle his 2019 fee account and he did not present a final settlement to the fiscal court for calendar year 2019. In order to settle the account, the sheriff should pay the account balance of \$5,441 to the fiscal court.

This is a result of a lack of management oversight by the sheriff as described in finding 2019-001. He did not ensure that an annual settlement was presented to the fiscal court and that excess fees were properly paid.

The failure to pay liabilities timely causes the fiscal court to be deprived of funds for significant time periods.

KRS 134.192(1) states “[e]ach 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.” KRS 134.192(11) states, in part, that the sheriff shall file annually with his or her settlement: (a) “[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 (b) [a] complete statement of all expenditures of his or her office, including his or her salary, compensation of deputies and assistants, and reasonable expenses.”

We recommend the sheriff take the necessary steps to ensure the account is settled as soon as possible. We further recommend the sheriff settle his accounts before September 1 of each year hereafter and present the annual settlement to the fiscal court.

Sheriff's Response: Will work on trying to present final settlement to fiscal court.

2019-006 The Sheriff Does Not Have Adequate Controls Over Disbursements

This is a repeat finding and was included in the prior year audit as finding 2018-006. The sheriff's office does not have strong internal controls over disbursements. The lack of adequate controls over disbursements, inadequate segregation of duties, and absence of review procedures, as discussed in findings 2019-001 and 2019-002, caused invoices to not be paid timely (see finding 2019-007).

POWELL COUNTY
 DANNY ROGERS, SHERIFF
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 For The Year Ended December 31, 2019
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-006 The Sheriff Does Not Have Adequate Controls Over Disbursements (Continued)

There were not adequate review procedures in place, as described in finding 2019-001, to detect, eliminate, or reduce errors. Invoices not being paid timely could result in substantial late fees, penalties, or other ramifications. 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: See previous answers.

2019-007 The Sheriff Did Not Pay Invoices Timely

This is a repeat finding and was included in the prior year audit report as finding 2018-008. Two invoices in our sample of 16 disbursements were not paid within 30 business days, some several months late. This condition is a result of a lack of internal controls over disbursements as described in finding 2019-006 and lack of management oversight as described in finding 2019-001. Failure to pay invoices timely results in noncompliance with statutes and can result in late fees and other penalties. KRS 65.140(2) states, in part, "all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor's invoice[.]" KRS 65.140(3) states, "[a]n interest penalty of one percent (1%) of any amount approved and unpaid shall be added to the amount approved for each month or fraction thereof after the thirty (30) working days which followed receipt of vendor's invoice by the purchaser." 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: Will work on resolving these issues.

2019-008 The Sheriff Does Not Have Adequate Controls In Place Over Fuel Purchases

This is a repeat finding and was included in the prior year audit report as finding 2018-009. The sheriff's office lacks adequate controls over fuel purchases. The sheriff utilizes a third-party fuel purchasing system but does not follow the procedures for fuel purchases the system is designed to monitor. The sheriff receives a monthly invoice from the vendor used for purchasing fuel. These invoices list each person purchasing fuel along with the vehicle mileage, quantity, and price. We noted the following issues regarding fuel purchases:

- Fuel card users routinely did not list the vehicle mileage when purchasing fuel.
- Periodic use of fuel cards by a special deputy (special deputies are sworn officers of the sheriff's office but are not employees and do not receive wages from the sheriff's office). The sheriff's office does not have a policy regarding fuel and vehicle use by special deputies.

The sheriff did not have controls in place to adequately monitor fuel purchases. Besides payroll expenses, fuel purchases are the largest single expense for the sheriff's office. Without proper documentation of these fuel purchases by vehicle unit number and by the assigned deputy, the risk of fuel being purchased for personal use or by unauthorized users greatly increases.

Good internal controls over fuel purchases require the sheriff to ensure that adequate documentation is maintained to support the disbursement, which includes the odometer readings for all vehicles and the person purchasing the fuel. In addition, the sheriff should have a policy regarding fuel purchases by special deputies or other non-employees. In very rare instances, this might be acceptable, but the sheriff should outline the specific situations in which this would be necessary.

POWELL COUNTY
 DANNY ROGERS, SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2019
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-008 The Sheriff Does Not Have Adequate Controls In Place Over Fuel Purchases (Continued)

We recommend the sheriff properly use this third-party fuel purchasing system and ensure that all fuel purchases are properly supported by proper documentation, which includes accurate odometer readings and designation of proper vehicle unit numbers. We also recommend the sheriff review and reconcile the third-party fuel reports monthly to note any employees not following proper fuel purchase procedures. Furthermore, we recommend the sheriff establish policies and procedures to address fuel card use by special deputies.

Sheriff's Response: To address the fuel issue: sometimes not often there was instance were [sic] card wasn't working they may have use another option of charging at a local business.

**Everyone should be using the correct mileage and card when purchasing fuel.*

**Yes special deputies have fuel cards! Without special deputies it would be hard for small departments to take care of the numerous calls and cases our county takes care of with limited manpower. They only use cards while they are working for no money serving papers or taking county calls! That is the only time or policy that it can be used!*

**Yes fuel is one of the largest expenses for the sheriff's office and if dispatch logs are needed to verify the back and forth from one end of the county to the other for calls, reports, paper services, transports for court, transports to Eastern State and funeral escorts per day are numerous.*

2019-009 The Sheriff Does Have Adequate Controls Over Payroll

This is a repeat finding and was included in the prior year audit report as finding 2018-010. The sheriff's office lacked adequate internal controls over the processing of payroll, specifically over timesheets and gross wage calculations. Review procedures were in place; however, they were not adequately performed to eliminate or reduce errors.

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

- Two employees did not have hours listed on their timesheets, but rather just wrote "Salary" on the timesheet.
- Leave balances were not properly maintained. We found that only one full-time employee-maintained leave balances.

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 lists 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, as a matter of internal control, the hours paid must agree to the hours documented and each timesheet should be signed by the employee and a supervisor.

POWELL COUNTY
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(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-009 The Sheriff Lacked Adequate Controls Over Payroll (Continued)

Further, these issues are in violation of the sheriff's policy manual. Section 9.1(1.) states, "Each deputy of this office shall keep an individual timesheet for each pay period. Each member shall use this timesheet to record their hours worked."

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 and payroll calculations are accurate. Due to the nature of this finding, it will be referred to the Kentucky Secretary of Labor.

Sheriff's Response: Payroll is prepared by the judge executives office.

Most of the issues listed have been taken care of but see all answers in previous audit pertaining to comments of timesheets.

2019-010 The Sheriff Has Not Resolved A Possible Conflict Of Interest

This is a repeat finding and was included in the prior year audit report as finding 2018-011. 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, "[t]he 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: Possible conflict of interest this has been rehashed for years and has been addressed. Please see previous answers in 2018 audit. This has been discussed multiple times with the county attorney and was not a conflict!

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SCHEDULE OF FINDINGS AND RESPONSES
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(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-010 The Sheriff Has Not Resolved A Possible Conflict Of Interest (Continued)

Auditor's Reply: Pursuant to KRS 15.025, the Attorney General of Kentucky provides legal opinions to public officials to assist them in the performance of their duties. These opinions do not have the force of law but are persuasive and public officials are expected to follow them. On December 30, 2020, Attorney General Daniel Cameron issued OAG 20-19 as requested by the Powell County Attorney regarding this specific issue. The opinion states "Because the offices of certified court security officer and county magistrate are functionally incompatible, an individual may not simultaneously hold both positions."