

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

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



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

Independent Auditor's Report

The Honorable Eddie Barnes, Powell County Judge/Executive
The Honorable Danny Rogers, Powell County Sheriff
Members of the Powell 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 Powell 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 Powell 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 Powell County Sheriff, as of 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 Powell 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 Eddie Barnes, Powell County Judge/Executive
The Honorable Danny Rogers, Powell County Sheriff
Members of the Powell 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 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 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 Powell 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 Powell 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 Eddie Barnes, 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*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 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 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 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:

- 2021-001 The Sheriff Was Not Sufficiently Involved In The Daily Financial Activities Of His Office
- 2021-002 The Sheriff's Office Does Not Have Adequate Segregation Of Duties
- 2021-003 The Sheriff Has Not Settled Prior Year Accounts
- 2021-004 The Sheriff Does Not Have Adequate Controls Over Disbursements
- 2021-005 The Sheriff Did Not Pay Invoices Timely
- 2021-006 The Sheriff Does Not Have Adequate Controls In Place Over Fuel Purchases
- 2021-007 The Sheriff Had \$411 In Disallowed Disbursements
- 2021-008 The Sheriff Did Not Follow Competitive Bidding Requirements
- 2021-009 The Sheriff Has Not Resolved A Possible Conflict Of Interest

Respectfully submitted,

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

Mike Harmon
Auditor of Public Accounts
Frankfort, KY

October 24, 2022

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

For The Year Ended December 31, 2021

Receipts

Federal Agreement	\$	6,000	
State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)			5,508
State Fees For Services:			
Finance and Administration Cabinet	\$	51,718	
Sheriff Security Service		3,183	
Transport Prisoner		195	
		<hr/>	55,096
Circuit Court Clerk:			
Fines and Fees Collected			2,908
Fiscal Court			9,086
County Clerk - Delinquent Taxes			19,237
Commission On Taxes Collected			242,410
Fees Collected For Services:			
Auto Inspections		2,050	
Accident and Police Reports		335	
Serving Papers		21,533	
Carry Concealed Deadly Weapon Permits		2,983	
		<hr/>	26,901
Other:			
Miscellaneous		5,311	
Execution		130	
IVDS		710	
Traffic Fees		217	
Franchise Auto Deposit (Telecom Tax)		828	
Copies		306	
Add-Ons		28,288	
		<hr/>	35,790
Interest Earned			126
Borrowed Money:			
State Advancement			19,170
			<hr/>
Total Receipts			422,232

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, 2021
(Continued)

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$ 99,649
KLEFPF	8,249
Overtime	28,688

Contracted Services-

Advertising	99
Vehicle Maintenance and Repairs	23,368

Materials and Supplies-

Office Materials and Supplies	13,887
Uniforms	7,227

Auto Expense-

Gasoline	26,408
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Other Charges-

Dues	963
Postage	805
Bond	906
Blood Draws	1,260
Miscellaneous	5,097
Jury Expense	50
CCDW	70
Equipment	43,179
Training	1,076

Capital Outlay-

Office Equipment	1,130
Vehicles	<u>33,426</u>
	\$ 295,537

Debt Service:

State Advancement	<u>19,170</u>
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Total Disbursements		<u>\$ 314,707</u>
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POWELL COUNTY
DANNY ROGERS, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2021
(Continued)

Net Receipts	\$ 107,525
Less: Statutory Maximum	<u>91,796</u>
Excess Fees	15,729
Less: Training Incentive Benefit	<u>8,686</u>
Balance Due Fiscal Court at Completion of Audit*	<u>\$ 7,043</u>

* - The sheriff's statutory maximum for calendar year 2021 was \$91,796 as noted above. The sheriff was paid \$95,331 during calendar year 2021. The balance due the fiscal court at the completion of the audit is a result of this overpayment of \$3,535.

POWELL 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).

POWELL 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.

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:

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, 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)

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

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.

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, 2021
(Continued)

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

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 Powell 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 Powell 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.

Note 4. Short-term Debt

A. Direct Borrowing - State Advancement

The Powell County Sheriff borrowed a state advancement of funds in the amount of \$19,170 to defray the expenses of the office for the calendar year 2021, in accordance with KRS 64.140. State advancements must be paid in full from the fee account in which they are received. The loan was repaid on December 28, 2021.

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

Note 4. Short-term Debt (Continued)

B. Changes In Short-term Debt

	Beginning Balance	Additions	Reductions	Ending Balance
Direct Borrowing	\$	\$ 19,170	\$ 19,170	\$
Total Short-term Debt	\$ 0	\$ 19,170	\$ 19,170	\$ 0

Note 5. United States Forest Service Agreement

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

Note 6. 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 2021. The balance of December 31, 2021 was \$195.

Note 7. Asset Forfeiture Accounts

A. Federal Asset Forfeiture

The office of the sheriff received monies from federal agencies for funds recovered in drug related cases. The account has a beginning balance of \$186. There were no receipts or disbursement for calendar year 2021. The balance of December 31, 2021 was \$186.

B. 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 has a beginning balance of \$1,497, receipts of \$1,542, and disbursements of \$2,595. The balance as of December 31, 2021 was \$444.

Note 8. Related Party Transactions

The sheriff's office 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 2021 was \$3,952.

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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

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 Eddie Barnes, Powell County Judge/Executive
The Honorable Danny Rogers, Powell County Sheriff
Members of the Powell 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 Powell County Sheriff for the year ended December 31, 2021, and the related notes to the financial statement and have issued our report thereon dated October 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) 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 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 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 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 2021-001, 2021-002, 2021-003, 2021-008 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 2021-004, 2021-005, 2021-006, and 2021-007 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 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 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 2021-003, 2021-008, and 2021-009.

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
Frankfort, KY

October 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, 2021

FINANCIAL STATEMENT FINDINGS:

2021-001 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 2020-001. 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 2021.
- 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.
- Disallowed disbursements totaling \$411.

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 preparing 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, 2021
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2021-001 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.*

Auditor Reply: As noted, the oversight and checks and balances the sheriff performs are not documented; therefore, auditors were unable to verify that oversight had occurred.

2021-002 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 2020-002. 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 and with both clerks each month when accounts are reconciled dated and initialed by myself and both clerks if able.*

POWELL COUNTY
DANNY ROGERS, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2021
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2021-003 The Sheriff Has Not Settled Prior Year Accounts

This is a repeat finding and was included in the prior year audit report as findings 2020-003 and 2020-004. Per prior year audits 2012 through 2018 and including 2021, \$14,574 is owed to the fiscal court as additional excess fees due to disallowed disbursements in the current and prior periods as noted in the following table:

<u>Amount Due Personally From Sheriff:</u>		
2021 Fee Audit	\$ 441	Disallowed Disbursements
2021 Fee Audit	3,535	Salary Overpayment
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	947	Disallowed Disbursements
Total		<u>\$ 14,574</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 2021-001, 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. Funds totaling \$14,574 are due from the sheriff 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 consult with the fiscal court and the county attorney to determine how to settle the \$14,574 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.

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.

**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?

**Salary Overpayment has been resolved according to the Payroll Clerk.*

So I do not agree with these items being disallowed.

We are working on resolving these issues.

POWELL COUNTY
 DANNY ROGERS, SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2021
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2021-003 The Sheriff Has Not Settled Prior Year Accounts (Continued)

Auditor's Reply: 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 the criteria that has been detailed in audit reports for the periods in which disallowed disbursements were noted.

2021-004 The Sheriff Does Not Have Adequate Controls Over Disbursements

This is a repeat finding and was included in the prior year audit report as finding 2020-005. 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 2021-001 and 2021-002 led to invoices not being paid timely (see finding 2021-005).

There were not adequate review procedures in place, as described in finding 2021-001, 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 statement in response #2.

2021-005 The Sheriff Did Not Pay Invoices Timely

This is a repeat finding and was included in the prior year audit report as finding 2020-006. Three invoices in our sample of 22 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 2021-004 and lack of management oversight as described in finding 2021-001. 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[.]"

We recommend that in order to avoid late fees and penalties and to comply with KRS 65.140, the sheriff pay invoices within 30 days.

Sheriff's Response: Will work to resolve this issue.

POWELL COUNTY
 DANNY ROGERS, SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2021
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2021-006 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 2020-007. The sheriff's office does not have 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.

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 where 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 bank 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.*

POWELL COUNTY
DANNY ROGERS, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2021
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2021-007 The Sheriff Had \$411 In Disallowed Disbursements

The sheriff expended a total of \$411 for the following disallowed item:

- Items not necessary for the operation of the sheriff's office totaling \$441 (collector type pocket knives).

This is the result of a lack of internal controls over disbursements, and lack of management oversight as described in finding 2021-001. The disallowed disbursement resulted in taxpayer funds being spent inappropriately. In addition, the sheriff personally owes \$411 to the 2021 fee account to reimburse the disallowed disbursements.

In Funk v. Milliken, 317 S. W. 2d 499 (Ky. 1958), Kentucky's highest court ruled that county fee officials' expenditures of public funds will be allowed only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not primarily personal in nature.

We recommend the sheriff reimburse \$411 to the 2021 fee account from his personal funds for these disallowed disbursements. Furthermore, we recommend that the sheriff only expend funds for allowable purposes in the future.

Sheriff's Response: See previous response #2.

2021-008 The Sheriff Did Not Follow Competitive Bidding Requirements

The sheriff did not follow competitive bidding requirements for a truck purchased from a vendor. This is due to the sheriff not having adequate oversight and review procedures in place to ensure competitive bidding policies and procedures were followed. The sheriff is in violation of KRS 424.260 for competitive bidding.

Competitive bidding ensures that the sheriff procures materials and services at the best price available. KRS 424.260 states, "[e]xcept where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement 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 abide by the competitive bidding requirements outlined in KRS 424.260. We recommend adequate oversight procedures be implemented to ensure this process is followed for any purchases of like type items that exceed \$30,000 during the calendar year.

Sheriff's Response: Will look into resolving this issue in the future.

POWELL COUNTY
 DANNY ROGERS, SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2021
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2021-009 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 2020-008. 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 a 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(2) 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).

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 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."

We recommend the sheriff follow the guidance provided in OAG 20-19 and remedy this conflict of interest immediately. This finding is being referred to the Kentucky Attorney General and the Powell County Attorney for further review.

Sheriff's Response: Possible conflict of interest this has been re-hashed 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!

I will discuss this matter with the county attorney.

Auditor's Reply: As noted the Powell County Attorney did request an opinion from the Attorney General and this opinion was issued on December 20, 2020. The opinion stated, "Because the offices of certified court security officer and county magistrate are functionally incompatible, an individual may not simultaneously hold both positions."