REPORT OF THE AUDIT OF THE SCOTT COUNTY SHERIFF

For The Year Ended
December 31, 2021

MIKE HARMON
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CONTENTS PAGE

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MIKE HARMON
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Independent Auditor's Report

The Honorable Joe Pat Covington, Scott County Judge/Executive
The Honorable Tony Hampton, Scott County Sheriff
Members of the Scott 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 Scott 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 Scott 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 Scott 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 Scott 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.

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The Honorable Joe Pat Covington, Scott County Judge/Executive
The Honorable Tony Hampton, Scott County Sheriff
Members of the Scott 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 Scott 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 Scott 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 Scott 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 Joe Pat Covington, Scott County Judge/Executive
The Honorable Tony Hampton, Scott County Sheriff
Members of the Scott County Fiscal Court

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2022, on our consideration of the Scott 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 Scott 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 findings:

2021-001 The Scott County Sheriff Does Not Have Adequate Segregation Of Duties
2021-002 The Scott County Sheriff Does Not Have Adequate Internal Controls Over Forfeiture Funds
2021-003 The Scott County Sheriff Does Not Have Adequate Internal Controls Over Donated Funds

Respectfully submitted,

Mike Harmon
Auditor of Public Accounts
Frankfort, KY

December 19, 2022

SCOTT COUNTY
TONY HAMPTON, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2021

Receipts		
Federal:		
Highway Safety Grant		$ 12,091
State Fees For Services:		
Finance and Administration Cabinet	$ 153,577	
Cabinet For Health And Family Services	2,479	156,056
Circuit Court Clerk:		
Fines and Fees Collected		567
Fiscal Court		115,839
County Clerk - Delinquent Taxes		41,680
Commission On Taxes Collected		1,560,310
Fees Collected For Services:		
Auto Inspections	18,542	
Accident and Police Reports	1,897	
Serving Papers	51,595	
Carry Concealed Deadly Weapon Permits	17,900	89,934
Other:		
Add-On Fees	55,490	
Miscellaneous	1,513	
Courthouse Fees	5,241	62,244
Interest Earned		122
Total Receipts		2,038,843

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

SCOTT COUNTY
TONY HAMPTON, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2021
(Continued)

Disbursements	
Refunds	$ 100
Total Disbursements	100
Net Receipts	2,038,743
Less: Statutory Maximum	111,466
Excess Fees	1,927,277
Less: Training Incentive Benefit	4,373
Excess Fees Due County for 2021	1,922,904
Payments to Fiscal Court - Monthly	1,922,904
Balance Due Fiscal Court at Completion of Audit	$ 0

SCOTT 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).

Note 1. Summary of Significant Accounting Policies (Continued)

D. Fee Pooling

The Scott County Sheriff's office is required by the fiscal court to participate in a fee pooling system. Fee officials who are required to participate in fee pooling deposit all funds collected into their official operating account. The fee official is responsible for paying all amounts collected for others. Residual funds are then paid to the county treasurer on a monthly basis. Invoices are submitted to the county treasurer to document operating expenses. The fiscal court pays all operating expenses for the fee official

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

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.

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

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

Hazardous

Hazardous covered employees are required to contribute eight percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008, are required to contribute nine percent of their salary to be allocated as follows: eight percent will go to the member's account and one percent will go to the Kentucky Retirement System 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. Hazardous members contribute eight percent of their annual creditable compensation and 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 Board 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 hazardous member's account is credited with a seven and one-half percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008, aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

The county's contribution rate for hazardous employees was 39.58 percent for the first six months and 44.33 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%

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.

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

Other Post-Employment Benefits (OPEB) (Continued)

A. Health Insurance Coverage - Tier 1 (Continued)

Hazardous employees whose participation began on or after July 1, 2003, earn 15 dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, the employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Benefits are covered under KRS 78.5536.

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

Once members reach a minimum vesting period of 15 years, they earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually by 1.5 percent. This was established for Tier 2 members during the 2008 Special Legislative Session by House Bill 1. During the 2013 Legislative Session, Senate Bill 2 was enacted, creating Tier 3 benefits for members.

The monthly insurance benefit has been increased annually as a 1.5 percent cost of living adjustment (COLA) since July 2003 when the law changed. The annual increase is cumulative and continues to accrue after the member's retirement.

Tier 2 member benefits are covered by KRS 78.5536. Tier 3 members are not covered by the same provisions.

C. Health Insurance Coverage - Tier 2 and Tier 3 - Hazardous

Once members reach a minimum vesting period of 15 years, earn fifteen 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. Upon the death of a hazardous employee, the employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. 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 COLA since July 2003 when the law changed. The annual increase is cumulative and continues to accrue after the member's retirement.

D. 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.

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

Other Post-Employment Benefits (OPEB) (Continued)

E. 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.

F. Death Benefit

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

Kentucky Retirement System Annual Financial Report and Proportionate Share Audit Report

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

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

Note 3. Deposits

The Scott 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 Scott 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. Federal Highway Safety Grant

The Scott County Sheriff's office received a Highway Safety grant in the amount of $12,091 to provide impaired driving services to communities in Kentucky through federal grants administered by the Kentucky Transportation Cabinet's Office of Highway Safety. The main purpose of these grants is to reduce the fatalities on Kentucky roadways, minimize injuries to individuals and damage to property, and to educate the public in ways to do this. All funds were remitted to the fiscal court from the reimbursement of disbursements for personnel services, travel, and training.

Note 5. On Behalf Payments

The Scott County Sheriff's office is required by the fiscal court to participate in a fee pooling system. Since the sheriff is fee pooling, the fiscal court pays the sheriff's statutory maximum and training incentive as reflected on the sheriff's financial statement. For the year ended December 31, 2021, the fiscal court's contributions recognized by the sheriff included the amounts that were based on the statutory maximum and training incentive as required by KRS 64.5275 and KRS 64.5275(6) respectively. The Scott County Sheriff recognized receipts from the fiscal court and disbursements for the statutory maximum of $111,466 and training incentive of $4,373 for the year ended December 31, 2021.

Note 6. Other Accounts

A. <u>Federal Forfeiture Account</u>

The Scott County Sheriff's office maintains a federal forfeiture account for the deposit of funds forfeited as a result of court cases. Disbursements from these accounts are restricted in accordance with court related orders related to each individual case. The federal account had a balance of $27,452 as of January 1, 2021. There were receipts of $903 during the year and disbursements of $258 leaving a balance of $28,097 as of December 31, 2021.

B. <u>State Forfeiture Account</u>

The Scott County Sheriff's office maintains a state forfeiture account for the deposit of funds forfeited as a result of court cases. Disbursements from these accounts are restricted in accordance with court related orders related to each individual case. The state forfeiture account had a balance of $24,508 as of January 1, 2021. During the year, there were receipts of $21,337 and disbursements of $2,783 leaving a balance of $43,062 as of December 31, 2021.

C. <u>Donation Account</u>

The Scott County Sheriff's office maintains a donation account for donations to the sheriff's office. On January 1, 2021, the account had a balance of $26,719. During calendar year 2021, the sheriff's office had no receipts and $13,651 in disbursements, leaving a balance of $13,068 as of December 31, 2021.

Note 7. Contingencies

The sheriff is involved in multiple lawsuits, which could negatively impact the sheriff's office's financial position. Due to the uncertainty of this litigation, a reasonable estimate of the financial impact on the sheriff's office cannot be made at this time.

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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 Joe Pat Covington, Scott County Judge/Executive
The Honorable Tony Hampton, Scott County Sheriff
Members of the Scott 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 Scott County Sheriff for the year ended December 31, 2021, and the related notes to the financial statement and have issued our report thereon dated December 19, 2022. The Scott 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 Scott 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 Scott County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Scott County Sheriff's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, which are described in the accompanying Schedule of Findings and Responses as items 2021-001, 2021-002, and 2021-003 that we consider to be significant deficiencies.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Scott 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Views of Responsible Official and Planned Corrective Action

The Scott County Sheriff's views and planned corrective action for the findings identified in our audit are included in the accompanying Schedule of Findings and Responses. The Scott County Sheriff's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

Mike Harmon
Auditor of Public Accounts
Frankfort, KY

December 19, 2022

SCHEDULE OF FINDINGS AND RESPONSES

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SCOTT COUNTY
TONY HAMPTON, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2021

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES:

2021-001 The Scott County Sheriff Does Not Have Adequate Segregation Of Duties

The sheriff's bookkeeper prepares daily check-out sheets, prepares daily deposits, prepares and signs disbursement checks, posts transactions to the receipts and disbursements ledger, reconciles monthly bank statements, and prepares quarterly reports. Occasionally the bookkeeper will also collect payments from customers when front line staff coverage is inadequate. Deposits are taken to the bank by someone other than the bookkeeper, although there is no documentation of who makes the deposits. Disbursements are limited to monthly fee pooling remittances to the fiscal court and preapproved refunds; checks are getting a second signature by the sheriff or office manager, although it is not required to validate the check. Further, there is no documentation of review of daily checkout sheets, deposit slips, the receipts and disbursements ledger, bank statements, or bank reconciliations.

The sheriff has a small administrative staff and the bookkeeper has been delegated to execute most accounting functions. The sheriff has not implemented compensating controls sufficient to offset the control weakness noted. The lack of segregation of duties increases the risk of misappropriation of assets, errors, and inaccurate financial reporting. The same employee primarily performing related functions without sufficient oversight and review increases the risk that errors or fraud may go undetected. Additionally, proper segregation of duties and oversight and review protects employees in the course of performing their daily responsibilities.

Segregation of duties and the implementation of compensating controls when needed because the number of staff is limited, is essential for providing protection from asset misappropriation and inaccurate financial reporting. Adequate segregation of duties would prevent the same person from having all the significant roles over various accounting functions. Strong internal controls dictate oversight and review procedures to ensure accountability for public funds.

We recommend the sheriff implement the segregation of duties over custody of assets, recording function, authorization of disbursements, and reconciliation of books to bank. If these duties cannot be segregated, then the sheriff should implement compensating controls to strengthen oversight of duties performed by the same person. This could include but is not limited to the following:

- The sheriff (or designee) should review and initial the daily checkout sheet to agree to the daily deposit and initial the deposit slip.
- The sheriff (or designee) should review and initial the monthly receipts and disbursements ledger and agree to and sign disbursements checks.
- The sheriff (or designee) should review and initial the monthly bank statements and reconciliations.
- The sheriff should sign the quarterly financial statements and annual settlement and agree to receipts and disbursements ledger.

Sheriff's Response: Due to the small administrative staff within the Scott County Sheriff's Office, there is one employee responsible for both the bookkeeping and accounting responsibilities, which has resulted in this comment each year. To provide both transparency and efficiency, within our organization, and to be compliant with the State Auditor's Office, we are presenting the following recommendations be made to our Fiscal Court:

> *Invest in an additional position within the Scott County Sheriff's Office that is responsible for the accounting duties apart from the Bookkeeper. There is a definite demand for this designated role within our institution and will only become more evident as our county continues to thrive and prosper.*

SCOTT COUNTY
TONY HAMPTON, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2021
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2021-002 The Scott County Sheriff Does Not Have Adequate Internal Controls Over Forfeiture Funds

The sheriff did not have adequate internal controls over forfeiture funds to ensure they were properly accounted for and maintained in compliance with applicable laws and regulations. The sheriff is not maintaining supporting documentation for receipts to and disbursements from forfeiture accounts to substantiate compliance with judicial orders, relevant statutes and regulations, and federal awards of equitable sharing funds. The sheriff deposited restitution payments to the state drug forfeiture account that should have been deposited in the fee account. The sheriff is not maintaining receipts and disbursements ledgers for these accounts and did not consistently reconcile these accounts to their bank statements. Also, the sheriff did not complete an Equitable Sharing Agreement and Certification (ESAC) form, or a Schedule of Expenditures of Federal Awards (SEFA) as required for federal forfeiture funds.

The sheriff has a small administrative staff. For the first nine months of calendar year 2021, the sheriff delegated management of these accounts to a captain that had many other competing priorities and failed to keep detailed records and take timely actions to ensure compliance. The sheriff has since redelegated the management of these accounts to the bookkeeper. The bookkeeper has been manually noting reconciliation notes on the bank statement but has not established receipts and disbursements ledgers for these accounts. The sheriff and bookkeeper were not aware that federal forfeiture funds are required to be reported on an ESAC form and SEFA.

When appropriate supporting documentation for forfeiture accounts are not maintained, compliance with relevant laws and regulations cannot be determined and can potentially expose the sheriff to the risk that funds may be misappropriated and inaccurately reported. When bank reconciliations are not regularly completed and ledgers are not maintained to compare to bank statements, the risk of fraud due to theft and reporting errors significantly increases because receipts can go undeposited and disbursements can go without being made. Without proper oversight over bank account activity, these problems can go undetected. Failure to complete and submit an ESAC form and complete a SEFA puts the sheriff in noncompliance with federal reporting requirements for federal forfeiture funds and exposes him to the risk of loss of current and future federal forfeiture funds.

The *Guide To Equitable Sharing For State, Local, And Tribal Law Enforcement Agencies* published by the U.S. Department of Justice and the U.S. Department of the Treasury provides the guidance for the use, accounting, and reporting requirements for federal forfeiture funds provided to sheriff’s departments. This guidance provides for federal forfeiture funds to be covered by the same accounting rules as applicable to the agency’s general funds, maintenance of supporting documentation, and reporting requirements including the annual submission of the ESAC form and completion of a SEFA.

KRS 218A.420(1) states, “[a]ll property which is subject to forfeiture under this chapter shall be disposed of in accordance with this section.” Further, KRS 218A.420(4) states, “[c]oin, currency, or the proceeds from the sale of property forfeited shall be distributed as follows: (a) Eighty-five percent (85%) shall be paid to the law enforcement agency or agencies which seized the property, to be used for direct law enforcement purposes; and (b) Fifteen percent (15%) shall be paid to the Office of the Attorney General or, in the alternative, the fifteen percent (15%) shall be paid to the Prosecutors Advisory Council for deposit on behalf of the Commonwealth's attorney or county attorney who has participated in the forfeiture proceeding[.]”

SCOTT COUNTY
TONY HAMPTON, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2021
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2021-002 The Scott County Sheriff Does Not Have Adequate Internal Controls Over Forfeiture Funds (Continued)

KRS 532.033 states, in part, "[w]hen a judge orders restitution, the judge shall: (1) Order the restitution to be paid to a specific person or organization through the circuit clerk, who shall disburse the moneys as ordered by the court[.]" There appears to be nothing in this statute, or in any other statutes of which auditors are aware, that authorizes court-ordered restitution payments to be paid to a sheriff's drug forfeiture account.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual* requires bank reconciliations to be done monthly. Strong internal controls dictate monthly bank reconciliations to be completed on all bank accounts and receipts and disbursements ledgers be maintained to account for funds.

We recommend the sheriff strengthen internal controls over forfeiture accounts by doing the following:

- The sheriff (or his designee) should maintain supporting documentation for receipts to, and disbursements from, forfeiture accounts to substantiate compliance with judicial orders, relevant statutes and regulations, and federal awards of equitable sharing funds.
- The sheriff (or his designee) should deposit all restitution receipts in his fee account unless he has a court order directing the restitution to be paid to another specified account.
- The sheriff (or his designee) should maintain receipts and disbursements ledgers for forfeiture accounts.
- The sheriff (or his designee) should ensure that monthly bank reconciliations are performed and documented for forfeiture accounts.
- The sheriff (or his designee) should ensure that a ESAC form is submitted annually, and all expenditures of federal funds are included on a SEFA.

Sheriff's Response: As previously stated, there is limited administrative staff due to space restrictions and budget limitations. The creation of an additional employment position, within the Finance Department, will offset internal controls, and the lack there of.

2021-003 The Scott County Sheriff Does Not Have Adequate Internal Controls Over Donated Funds

The sheriff did not have adequate internal controls over donated funds to ensure they were properly accounted for and maintained in compliance with applicable laws and regulations. The sheriff is not maintaining a register to document the receipt of donations. The sheriff received a donation of proceeds from a printing company for the creation and sales of advertising on a calendar promoting the Scott County Sheriff's office. The sheriff deposited these donated funds directly in a trust set up by a local bank for the benefit of former sheriff's deputies injured in the line of duty. The sheriff is not maintaining receipts and disbursements ledgers for the donation account and did not consistently reconcile this account to its bank statements.

The sheriff is not in compliance with statutes regarding donations. When bank reconciliations are not regularly completed and ledgers are not maintained to compare to bank statements, the risk of fraud due to theft and reporting errors significantly increases.

SCOTT COUNTY
TONY HAMPTON, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2021
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2021-003 The Scott County Sheriff Does Not Have Adequate Internal Controls Over Donated Funds (Continued)

KRS 61.310(8)(a) states,"[a] sheriff may accept a donation of money or goods to be used for the public purposes of his or her office if the sheriff establishes a register for recording all donations that includes, at a minimum:

1. The name and address of the donor;
2. A general description of the donation;
3. The date of acceptance of the donation;
4. The monetary amount of the donation, or its estimated worth; and
5. Any purpose for which the donation is given.

The register shall constitute a public record, be subject to the provisions of KRS 61.870 to 61.884, and be made available to the public for inspection in the sheriff's office during regular business hours."

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual* requires bank reconciliations to be done monthly. Strong internal controls dictate monthly bank reconciliations to be completed on all bank accounts and receipts and disbursements ledgers be maintained to account for funds.

We recommend the sheriff strengthen internal controls over donations by doing the following:

- The sheriff (or his designee) should maintain a register available for public viewing, listing all donations received, including:
  - the name and address of the donor,
  - a general description of the donation,
  - the date of acceptance of the donation,
  - the monetary amount of the donation, or its estimated worth, and
  - any purpose for which the donation is given.
- The sheriff (or his designee) should deposit all funds donated to the Scott County Sheriff's office into the donation account including proceeds from sheriff's calendars.
- The sheriff (or his designee) should ensure that monthly bank reconciliations are performed and documented for the donation account.

Sheriff's Response: As previously stated, there is limited administrative staff due to space restrictions and budget limitations. The creation of an additional employment position, within the Finance Department, will offset internal controls, and the lack there of.