

**REPORT OF THE AUDIT OF THE
BULLITT COUNTY
SHERIFF**

**For The Period
January 7, 2019 Through December 31, 2019**



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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jerry Summers, Bullitt County Judge/Executive
The Honorable Walt Sholar, Bullitt County Sheriff
Members of the Bullitt County Fiscal Court

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying Statement of Receipts and Disbursements - Regulatory Basis of the Sheriff of Bullitt County, Kentucky, and the Statement of Receipts, Disbursements, and Fund Balances of the Sheriff's Operating Fund and County Fund with the State Treasurer - Regulatory Basis for the period January 7, 2019 through December 31, 2019, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements 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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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



The Honorable Jerry Summers, Bullitt County Judge/Executive
The Honorable Walt Sholar, Bullitt County Sheriff
Members of the Bullitt County Fiscal Court

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

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Bullitt County Sheriff, for the period January 7, 2019 through December 31, 2019, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the receipts and disbursements of the Bullitt County Sheriff and the receipts, disbursements, and fund balances of the Bullitt County Sheriff's operating fund and county fund with the state treasurer for the period January 7, 2019 through December 31, 2019, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2020, on our consideration of the Bullitt County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance.

The Honorable Jerry Summers, Bullitt County Judge/Executive
The Honorable Walt Sholar, Bullitt County Sheriff
Members of the Bullitt County Fiscal Court

Other Reporting Required by *Government Auditing Standards*

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

- 2019-001 The Bullitt County Sheriff's Office Does Not Have Adequate Segregation Of Duties Over Receipts And Reconciliations
- 2019-002 The Bullitt County Sheriff's Office Did Not Have Adequate Controls Over Disbursements
- 2019-003 The Bullitt County Sheriff's Office Internal Controls Over Payroll Processing Were Not Adequate

Respectfully submitted,

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

Mike Harmon
Auditor of Public Accounts

June 17, 2020

BULLITT COUNTY
WALT SHOLAR, SHERIFF
STATEMENT OF RECEIPTS AND DISBURSEMENTS - REGULATORY BASIS

For The Period January 7, 2019 Through December 31, 2019

Receipts

Federal Highway Safety Grant	\$	8,000	
State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)			169,372
State Fees for Services:			
Finance and Administration Cabinet	\$	30,191	
Sheriff Security Service		161,323	
Transport Prisoners		<u>26,044</u>	217,558
Fiscal Court			
E911 Salaries and Benefits Reimbursement		782,242	
Salary Benefits Reimbursement		1,193,072	
DARE		22,917	
Fiscal Court Salary Support		650,000	
Transport Prisoners		35,667	
Election Commission Fees		<u>807</u>	2,684,705
County Clerk - Delinquent Taxes			63,513
Commission on Taxes			1,462,542
Commission on School Taxes Collected			1,043,832
Fees Collected for Services:			
Auto Inspections		22,898	
Accident/Police Reports		17,664	
Serving Papers		184,235	
Carry Concealed Deadly Weapon Permits		24,930	
Carry Concealed Deadly Weapon Photos		3,315	
Transport Prisoners		11,530	
School Resource Officer		<u>94,166</u>	358,738
Other:			
Add-On Fees		123,824	
Miscellaneous		9,031	
Tow Lot Fees		58,806	
Tow Bill Reimbursement		35,819	
Surplus Sales		<u>21,717</u>	249,197

The accompanying notes are an integral part of the financial statements.

BULLITT COUNTY
WALT SHOLAR, SHERIFF
STATEMENT OF RECEIPTS AND DISBURSEMENTS - REGULATORY BASIS
For The Period January 7, 2019 Through December 31, 2019
(Continued)

Receipts (Continued)

Interest Earned	<u>\$ 3,026</u>
Total Receipts	6,260,483

Disbursements

Operating Disbursements:

Other Disbursements:

Online Surplus Sales Fees	\$ 784
Dog Kennel	8,000
Wrecker Service Fees	2,630
Supplies and Equipment	4,432
Maintenance and Monitoring	3,335
Miscellaneous	162
Taxes and Transfers	<u>2,235</u>

Total Disbursements	<u>21,578</u>
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Net Receipts	6,238,905
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Payments to State Treasurer:

75% Operating Fund *	5,787,834	
25% County Fund	<u>451,071</u>	<u>6,238,905</u>

Balance Due at Completion of Audit	<u><u>\$ 0</u></u>
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* Includes reimbursed expenses in the amount of \$4,467,442 for the audit period.
See Note 1 of Notes to Financial Statements.

BULLITT COUNTY
WALT SHOLAR, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
FUND BALANCES OF THE SHERIFF'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS

For The Period January 7, 2019 Through December 31, 2019

	75% Operating Fund	25% County Fund	Totals
Fund Balance - January 1, 2019	\$	\$	\$
<u>Receipts</u>			
Fees Paid to State - Operating Funds (75%)	5,787,834		5,787,834
Fees Paid to State - County Funds (25%)		451,071	451,071
Total Funds Available	<u>5,787,834</u>	<u>451,071</u>	<u>6,238,905</u>
<u>Disbursements</u>			
Bullitt County Fiscal Court		451,071	451,071
Personal Services-			
Official's Statutory Maximum	101,188		101,188
Deputies' Salaries	3,132,829		3,132,829
Employee Benefits-			
Employer's Share Social Security	242,561		242,561
Employer's Share Retirement	829,519		829,519
Employer's Share Health Insurance	511,434		511,434
Contracted Services-			
Hardware/Software Agreements	72,065		72,065
Evidence Room Audit	9,148		9,148
Office Help	2,701		2,701
Supplies and Materials-			
Office Supplies	39,272		39,272
Advertising	1,907		1,907
Uniforms	19,891		19,891
Patrol Equipment	36,250		36,250

The accompanying notes are an integral part of the financial statements.

BULLITT COUNTY
WALT SHOLAR, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
FUND BALANCES OF THE SHERIFF'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS
For The Period January 7, 2019 Through December 31, 2019
(Continued)

	75%	25%	
	Operating	County	
	Fund	Fund	Totals
	<u>Fund</u>	<u>Fund</u>	<u>Totals</u>
<u>Disbursements (Continued)</u>			
Other Charges-			
Background Check	\$ 1,600	\$	\$ 1,600
Insurance and Dues	7,394		7,394
Juror Meals	396		396
Miscellaneous	25,928		25,928
Postage	4,898		4,898
Evidence Room Expense	18,835		18,835
Telephone/Fax/Cellular	17,979		17,979
Training	18,275		18,275
Transport	4,961		4,961
Tow Lot	46,139		46,139
Personnel Program	1,975		1,975
Auto Expenses-			
Gasoline	116,368		116,368
Maintenance and Repairs	53,145		53,145
Capital Outlay-			
Vehicles	196,556		196,556
Total Disbursements	<u>5,513,214</u>	<u>451,071</u>	<u>5,964,285</u>
Fund Balance - December 31, 2019	<u>\$ 274,620</u>	<u>\$ 0</u>	<u>\$ 274,620</u>

The accompanying notes are an integral part of the financial statements.

BULLITT COUNTY
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

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

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

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount due from the sheriff as determined by the audit.

KRS 64.350 establishes that a fee official in counties with a population over 70,000 has two funds with the state treasurer for the deposit of fees collected. Seventy-five percent (75%) of the fees collected are deposited in the sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected are deposited to the county fiscal court fund and paid to the fiscal courts, urban-county governments, or consolidated local governments of the respective counties quarterly no later than April 15, July 15, October 15, and January 15. These funds are closed at the end of each official term by paying the balances to the respective county government.

Also, some revenues of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are treated as revenue in the 75 percent fund.

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

- Interest receivable
- Collection on accounts due from others for 2019 services
- Reimbursements for 2019 activities
- Payments due other governmental entities for December tax and fee collections
- Payroll expenditures incurred but not paid
- Payments due vendors for goods or services provided in 2019

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).

BULLITT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019
(Continued)

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

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

The sheriff's contribution for calendar year 2017 was \$737,600, calendar year 2018 was \$823,313, and calendar year 2019 was \$829,519.

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 KRS insurance fund.

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

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

The county's contribution rate for nonhazardous employees was 21.48 percent for the first six months and 24.06 percent for the last six months.

Hazardous

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008, are required to contribute 9 percent of their salary to be allocated as follows: 8 percent will go to the member's account and 1 percent will go to the KRS insurance fund.

BULLITT COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2019
 (Continued)

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

Hazardous (Continued)

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 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 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 7.5 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 35.34 percent for the first six months and 39.58 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.

BULLITT COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2019
 (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)

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 161.714 with exception of COLA and retiree health benefits after July 2003.

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

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

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

Tier 2 member benefits are covered by KRS 161.714 with exception of COLA and retiree health benefits after July 2003. 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 KRS benefits. During the 2008 Special Session, the General Assembly determined that each July beginning in 2009, retirees who have been receiving a retirement allowance for at least 12 months will receive an automatic COLA of 1.5 percent. The COLA is not a guaranteed benefit. If a retiree has been receiving a benefit for less than 12 months, and a COLA is provided, it will be prorated based on the number of months the recipient has been receiving a benefit.

BULLITT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019
(Continued)

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.

KRS Annual Financial Report and Proportionate Share Audit Report

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

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

Note 3. Deposits

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

Custodial Credit Risk - Deposits

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

BULLITT COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2019
 (Continued)

Note 4. Highway Safety Grant

The Bullitt County Sheriff's office was awarded a federal grant passed through from the Kentucky Transportation Cabinet's Office of Highway Safety in the amount of \$8,000. The funds are awarded to sub-grantees to reduce crashes, injuries, fatalities and associated cost by identifying transportation safety issues and developing and implementing effective integrated programs and activities. The funds received were used for their intended purpose.

Note 5. Lease Agreements

The Bullitt County Sheriff's office has commitments to the following lease agreements as of December 31, 2019:

Item Purchased	Monthly Payment	Term of Agreement	Ending Date	Principal Balance December 31, 2019
CSI Hardware	\$ 3,381	12 Months	10/1/2020	\$ 30,429
CSI Software	2,000	60 Months	6/27/2024	108,000
CSI Software Interface	<u>250</u>	12 Months	10/1/2020	<u>2,250</u>
Total	<u>\$ 5,631</u>			<u>\$ 140,679</u>

Note 6. DARE Account

The sheriff's office maintains an account for the deposit of donations to be used for Drug Abuse Resistance Education (DARE) activities. The balance was \$1,100 on January 7, 2019. During the audit period, receipts totaled \$8,369 and disbursements were \$1,452. The ending balance was \$8,017 as of December 31, 2019.

Note 7. State Drug Confiscated Property Account

The sheriff's office maintains an account for the deposit and disbursement of funds received as a result of property confiscated during drug-related law enforcement activities. These funds are to be expended for law enforcement purposes. The balance on January 7, 2019, was \$5,810. During the audit period, receipts totaled \$283,233 and disbursements were \$82,072. The ending balance was \$206,971 as of December 31, 2019.

Note 8. Credit Card Account

The sheriff's office maintains an account for tax, fee, and tow lot credit card payments. The balance was \$1 on January 7, 2019. During the audit period, receipts and disbursements were \$263,843 respectively. The ending balance was \$1 as of December 31, 2019.

Note 9. Federal Asset Forfeiture Account

The sheriff's office maintains an account for the deposit and disbursement of funds received as a result of cash confiscated during federal drug-related law enforcement activities. The balance was \$38,150 on January 7, 2019. During the year receipts totaled \$26,517 and there were no disbursements. The ending balance was \$64,667 as of December 31, 2019.

BULLITT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019
(Continued)

Note 10. High Intensity Drug Enforcement Unit Account (HIDE)

The sheriff's office maintains an account for the deposit and disbursement of funds associated with the seizure of funds held until the court system issues orders on disposition of the funds. The balance was \$411,362 on January 7, 2019. Receipts totaled \$77,061 and transfers to the state drug fund totaled \$280,699. The account balance was \$207,724 as of December 31, 2019.

Note 11. Donation Account

The sheriff's office maintains an account for donations. The balance was \$552 on January 7, 2019, which represents the amount that is to be used for bulletproof vests. During the year, \$745 was received for employee of the month awards and \$1 of interest was earned. Disbursements totaled \$546. The account balance was \$752 as of December 31, 2019.

Note 12. Contingencies

- A. The Bullitt County Sheriff's office was involved in multiple lawsuits that arose during the course of doing business. While individually they may not be significant, in the aggregate they could negatively impact the sheriff's financial position. Due to the uncertainty of the litigation, a reasonable estimate of the financial impact on the sheriff's office cannot be made at this time.
- B. On October 23, 2019, both Sheriff Sholar and former Sheriff Tinnell were served with a complaint in Bullitt Circuit Court alleging a class action complaint for state law violations and intentional trespass to chattels and requesting compensatory and punitive damages relating to the improper operation of a tow lot from February 1, 2017 through 2019. The matter has been referred to the insurer, and the insurer has appointed counsel. An answer has been filed, and settlement attempts are being made with potential plaintiffs. A motion to dismiss Sheriff Sholar from the suit is pending.

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

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Members of the Bullitt County Fiscal Court

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

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts and Disbursements - Regulatory Basis of the Sheriff of Bullitt County, Kentucky, the Statement of Receipts, Disbursements, and Fund Balances of the Sheriff's Operating Fund and County Fund with the State Treasurer - Regulatory Basis for the period January 7, 2019 through December 31, 2019, and the related notes to the financial statements, and have issued our report thereon dated June 17, 2020. The Bullitt County Sheriff's financial statements are 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 statements, we considered the Bullitt County Sheriff's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Bullitt County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Bullitt County Sheriff's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified a certain deficiency in internal control that we consider to be a material weakness 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 statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2019-001 to be a material weakness.



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

Internal Control over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2019-002 and 2019-003 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Bullitt County Sheriff's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 Bullitt 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 Bullitt Sheriff's responses were not subjected to the auditing procedures applied in the audit of the financial statements, 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

June 17, 2020

SCHEDULE OF FINDINGS AND RESPONSES

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BULLITT COUNTY
WALT SHOLAR, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Period January 7, 2019 Through December 31, 2019

INTERNAL CONTROL - MATERIAL WEAKNESS:

2019-001 The Bullitt County Sheriff's Office Does Not Have Adequate Segregation Of Duties Over Receipts And Reconciliations

The Bullitt County sheriff's office does not have adequate segregation of duties. The sheriff's bookkeeper collects payments from customers, issues receipts, posts transactions to the receipts ledger, prepares the quarterly reports, and performs the monthly bank reconciliations. Daily checkout sheets are prepared by a deputy clerk who also collects payments from customers and prepares the deposit tickets. Oversight by either the sheriff or another employee was not always documented for these activities.

According to the sheriff, this is a result of a limited budget, which restricts the number of employees the sheriff can hire or delegate duties to. A lack of oversight could result in undetected misappropriation of assets or inaccurate financial reporting to external agencies such as Department for Local Government.

The segregation of duties over various accounting functions such as opening mail, preparing deposits, recording receipts, reconciling monthly bank statements, 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 should separate the duties involved in receiving cash, preparing deposits, posting to receipts ledger, preparing monthly bank reconciliations and comparing financial reports to ledgers. If due to limited staff this is not feasible, cross checking procedures could be implemented and documented by the individual performing the procedure.

Sheriff's Response: The sheriff's office agrees to the audit findings. To address audit finding #1 we have implemented a procedure for comparing the daily bank deposit to the daily checkout sheet and reviewing the monthly bank reconciliations. This will be accomplished by having the individual who completes the daily deposit initialing the deposit slip before it goes to the bank. Then the office manager, who enters the daily deposit information into the accounting software will initial on the daily check out sheet to indicate the deposit has been reviewed. The deposit is signed out daily by a sworn deputy and taken to the bank. The office manager will prepare the monthly bank reconciliations. The sheriff or his designee will compare the bank reconciliation to the balance in the checkbook and reconcile any differences and document this by initialing the bank reconciliation.

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES:

2019-002 The Bullitt County Sheriff's Office Did Not Have Adequate Controls Over Disbursements

The Bullitt County sheriff's office did not have adequate controls over disbursements. The following deficiencies were noted:

- Invoices were not date stamped when received.
- Invoices were not effectively canceled in order to prevent duplicate payments.
- Fuel credit card receipts were not maintained and not compared to the monthly fuel invoices.
- A check written from the DARE account cleared the bank without required signatures.

BULLITT COUNTY
 WALT SHOLAR, SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Period January 7, 2019 Through December 31, 2019
 (Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2019-002 The Bullitt County Sheriff's Office Did Not Have Adequate Controls Over Disbursements
 (Continued)

These deficiencies were caused by a lack of internal controls and a lack of oversight over disbursements procedures. Failure to maintain adequate supporting documentation for disbursements could result in disallowed disbursements, requiring personal funds to be deposited into the account. Failure to properly maintain the original invoice, to document the date received, and to effectively cancel invoices, as required by the Department for Local Government, could lead to fraudulent invoices being paid or duplicate payments. The *Financial Operations Manual for Over 70K Counties* requires the official to attach the vendor's original bill or invoice, with the date stamped on the lower left hand corner and retain a copy for their own records. Strong internal controls dictate that invoices or other documents should be effectively cancelled in order to prevent duplicate payments.

We recommend the sheriff's office ensure all original invoices are maintained and are properly date stamped when received in the lower left hand corner as required by the *Financial Operations Manual for Over 70K Counties* issued by Department for Local Government (DLG). Original invoices should be effectively cancelled to prevent duplicate payments. Additionally, we recommend the sheriff implement a policy to ensure that all fuel bill original receipts are turned in to the deputy in charge of the monthly fuel bill reconciliation. These receipts should be compared to the monthly credit card invoice and evidenced by initials or a signature. All checks written should be reviewed for required signatures prior to payment.

Sheriff's Response: The sheriff's office agrees to the audit findings. To address audit finding #2 we are implementing a process of date stamping all invoices when they arrive in the office in the lower left corner. In addition, we have been "effectively canceling" invoices by stamping them paid since January 2020 and we will continue this process. To address a check clearing the bank without signatures we will be following up with [name redacted] bank to determine how this could have occurred and what steps can be taken to prevent any re-occurrence. We also currently have a policy in place that all checks require two signatures before they are mailed out.

To address the audit finding around needed to have the original gas receipts to compare to the monthly invoices we plan to thoroughly explore the best options for collecting and maintaining the receipts. With a large number of vehicles in our fleet this may require a new policy to be drafted, reviewed by the county attorney, approved, and put into place to ensure compliance.

2019-003 The Bullitt County Sheriff's Office Internal Controls Over Payroll Processing Were Not Adequate

The sheriff's office lacks a segregation of duties over payroll processing. The employee in charge of payroll prepares the excel file for each pay period to calculate payroll, uploads it to KHRIS for payroll processing, and posts leave with no independent review to ensure pay rates are correct, payroll is calculated correctly, and that leave taken was recorded correctly.

The lack of management oversight allowed the control weaknesses over payroll processing to occur. All timesheets were reviewed for one pay period and the following were exceptions:

- Three employee's leave balances were not reduced by leave taken per timesheet submitted.
- One employee received overtime pay not entered on timesheet.
- Five employees overtime hours worked were difficult to calculate based on procedures used to determine overtime hours earned with employees receiving overtime when taking personal leave.

BULLITT COUNTY
WALT SHOLAR, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Period January 7, 2019 Through December 31, 2019
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2019-003 The Bullitt County Sheriff's Office Internal Controls Over Payroll Processing Were Not Adequate
(Continued)

When controls over payroll are weak, employees can be paid incorrectly, either by incorrect hours or using a pay rate that is not authorized. Also, leave balances can be misstated.

Strong internal controls dictate that payroll processing functions should be segregated between data entry, approval of payroll before checks are direct deposited, withholdings taken are documented and verified, pay rate changes are documented in personnel files and authorization is documented. In addition, leave balances should be verified by an employee independent of payroll record keeping.

We recommend the sheriff implement the following procedures to strengthen internal controls over payroll:

- Payroll is calculated by one employee and the sheriff or his designee reviews the calculations to ensure pay rates are correct, calculations are correct, and payroll is correctly entered into KHRIS.
- Pay rate changes are documented in the employee's personnel file with evidence that the sheriff has authorized any pay rate changes.
- Overtime paid should agree to administrative code or office policy to include whether it is earned during a pay period when other leave was taken.
- Withholdings authorizations are maintained for each employee to support the amounts withheld on their paychecks.
- Leave taken by employees for each pay period be verified by sheriff or his designee to ensure it's entered correctly and accurate leave balances are kept.

Sheriff's Response: The sheriff's office agrees to the audit findings. To address finding #3 we have already put into place a system of checks to vacation and leave balances. We currently have one person enter the deductions from the vacation and leave balances and then it is doubled checked by the office manager. This was not being done in 2019 due to fluctuations in office staff due to the previous office manager's retirement. Also in 2019 our office discovered that there had been miscalculations on time sheets due again to the fluctuation of office managers. This was corrected in 2019 by implementing a system of checks on payroll processing. Currently time sheets are calculated by one person and then reviewed by the office manager. The time sheets are then input into the payroll spreadsheet by one person and the spreadsheet is checked by the office manager. The dispatch portion of the spread sheet is also sent to the dispatch director or their designee for approval as well. The spread sheet is then uploaded to the KHRIS system by one person and doubled checked by the office manager. All pay rate changes are documented in an employee's personnel file via letter signed by the sheriff or his designee.