

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

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



**MIKE HARMON  
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CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT ..... 1

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS ..... 3

NOTES TO FINANCIAL STATEMENT ..... 6

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* ..... 17

SCHEDULE OF FINDINGS AND RESPONSES ..... 21

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

The Honorable Kenneth Imes, Calloway County Judge/Executive  
The Honorable Sam Steger, Jr., Former Calloway County Sheriff  
The Honorable Nicky Knight, Calloway County Sheriff  
Members of the Calloway County Fiscal Court

Independent Auditor's Report

**Report on the Financial Statement**

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

**Management's Responsibility for the Financial Statement**

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

**Auditor's Responsibility**

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

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

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

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AN EQUAL OPPORTUNITY EMPLOYER M / F / D



The Honorable Kenneth Imes, Calloway County Judge/Executive  
 The Honorable Sam Steger, Jr., Former Calloway County Sheriff  
 The Honorable Nicky Knight, Calloway County Sheriff  
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### **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 former Calloway County Sheriff on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

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

### **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

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

### **Opinion on Regulatory Basis of Accounting**

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

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2020, on our consideration of the former Calloway County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 former Calloway County Sheriff's internal control over financial reporting and compliance.

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

- 2019-001 The Former Calloway County Sheriff Lacked Internal Controls Over Financial Reporting
- 2019-002 The Former Calloway County Sheriff Overspent His Approved Budget
- 2019-003 The Former Calloway County Sheriff's Office Lacked Adequate Segregation Of Duties

Respectfully submitted,



Mike Harmon  
 Auditor of Public Accounts

October 1, 2020

CALLOWAY COUNTY  
 SAM STEGER, JR., FORMER SHERIFF  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2019

Receipts

Federal Highway Safety Grant	\$	8,440
Homeland Security Grant		33,000
State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)		73,352
State Fees For Services:		
Finance and Administration Cabinet	\$ 164,963	
Sheriff Security Service	<u>10,275</u>	175,238
Circuit Court Clerk:		
Fines and Fees Collected		9,840
Fiscal Court		694,632
County Clerk - Delinquent Taxes		25,383
Commission On Taxes Collected		612,137
Fees Collected For Services:		
Auto Inspections	22,400	
Accident/Police Reports	2,395	
Serving Papers	57,690	
Carry Concealed Deadly Weapon Permits	10,760	
Fingerprints	5,660	
School Security	79,661	
Transporting	30,303	
City of Hazel	<u>5,000</u>	213,869
Other:		
Add-On Fees	38,879	
Miscellaneous	<u>67,636</u>	106,515
Interest Earned		7,624

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

CALLOWAY COUNTY  
 SAM STEGER, JR., FORMER SHERIFF  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2019  
 (Continued)

Receipts (Continued)

Borrowed Money:

State Advancement	\$ 300,000	
Promissory Notes-Vehicles and Operating	<u>168,659</u>	<u>\$ 468,659</u>

Total Receipts 2,428,689

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-		
Deputies' Salaries	\$ 1,126,332	
Dispatch Salaries	237,118	
Employee Benefits-		
Employer's Share Social Security	109,548	
Materials and Supplies-		
Reimbursement	19,645	
Equipment Expense	43,761	
IT Expense	6,884	
Other Charges-		
Training and Travel Expense	22,849	
Dues	3,104	
Postage	2,082	
New Hires	982	
Miscellaneous	4,226	
Towing	1,855	
Drug Screening	1,038	
Intuit	1,948	
County Ordinance	9,180	
Capital Outlay-		
Vehicles	<u>188,065</u>	<u>1,778,617</u>

Debt Service:

State Advancement	300,000	
Vehicle and Operating Promissory Notes - Principal	62,440	
Vehicle and Operating Promissory Notes - Interest	<u>2,401</u>	<u>364,841</u>

Total Disbursements 2,143,458

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



CALLOWAY COUNTY  
 SAM STEGER, JR., FORMER SHERIFF  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2019  
 (Continued)

Net Receipts		\$	285,231
Less: Statutory Maximum			<u>101,187</u>
Excess Fees			184,044
Less: Training Incentive Benefit			<u>4,216</u>
Excess Fees Due County for 2019			179,828
Payments to Fiscal Court -			
January 22, 2019	\$	35,000	
February 19, 2019		20,000	
July 25, 2019		30,000	
October 21, 2019		40,000	
January 23, 2020		<u>20,000</u>	<u>145,000</u>
Balance Due Fiscal Court at Completion of Audit		\$	<u>34,828</u>

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

CALLOWAY COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2019

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

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

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

B. Basis of Accounting

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

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

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

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the county treasurer in the subsequent year.

C. Cash and Investments

KRS 66.480 authorizes the sheriff's office to invest in obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

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

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

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

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

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

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

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

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS provides post-retirement health care coverage as follows:

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

Years of Service	% Paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

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

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

Other Post-Employment Benefits (OPEB) (Continued)

A. Health Insurance Coverage - Tier 1 (Continued)

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Benefits are covered under KRS 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. Cost of Living Adjustments - Tier 1

The 1996 General Assembly enacted an automatic cost of living adjustment (COLA) provision for all recipients of KRS benefits. During the 2008 Special Session, the General Assembly determined that each July beginning in 2009, retirees who have been receiving a retirement allowance for at least 12 months will receive an automatic COLA of 1.5 percent. The COLA is not a guaranteed benefit. If a retiree has been receiving a benefit for less than 12 months, and a COLA is provided, it will be prorated based on the number of months the recipient has been receiving a benefit.

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

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

E. Death Benefit

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

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

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

KRS Annual Financial Report and Proportionate Share Audit Report

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

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

Note 3. Deposits

The former Calloway 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 former Calloway County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of December 31, 2019, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Grants

- A. The Calloway County Sheriff's office received a Federal Highway Safety Grant in the amount of \$11,740 from the Department of Justice applicable from October 1, 2019 to September 30, 2020. The main purpose of the grant is to reduce fatalities on Kentucky roadways, minimize injuries to individuals and property, and to educate the public on ways to do this. The Calloway County Sheriff's office was reimbursed \$8,440 from this grant for calendar year 2019.
- B. The Calloway County Sheriff's office received a Homeland Security grant from the Kentucky Office of Homeland Security applicable for reimbursement on the build of a radio communications antenna in the amount of \$33,000.

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

Note 5. Short-term Debt

Direct Borrowings

- A. On October 10, 2019, the Murray Bank issued an unsecured fixed rate loan in the amount of \$4,000 for the purpose of providing financing for operating expenditures of the sheriff's office. Principal and interest, which is calculated at a fixed rate of 3.96 percent is due November 9, 2019. In the event of default, the bank may declare the entire unpaid principal balance, and all accrued unpaid interest, due immediately. The bank also reserves a right of setoff in all the borrower's accounts and to administratively freeze all such accounts. The balance of this note was paid in full as of December 31, 2019.
- B. On August 28, 2019, the Murray Bank issued an unsecured fixed rate loan in the amount of \$30,000 for the purpose of providing financing for operating expenditures of the sheriff's office. Principal and interest, which is calculated at a fixed rate of 3.96 percent is due September 28, 2019. In the event of default, the bank may declare the entire unpaid principal balance, and all accrued unpaid interest, due immediately. The bank also reserves a right of setoff in all the borrower's accounts and to administratively freeze all such accounts. The balance of this note was paid in full as of December 31, 2019.
- C. The former sheriff borrowed a state advancement of funds in the amount of \$300,000 to defray the expenses of the office for 2019. The loan was repaid December 19, 2019.
- D. Changes in Short-term Debt

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Operating Loan - A	\$	\$ 4,000	\$ 4,000	\$
Operating Loan - B		30,000	30,000	
State advancement		300,000	300,000	
Total Short-term Debt	<u>\$ 0</u>	<u>\$ 300,000</u>	<u>\$ 300,000</u>	<u>\$ 0</u>

Note 6. Long-term Debt

Direct Borrowings

- A. On February 2, 2018, the Murray Bank issued a fixed rate loan in the amount of \$20,053 for the purpose of purchasing a vehicle for the sheriff's office. Principal and interest, which was calculated at a fixed rate of 3.1 percent was due annually on December 18 beginning on December 18, 2018. The loan was secured by a first security interest in the vehicle being purchased. The balance of this note was paid in full as of December 31, 2019.

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

Note 6. Long-term Debt (Continued)

Direct Borrowings (Continued)

- B. On February 21, 2019, the Murray Bank issued a fixed rate loan in the amount of \$14,380 for the purpose of purchasing a vehicle for the sheriff's office. Principal and interest, which is calculated at a fixed rate of 3.96 percent is due annually December 20 beginning on December 20, 2019. The loan is secured by a first security interest in the vehicle being purchased. In the event of default, the bank may declare the entire unpaid principal balance, and all accrued unpaid interest, due immediately. The bank also reserves a right of setoff in all the borrower's accounts and to administratively freeze all such accounts. The balance of this note was \$9,707 as of December 31, 2019. Future principal and interest payments are as follows:

Calendar Year Ended	Principal	Interest
<u>December 31</u>	<u>          </u>	<u>          </u>
2020	\$ 4,759	\$ 384
2021	4,948	196
Totals	<u>\$ 9,707</u>	<u>\$ 580</u>

- C. On July 16, 2018, the Murray Bank issued a fixed rate loan in the amount of \$31,897 for the purpose of purchasing a vehicle for the sheriff's office. Principal and interest, which is calculated at a fixed rate of 3.25 percent is due annually on December 18 beginning on December 18, 2018. The loan is secured by a first security interest in the vehicle being purchased. In the event of default, the bank may declare the entire unpaid principal balance, and all accrued unpaid interest, due immediately. The bank also reserves a right of setoff in all the borrower's accounts and to administratively freeze all such accounts. The balance of this note was \$10,748 as of December 31, 2019. Future principal and interest payments are as follows:

Calendar Year Ended	Principal	Interest
<u>December 31</u>	<u>          </u>	<u>          </u>
2020	\$ 10,748	\$ 378
Totals	<u>\$ 10,748</u>	<u>\$ 378</u>

- D. On July 23, 2019, the Murray Bank issued a fixed rate loan in the amount of \$31,755 for the purpose of purchasing a vehicle for the sheriff's office. Principal and interest, which is calculated at a fixed rate of 3.96 percent is due annually on July 25 beginning on July 25, 2020. The loan is secured by a first security interest in the vehicle being purchased. In the event of default, the bank may declare the entire unpaid principal balance, and all accrued unpaid interest, due immediately. The bank also reserves a right of setoff in all the borrower's accounts and to administratively freeze all such accounts. The balance of this note was \$31,755 as of December 31, 2019. Future principal and interest payments are as follows:

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

Note 6. Long-term Debt (Continued)

Direct Borrowings (Continued)

D. (Continued)

Calendar Year Ended		
<u>December 31</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 10,177	\$ 1,258
2021	10,580	855
2022	<u>10,998</u>	<u>436</u>
Totals	<u>\$ 31,755</u>	<u>\$ 2,549</u>

- E. On July 23, 2019, the Murray Bank issued a fixed rate loan in the amount of \$31,555 for the purpose of purchasing a vehicle for the sheriff's office. Principal and interest, which is calculated at a fixed rate of 3.96 percent is due annually July 25 beginning on July 25, 2020. The loan is secured by a first security interest in the vehicle being purchased. In the event of default, the bank may declare the entire unpaid principal balance, and all accrued unpaid interest, due immediately. The bank also reserves a right of setoff in all the borrower's accounts and to administratively freeze all such accounts. The balance of this note was \$31,555 as of December 31, 2019. Future principal and interest payments are as follows:

Calendar Year Ended		
<u>December 31</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 11,236	\$ 1,260
2021	10,160	805
2022	<u>10,159</u>	<u>402</u>
Totals	<u>\$ 31,555</u>	<u>\$ 2,467</u>

- F. On December 3, 2019, the Murray Bank issued a fixed rate loan in the amount of \$27,046 for the purpose of purchasing a vehicle for the sheriff's office. Principal and interest, which is calculated at a fixed rate of 3.96 percent is due in annually December 20 beginning on December 20, 2020. The loan is secured by a first security interest in the vehicle being purchased. In the event of default, the bank may declare the entire unpaid principal balance, and all accrued unpaid interest, due immediately. The bank also reserves a right of setoff in all the borrower's accounts and to administratively freeze all such accounts. The balance of this note was \$27,046 as of December 31, 2019. Future principal and interest payments are as follows:

Calendar Year Ended		
<u>December 31</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 8,668	\$ 1,071
2021	9,010	728
2022	<u>9,368</u>	<u>371</u>
Totals	<u>\$ 27,046</u>	<u>\$ 2,170</u>



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

Note 6. Long-term Debt (Continued)

Direct Borrowings (Continued)

G. On February 21, 2019, the Murray Bank issued a fixed rate loan in the amount of \$30,208 for the purpose of purchasing a vehicle for the sheriff's office. Principal and interest, which is calculated at a fixed rate of 3.96 percent, is due annually December 20 beginning December 20, 2019. The loan is secured by a first security interest in the vehicle being purchased. In the event of default, the bank may declare the entire unpaid principal balance, and all accrued unpaid interest, due immediately. The bank also reserves a right of setoff in all the borrower's accounts and to administratively freeze all such accounts. The balance of this note was \$20,391 as of December 31, 2019. Future principal and interest payments are as follows:

Calendar Year Ended December 31	Principal	Interest
2020	\$ 9,998	\$ 808
2021	10,393	412
Totals	<u>\$ 20,391</u>	<u>\$ 1,220</u>

H. Changes In Long-term Debt

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Direct Borrowings	\$ 29,699	\$ 134,944	\$ 33,441	\$ 131,202	\$ 55,586
Total Long-term Debt	<u>\$ 29,699</u>	<u>\$ 134,944</u>	<u>\$ 33,441</u>	<u>\$ 131,202</u>	<u>\$ 55,586</u>

Note 7. Lease Agreement

The Calloway County Sheriff's office was committed to a lease agreement for a copy machine. The agreement requires a monthly payment of \$119. The former sheriff was in compliance with the agreement as of December 31, 2019.

Note 8. Forfeiture Account

The former Calloway County Sheriff maintained a separate account for court ordered forfeitures of money and property. The beginning balance of the account was \$5,735. During the calendar year, receipts totaled \$11,194 and disbursements totaled \$10,803, leaving an ending balance of \$6,126 as of December 31, 2019.

Note 9. Evidence Holding Account

The former Calloway County Sheriff maintained an evidence holding account. Receipts for this account are interest earned on deposits and all monies confiscated from theft or drug arrests. These funds are disbursed only by a court order. The beginning balance of the account was \$4,295. During the calendar year, receipts totaled \$55 and disbursements totaled \$1,481, leaving an ending balance of \$2,869 as of December 31, 2019.

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

Note 10. Donation Account

The former Calloway County Sheriff maintained a donations account. Receipts for this account are interest earned on deposits and donations made to the sheriff's department. The beginning balance of the account was \$1,527. During the calendar year receipts totaled \$5,220 and disbursements totaled \$5,024, leaving an ending balance of \$1,723 as of December 31, 2019.

Note 11. Sheriff's Drug Acquisition Account

The former Calloway County Sheriff maintained a drug acquisition account. Receipts for this account are interest earned on deposits and funding from the Calloway County Fiscal Court to use for drug buys. The beginning balance of the account was \$0. During the calendar year receipts totaled \$13,018 and disbursements totaled \$250, leaving an ending balance of \$12,768 as of December 31, 2019.

Note 12. City of Hazel Agreement

The former Calloway County Sheriff contracted with the City of Hazel to provide law enforcement services. The current contract runs from July 1, 2019 to June 30, 2020. The amount they received from this agreement during 2019 was \$5,000.

Note 13. Outstanding Checks Held In Escrow

The former Calloway County Sheriff deposited outstanding checks into an escrow account. When statutorily required, the sheriff will turn over the escrowed funds to the Kentucky State Treasurer as unclaimed property. The former sheriff's escrowed amounts were as follows:

2017    \$402

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

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

The Honorable Kenneth Imes, Calloway County Judge/Executive  
The Honorable Sam Steger, Jr., Former Calloway County Sheriff  
The Honorable Nicky Knight, Calloway County Sheriff  
Members of the Calloway County Fiscal Court

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

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the former Calloway County Sheriff for the year ended December 31, 2019, and the related notes to the financial statement and have issued our report thereon dated October 1, 2020. The former Calloway County Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statement, we considered the former Calloway County Sheriff's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former Calloway County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Calloway County Sheriff's internal control.

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

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



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

**Internal Control over Financial Reporting (Continued)**

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the former Calloway County Sheriff's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2019-002.

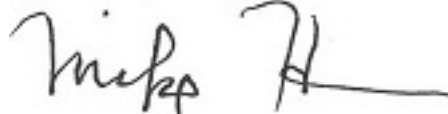
**Views of Responsible Official and Planned Corrective Action**

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

**Purpose of this Report**

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

Respectfully submitted,



Mike Harmon  
Auditor of Public Accounts

October 1, 2020

## SCHEDULE OF FINDINGS AND RESPONSES

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CALLOWAY COUNTY  
SAM STEGER, JR., FORMER SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2019

FINANCIAL STATEMENT FINDINGS:

2019-001 The Former Calloway County Sheriff Lacked Internal Controls Over Financial Reporting

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This is a repeat finding and was included in the prior year audit report as finding 2018-004. The former Calloway County Sheriff's fourth quarter financial statement was misstated and required multiple audit adjustments. Loan proceeds of \$114,659 were omitted from receipts ledger, and vehicle purchases of \$114,659 were omitted from disbursements ledger. Thus, these loan proceeds and vehicle purchases were not reported on the fourth quarter financial statement.

The condition is the result of the sheriff's office's failure to record all loan proceeds and the purchase of vehicles on the financial statement. Due to the lack of a strong internal control system over the recording of receipts and disbursements, material audit adjustments were required to correct the former sheriff's financial statement.

Strong internal controls over recording receipts and disbursements are essential to ensure that all receipts and disbursements are properly accounted for on the financial statements. The sheriff is responsible for the design and implementation of policies and procedures that will ensure receipts and disbursements are recorded properly and that financial reports are stated accurately.

We recommend the sheriff's office strengthen internal controls over the recording of receipts and disbursements and financial reporting. Posting receipts and disbursements, including all loan proceeds and the purchase of assets, in appropriate categories will reduce the need for audit adjustments and help ensure the financial statement is accurately stated.

*Former Sheriff's Response: The banking institute paid the loans directly; therefore the funds were not processed through the Sheriff's offices receipts and disbursement records. Corrective action has been made to assure that any loans paid directly by the bank are noted in our financials.*

2019-002 The Former Calloway County Sheriff Overspent His Approved Budget

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This is a repeat finding and was included in the prior year audit report as finding 2018-001. During calendar year 2019, the former Calloway County Sheriff overspent his budget by \$99,106. A budget amendment was obtained by the sheriff's office, but it did not adequately cover all of the expenses.

This condition is the result of the sheriff's office's failure to record loan proceeds and the purchase of vehicles on the financial statement. The former sheriff's failure to monitor the recording of receipts and disbursements caused the office to disburse more money than was approved by fiscal court, thus making him noncompliant with KRS 68.210.

The state local finance officer requires the fiscal court to approve a calendar year budget for each fee office as a component of the county's budget preparation process by January 15<sup>th</sup> of each year. KRS 68.210 states in part, [t]he administration of the county uniform budget system shall be under the supervision of the state local finance officer who may inspect and shall supervise the administration of accounts and financial operations and shall prescribe... a system of uniform accounts for all counties and county officials." Additionally, strong internal controls include monitoring disbursements and comparing them to budgeted amounts.

CALLOWAY COUNTY  
SAM STEGER, JR., FORMER SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended December 31, 2019  
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-002 The Calloway County Sheriff Overspent His Approved Budget (Continued)

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We recommend the Calloway County Sheriff's office record all loan proceeds and the purchase of assets on the financial statement. Additionally, the sheriff's office should monitor the budget set by fiscal court to ensure that he does not spend more than what is approved. When necessary, the sheriff should make appropriation transfers or obtain a budget amendment from fiscal court before overspending any budget category.

*Former Sheriff's Response: The budget overspending is a direct result of 2019-001. An amendment was approved but after the overages of 2019-001 totals exceed the amended budget. Corrective action has been made.*

2019-003 The Former Calloway County Sheriff's Office Lacked Adequate Segregation Of Duties

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This is a repeat finding and was included in the prior year audit report as finding 2018-003. In calendar year 2019, the former Calloway County Sheriff's office lacked adequate segregation of duties. The bookkeeper was required to perform multiple tasks such as collecting cash from customers, preparing disbursement checks, recording receipts and disbursements, performing monthly bank reconciliations, and preparing quarterly reports. To offset the risk associated with a lack of segregation of duties, the former sheriff implemented compensating controls including dual signatures on all checks, cross-checking procedures, and reviewing quarterly reports; however, these procedures were not sufficient enough to reduce the risks associated with the lack of segregation of duties.

A lack of segregation of duties or strong oversight increases the risk of undetected errors. According to the sheriff's office, this lack of segregation of duties is caused by the diversity of operations with a limited number of staff.

Proper segregation of duties over accounting and reporting functions is essential for providing protection from undetected errors occurring. Additionally, properly segregated duties protects employees in the normal course of performing their daily responsibilities. When staff size is limited, it may be necessary to implement compensating controls to achieve an acceptable level of protection for both the office and individual employees.

We recommend the sheriff's office segregate the duties noted above to the extent allowed by budget restrictions. For those duties that could not be segregated due to a limited number of staff, strong management oversight by the sheriff or designee could be a cost effective alternative. This oversight should include reviewing the receipts and disbursements ledgers and monthly bank reconciliations. Documentation, such as the sheriff's or designee's initials or signature, should be provided on those items that were reviewed.

*Former Sheriff's Response: Due to the size of our agency it is difficult to delegate duties to any greater extent. The Sheriff currently does random cash counts and signing off on bank statements. Corrective action has been made.*