

**REPORT OF THE AUDIT OF THE
FRANKLIN COUNTY
SHERIFF**

**For The Year Ended
December 31, 2016**



**MIKE HARMON
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APPENDIX A: FRANKLIN COUNTY SHERIFF'S ADDITIONAL RESPONSE

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Huston Wells, Franklin County Judge/Executive
The Honorable Pat Melton, Franklin County Sheriff
Members of the Franklin County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the Sheriff of Franklin County, Kentucky, for the year ended December 31, 2016, 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 the 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 the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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



The Honorable Huston Wells, Franklin County Judge/Executive
The Honorable Pat Melton, Franklin County Sheriff
Members of the Franklin County Fiscal Court

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

As described in Note 1 of the financial statement, the financial statement is prepared by the Franklin 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 each fund of the Franklin County Sheriff, as of December 31, 2016, 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 Franklin County Sheriff for the year ended December 31, 2016, 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 December 8, 2017, on our consideration of the Franklin 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.

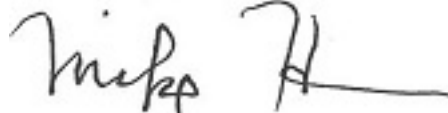
The Honorable Huston Wells, Franklin County Judge/Executive
The Honorable Pat Melton, Franklin County Sheriff
Members of the Franklin County Fiscal Court

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

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:

- 2016-001 The Sheriff Did Not Present An Annual Settlement To The Fiscal Court
- 2016-002 The Sheriff Did Not Ensure Compliance With Highway Safety Grant Requirements
- 2016-003 The Sheriff Did Not Properly Handle Forfeiture Funds
- 2016-004 The Sheriff Spent \$265 In Unallowable Expenditures
- 2016-005 The Sheriff Did Not Properly Account For Donations
- 2016-006 The Sheriff Overspent His Approved Budget

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

December 8, 2017

FRANKLIN COUNTY
PAT MELTON, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2016

Receipts

Federal Grants		\$ 25,668
State Fees For Services:		
Finance and Administration Cabinet	\$ 161,466	
Sheriff Security Service	<u>47,733</u>	209,199
Circuit Court Clerk:		
Fines and Fees Collected		330
Fiscal Court		105,546
County Clerk - Delinquent Taxes		56,087
School Board - School Resource Officer Support		195,833
Commission On Taxes Collected		1,090,190
Fees Collected For Services:		
Auto Inspections	16,469	
Accident and Police Reports	3,754	
Serving Papers	84,480	
Carry Concealed Deadly Weapon Permits	<u>25,845</u>	130,548
Other:		
Add-On Fees	55,899	
Miscellaneous	<u>2,963</u>	58,862
Interest Earned		2,122
Borrowed Money:		
State Advancement		<u>300,000</u>
Total Receipts		2,174,385

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

FRANKLIN COUNTY
PAT MELTON, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2016
(Continued)

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries \$ 1,320,700

School Resource Officer Salaries 129,725

Employee Benefits-

School Resource Officer Benefits 51,592

Contracted Services-

Advertising 4,686

Vehicle Maintenance and Repairs 32,942

Materials and Supplies-

Office Materials and Supplies 8,146

Uniforms 13,336

Auto Expense-

Gasoline 88,297

Other Charges-

Conventions and Training 19,289

Dues 2,592

Postage 11,872

Bond 2,882

Out of State Transports 5,631

Telephone 8,559

Miscellaneous 10,070

Capital Outlay-

Office Equipment 11,023

Building 2,931

Vehicles 42,809 \$ 1,767,082

Debt Service:

State Advancement 300,000

Total Disbursements \$ 2,067,082

Less: Disallowed Disbursements

Unreimbursed Registration for Spouse 210

Unallowed Per Diem 55 265

Total Allowable Disbursements 2,066,817

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

FRANKLIN COUNTY
PAT MELTON, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2016
(Continued)

Net Receipts	\$ 107,568
Less: Statutory Maximum	<u>101,218</u>
Excess Fees	6,350
Less: Training Incentive Benefit	<u>3,969</u>
Excess Fess Due Fiscal Court at Completion of Audit	<u>\$ 2,381</u>

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

FRANKLIN COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2016

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 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 2016 services
- Reimbursements for 2016 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2016

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

C. Cash and Investments

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

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

The county official and employees have 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.

FRANKLIN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2016
(Continued)

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

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 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 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 17.06 percent for the first six months and 18.68 percent for the last six months.

Hazardous

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

FRANKLIN COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2016
 (Continued)

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

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 32.95 percent for the first six months and 31.06 percent for the last six months.

Health Insurance Coverage

CERS also 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.

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.

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.

Note 3. Deposits

The Franklin 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,

FRANKLIN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2016
(Continued)

Note 3. Deposits (Continued)

(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 Franklin 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, 2016, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Grant

The Franklin County Sheriff's office was awarded a federal overtime grant specifically for impaired driving enforcement, not to exceed \$33,500. This grant passed through the Kentucky Transportation Cabinet Office of Highway Safety. The sheriff requested and received reimbursements totaling \$25,668 in calendar year 2016.

Note 5. Lease Agreement

The Franklin County Sheriff's entered into a lease for a copier in November 2011. The agreement requires a monthly payment of \$179 for 63 months to be completed on May 31, 2017. Total principal payments for 2016 were \$1,985. The total remaining balance of the agreement was \$877 as of December 31, 2016.

Note 6. Forfeiture Accounts

A. Confiscation and Federal Forfeiture Account

The Franklin County Sheriff's office maintains an account for proceeds from confiscation, surrender, or sale of real and personal property involved in drug related convictions from the federal government for participating in investigations or prosecutions that resulted in forfeited federal drug money. Federal forfeiture funds are to be used for law enforcement activities, including training, equipment, operations, facilities, and drug education awareness, etc. These funds are not available for excess fees purposes. The balance in this account at January 1, 2016, was \$42,433. During 2016, there was \$3 in receipts, \$2,750 in disbursements, and \$38,984 transferred out to the state forfeiture account. The ending balance as of December 31, 2016, was \$702.

B. State Forfeiture Account

The sheriff's office maintains an account for proceeds received from the confiscation, surrender, or sale of real and personal property involved in state related convictions. State forfeiture funds are to be used for law enforcement activities and are not available for excess fee purposes. The balance in this account as of January 1, 2016, was \$5,117. Receipts during the year were \$82,288 and funds totaling \$80,526 were expended, leaving a balance of \$6,879 as December 31, 2016.

Note 7. Donation Account

The sheriff's office maintains an account for donations. The balance at January 1, 2016, was \$813. Funds totaling \$1,900 were received and \$2,305 was expended during the year. The ending balance as of December 31, 2016 was \$408.

FRANKLIN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2016
(Continued)

Note 8. Operation Lifesaver Account

The sheriff's office maintains an account for the Operation Lifesaver Program. The balance at January 1, 2016, was \$1,728. There were no receipts or disbursements during the year. The ending balance as of December 31, 2016 was \$1,728.

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

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Huston Wells, Franklin County Judge/Executive
The Honorable Pat Melton, Franklin County Sheriff
Members of the Franklin 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 Franklin County Sheriff for the year ended December 31, 2016, and the related notes to the financial statement and have issued our report thereon dated December 8, 2017. The Franklin 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 Franklin 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 Franklin County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Franklin County Sheriff's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified certain deficiencies in internal control, which are described in the accompanying Schedule of Findings and Responses as items 2016-003 and 2016-004 to be significant deficiencies.



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)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Franklin County Sheriff's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2016-001, 2016-002, 2016-003, 2016-004, 2016-005, and 2016-006.

Views of Responsible Official and Planned Corrective Action

The Franklin 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 Franklin 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

December 8, 2017

SCHEDULE OF FINDINGS AND RESPONSES

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FRANKLIN COUNTY
PAT MELTON, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2016

FINANCIAL STATEMENT FINDINGS:

2016-001 The Sheriff Did Not Present An Annual Settlement To The Fiscal Court

The sheriff did not present an annual settlement or pay excess fees to the fiscal court for calendar year 2016. The settlement has not been presented because staff indicated they wanted to wait until the completion of the audit. Failure to submit required reports to fiscal court prevents proper oversight from the fiscal court and increases the risk of undetected errors, misstatements, or fraud.

KRS 134.192(11) states “[i]n counties containing a population of less than seventy thousand (70,000), the sheriff shall file annually with his or her settlement:

- (a) A complete statement of all funds received by his or her office for official services[.]
- (b) A complete statement of all expenditures of his or her office, including his or her salary, compensation of deputies and assistants, and reasonable expenses.”

KRS 134.192 requires this settlement to be made on or by September 1. We recommend the sheriff prepare and present his annual settlement to the fiscal court timely, as required by statute. We also recommend the sheriff pay \$2,381 to the fiscal court for calendar year 2016 excess fees.

Sheriff's Response: The Sheriff's Office was not able to present the 2016 Settlement to the Fiscal Court. The computer used by the Office Manager crashed and all data was lost. The Fee and Revenue accounts had to be rebuilt. The backup system that we had did not work. We now have a separate backup system for the accounting computer. The Fiscal Court was aware of the problem and the problem was brought up at several Fiscal Court meetings.

2016-002 The Sheriff Did Not Ensure Compliance With Highway Safety Grant Requirements

The Franklin County Sheriff was awarded a highway safety grant in the amount of \$33,500 specifically for Impaired Driving Enforcement by the Kentucky Transportation Cabinet's Office of Highway Safety. This was a reimbursement grant, which requires the sheriff to submit reimbursement requests for costs incurred. Based on our review of a sample of requests submitted during the audit period, (1) supporting documentation required per the grant agreement was not submitted and (2) overtime worked per reimbursement requests did not agree to timesheets for two of the requests tested. This is a repeat finding and was included in the prior year audit report as finding 2015-001.

There was no direct oversight of grant reimbursement requests. The sheriff's grant administrator stated they were told by the Transportation Cabinet that timesheets did not need to be submitted because they did not want the extra paperwork, but this was not communicated in writing. The lack of documentation and oversight of the grant reimbursements significantly increases the risk of misuse of funds.

Per the grant agreement, “reimbursement requests shall be submitted to the Grantor on a ‘Reimbursement Claim Form’. Backup documentation showing that the work/expenditures for which the Grantee is requesting reimbursement has been completed shall be included, along with monthly activity reports.”

We recommend the sheriff implement controls over grant reimbursements in order to ensure compliance with grant requirements. Timesheets should reflect all hours worked and be maintained to support reimbursement requests.

FRANKLIN COUNTY
 PAT MELTON, SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2016
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-002 The Sheriff Did Not Ensure Compliance With Highway Safety Grant Requirements (Continued)

Sheriff's Response: We carefully reviewed their finding. We have complete records, no costs were disallowed costs. This finding is not a 2 year issue since the timing of the budget covers the same grant. The Sheriff's Office will submit time sheets on future grants and confirm any communication with state officials in writing. We have also reviewed all training and grant requirements.

2016-003 The Sheriff Did Not Properly Handle Forfeiture Funds

The sheriff disbursed \$1,982 of federal forfeiture funds to the Franklin County Drug Court, which goes against the guidance set forth in the U.S. Department of Justice *Guide to Equitable Sharing for State and Local Law Enforcement Agencies* (Guide). Controls were not in place to ensure forfeiture funds were properly handled. If forfeiture funds are not properly handled, the U.S. Department of Justice may issue a "Do Not Spend Notification" on the forfeiture account.

As noted in the Guide, "Department of Justice policy requires shared monies and property to be used for law enforcement purposes. Sharing will be withheld from any state or local law enforcement agency where state or local law, regulation, or policy requires federal equitable sharing funds to be transferred to non-law enforcement agencies or expended for non-law enforcement purposes. No sharing request or recommendation, including shares negotiated in a task force or other agreement, is final until approved by the federal deciding authority."

We recommend the sheriff ensure forfeiture funds are spent for only permissible expenditures.

Sheriff's Response: The Franklin County Sheriff's Office had presented to the Circuit Court Judges a proposal to provide 5% of all forfeiture funds to the Drug Court for additional funding. We were not aware this would be considered an unallowable issue of these funds.

2016-004 The Sheriff Spent \$265 In Unallowable Expenditures

The following disallowed expenditures were made from the fee account:

- Registration fees of \$210 were paid for the sheriff's wife to accompany him to the National Sheriff's Association (NSA) conference. Registration fees are allowable expenditures for the sheriff, but not for his wife.
- The sheriff was reimbursed \$55 for meals included in his registration for the conference.

This condition results from a lack of adequate internal controls and review over disbursements. The sheriff personally owes \$265 to the 2016 fee account as a result of these disallowed expenditures. In Funk v. Milliken, 317 S.W.2d 499 (Ky. 1958), Kentucky's highest court ruled that county fee officials' expenditures of public funds will be allowed only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not primarily personal in nature. The Sheriff's Travel and Expense Policy states, "when meals are included in registration fees, the allowed amount for the meal will be deducted from the per diem."

We recommend the sheriff reimburse the 2016 fee account \$265 from personal funds for these disallowed expenditures. In the future, the sheriff should ensure funds are only expended for allowable purposes.

Sheriff's Response: This expense was paid inadvertently and was in error. Personal reimbursement has been made to the offended account. Action has been taken to assure this does not happen again.

FRANKLIN COUNTY
 PAT MELTON, SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2016
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-005 The Sheriff Did Not Properly Account For Donations

During 2016, the sheriff received a \$500 cash donation from a local business. These funds were not deposited into the donation account, but were handed out in ten \$50 bills as door prizes at the sheriff's Christmas party. The sheriff also received donations of liquor and food items from other local businesses which were also given out as door prizes at the sheriff's Christmas party. The sheriff stated these funds were a gift to be used for the Christmas party.

Failure to handle donations properly results in noncompliance with KRS 61.310 and possible violation of Franklin County's ethic code. Also by not properly accounting for donations, there were less funds available to be used for the public purpose of the sheriff's office.

Per KRS 61.310(2), "[a] peace officer shall not receive any compensation or remuneration, directly or indirectly, from any person for the performance of any service or duty, except that he or she may be compensated for employment authorized by subsection (4) of this section and accept donations in accordance with subsection (8) of this section."

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

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

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

(b) Any donation to a sheriff shall only be used to further the public purpose of the office and shall not be used for the private benefit of the sheriff, his or her deputies, or other employees of the office.

(c) All donations made in accordance with this subsection shall be expended and audited in the same manner as other funds or property of the sheriff's office."

The Franklin County Fiscal Court's ethics code states, "no public servant, his spouse or dependent child shall knowingly accept any gifts or gratuities, including travel expenses, meal, alcoholic beverages, and honoraria, totaling a value greater than fifty dollars (\$50.00) in a single calendar year from any person or business that does business with, is regulated by, is seeking grants from, is involved in litigation against, or lobbying or attempting to influence the actions of Franklin County Fiscal Court, or any agency, department or office in which the public servant is employed or which he supervises, or from any group or association which has as its primary purpose the representation of those persons or businesses."

The sheriff did not account for the donations on a ledger as required by KRS 61.310. Furthermore, some items donated such as liquor could not be put to an official use of the office and should not have been accepted. The donations went to the private benefit of employees in violation of KRS 61.310. Additionally, public employees are not to receive compensation for services not rendered pursuant to Section 3 of the Kentucky Constitution.

FRANKLIN COUNTY
PAT MELTON, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2016
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-005 The Sheriff Did Not Properly Account For Donations (Continued)

We recommend the sheriff comply with KRS 61.310(8) by only receiving and using donations that are for the public purpose of his office, and that he account for all donations.

Sheriff's Response: We have carefully reviewed this funding and every effort was made to assure anyone donation items that this was a totally voluntary contribution. The sole purpose was to provide our employees with a Christmas Reception and not expect any public funds. We have carefully reviewed the KRS and the FCEC to assure future compliance. We are also contacting the FCEC to seek guidance for future years to determine what process could be allowable.

Special Deputy who [sic] not a vendor, personally bought liquor and gave it away as a door prize without being requested or approved to do so in advance. This action should not have occurred.

2016-006 The Sheriff Overspent His Approved Budget

The Franklin County Sheriff's operating disbursements of \$2,067,082 exceeded the budgeted expenditures approved by the fiscal court by \$104,076. The sheriff failed to monitor operating disbursements to ensure compliance with the approved budget. The sheriff also failed to amend the budget to allow for the repayment of the state advancement received.

The sheriff's overspending of the budget created a budgetary noncompliance, but because this overspending related primarily to the sheriff's advancement, it had little impact on the amount of excess fees to be remitted to the Franklin County Fiscal Court.

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 15th of each year. KRS 68.210 states, "[t]hat the 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."

We recommend the sheriff monitor his budget throughout the year and request budget amendments as necessary from the fiscal court before year end.

Sheriff's Response: This was due to the State Advancement given to the Fiscal Court. Being the first year of doing the advancement, the County Treasurer and the Office Manager failed to put the advancements in the budget which made to look like the office went over their budget. There was no overspending for the 2016 Budget.

APPENDIX A



Sheriff

Pat Melton



Sheriff of Franklin County, P.O. Box 5260, Frankfort, KY 40602 Phone:(502) 875-8740 Fax: (502) 875-8738

January 16, 2018

Auditor Mike Harmon
Auditor of Public Accounts
209 St. Clair Street
Frankfort, Kentucky 40601

Dear Auditor Harmon:

First, I would like to compliment your staff for a very professionally performed audit. I have prepared a response to each finding and we are developing a corrective action plan to address each item.

The Franklin County Sheriff's office has 43 full time employees and only 2.5 employees are involved in the business side with the remaining staff and over 90% of the budget dedicated to law enforcement.

We clearly recognize the tax collection function is vital to assure local government and schools are funded and I am very proud of the dedicated staff that performs these duties. Your tax and fee audit identify areas which are important to assure the collection and distribution of over \$33,635,846.00 a year. Since 2014, my office has collected over \$123,580,590.00 in taxes and I am proud to say, every penny has been accounted for.

I would also note that we process over 24,000 tax bills a year, in addition to the following:

- Since 2011, we have responded to over 84,000 calls
- Since 2011, we have served over 9,434 processes and 657 subpoenas
- Since 2011, we have served over 10,600 warrants
- Since 2015, we have issued 4,236 CCDW (Carry Concealed Deadly Weapon) License
- Since 2016, we have inspected over 3,490 vehicles to assure proper titling to protect consumers
- Since 2011, we have worked over 3,750 car accidents
- Since 2011, we have made 800 felony arrests



Sheriff

Pat Melton



Sheriff of Franklin County, P.O. Box 5260, Frankfort, KY 40602 Phone:(502) 875-8740 Fax: (502) 875-8738

I cite this data to reflect the volume of activity which is performed by this office on behalf of the citizens of this county

Please note in the audit responses, that we have accepted the comments and have a plan and commitment to make this office even better.

Also, on several of the findings that I have already made reimbursement, I am seeking guidance from the Franklin County Ethics Commission and all remaining funds have been released to the taxing districts and local governments.

I would request this letter be published in the final audit because it provides a complete picture to the citizens of Franklin County the amount of responsibility the Franklin County Sheriff's entails.

Sincerely,

A handwritten signature in black ink that reads "Pat Melton".

Pat Melton
Sheriff