

**REPORT OF THE AUDIT OF THE
GARRARD COUNTY
SHERIFF**

**For The Year Ended
December 31, 2018**



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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable John Wilson, Garrard County Judge/Executive
The Honorable Tim Davis, Garrard County Sheriff
Members of the Garrard 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 Garrard County, Kentucky, for the year ended December 31, 2018, 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.



The Honorable John Wilson, Garrard County Judge/Executive
The Honorable Tim Davis, Garrard County Sheriff
Members of the Garrard 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 Garrard 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 Garrard County Sheriff, as of December 31, 2018, 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 Garrard County Sheriff for the year ended December 31, 2018, 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 May 7, 2020, on our consideration of the Garrard 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 Garrard County Sheriff's internal control over financial reporting and compliance.

The Honorable John Wilson, Garrard County Judge/Executive
The Honorable Tim Davis, Garrard County Sheriff
Members of the Garrard 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:

- 2018-001 The Sheriff's Office Lacks Adequate Segregation Of Duties
- 2018-002 The Sheriff Did Not Comply With KRS 61.310(8) Regarding Donations
- 2018-003 The Sheriff Did Not Make All Disbursements By Check
- 2018-004 The Sheriff Did Not Deposit Receipts Daily
- 2018-005 The Sheriff Failed To Properly Classify Employees As Hourly Or Salaried
- 2018-006 The Sheriff's Office Lack Adequate Internal Control Over Payroll
- 2018-007 The Sheriff Failed To Abide By The Fee Pool Ordinance And Materially Misstated His Quarterly Report

Respectfully submitted,

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

Mike Harmon
Auditor of Public Accounts

May 7, 2020

GARRARD COUNTY
TIM DAVIS, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2018

Receipts

State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)	\$	4,834	
State Fees For Services:			
Finance and Administration Cabinet	\$	74,248	
Sheriff Security Service		<u>5,800</u>	80,048
Circuit Court Clerk:			
Fines and Fees Collected			2,125
County Clerk - Delinquent Taxes			18,752
Commission On Taxes Collected			262,832
Fiscal Court			290,467
Fees Collected For Services:			
Auto Inspections		3,545	
School Security		34,000	
Serving Papers		36,417	
Carry Concealed Deadly Weapon Permits		<u>11,570</u>	85,532
Other:			
Hold Harmless		4,728	
Add-on Fees		29,328	
Fingerprints/Tax Bill Search		1,552	<u>35,608</u>
Total Receipts			780,198

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

GARRARD COUNTY
 TIM DAVIS, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2018
 (Continued)

Disbursements

Operating Disbursements:

Personnel Services-		
Deputies' Gross Salaries	\$ 179,172	
Employee Benefits-		
Employer's Share Social Security	<u>20,278</u>	
Total Disbursements		<u>\$ 199,450</u>
Net Receipts		580,748
Less: Statutory Maximum		<u>86,880</u>
Excess Fees		493,868
Less: Training Incentive Benefit		<u>4,137</u>
Excess Fees Due County for 2018		489,731
Payments to Fiscal Court - Monthly		<u>489,731</u>
Balance Due Fiscal Court at Completion of Audit		<u>\$ 0</u>

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

GARRARD COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2018

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 2018 services
- Reimbursements for 2018 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2018

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).

GARRARD COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2018
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Fee Pooling

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

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

The sheriff's office has elected to participate, pursuant to KRS 78.530, in the County Employees Retirement System (CERS), which is administered by the 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 19.18 percent for the first half of the year and 21.48 percent for the second half of the year.

GARRARD COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2018
 (Continued)

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

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.

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.

GARRARD COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2018
(Continued)

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

Other Post-Employment Benefits (OPEB) (Continued)

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.

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 Garrard 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.

GARRARD COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2018
(Continued)

Note 3. Deposits (Continued)

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 Garrard 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, 2018, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Forfeiture Accounts

Under terms mandated by the United States Department of Justice and the Commonwealth of Kentucky, the Garrard County Sheriff's office received proceeds from the confiscation, surrender, or sale of real and personal property involved in drug related convictions. These funds are to be used exclusively for law enforcement activities and are not included in excess fees.

A. State Forfeiture Account

The balance in the account as of January 1, 2018, was \$7,575. During 2018, there were no receipts and disbursements of \$4,790. The balance in the account as of December 31, 2018, was \$2,785.

B. Federal Forfeiture Account

The balance in the account as of January 1, 2018, was \$29,200. During 2018, receipts were of \$2,565 and disbursements of \$15,523. The balance in the account as of December 31, 2018, was \$16,242.

Note 5. Garrard County DARE Program Account

The Garrard County Sheriff's office maintains the Garrard County DARE Program Account. The balance in the account as of January 1, 2018, was \$3,796. During 2018, receipts were \$4,756 and disbursements were \$6,774. The balance in the account as of December 31, 2018, was \$1,778.

Note 6. Donation Account

The Garrard County Sheriff's office maintained an account for the receipt of donations. These funds were used for the operation of the sheriff's office as established by KRS 61.310. The balance in this account on January 1, 2018, was \$1,908. During 2018, receipts were \$500 and disbursements were \$2,408. The account was closed during calendar year 2018.

Note 7. Grant Account

The Garrard County Sheriff's office maintained an account for the receipt of report fees. The balance in this account on January 1, 2018 was \$686. There were no receipts and disbursements were \$686. The account was closed at the end of calendar year 2018.

Note 8. County Police Force and Fee-Pooling Ordinance

In December 2016, the Garrard County Fiscal Court passed a fee-pooling ordinance for the sheriff's office and created the Garrard County Police Force. The fee-pooling ordinance requires the sheriff's office to submit fees collected to the county treasurer on a monthly basis. Operating expenses of the sheriff's office will then be paid by the county treasurer in a manner similar to all other county expenses.

GARRARD COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2018
(Continued)

Note 9. Lease Agreement

The Garrard County Sheriff's office was committed to a lease agreement for a copier. The agreement was for the period of May 15, 2015 through May 15, 2019, however, the fiscal court passed a fee-pooling ordinance for the sheriff's office in December of 2016. This was been paid by the county for calendar year 2018.

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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 John Wilson, Garrard County Judge/Executive
The Honorable Tim Davis, Garrard County Sheriff
Members of the Garrard 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 Garrard County Sheriff for the year ended December 31, 2018, and the related notes to the financial statement and have issued our report thereon dated May 7, 2020. The Garrard 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 Garrard 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 Garrard County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Garrard 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 other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2018-001, 2018-004, 2018-005, 2018-006, and 2018-007 to be material weaknesses.



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

Internal Control over Financial Reporting (Continued)

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Garrard 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 2018-004, 2018-005, 2018-006, and 2018-007.

Views of Responsible Official and Planned Corrective Action

The Garrard 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 Garrard 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

May 7, 2020

SCHEDULE OF FINDINGS AND RESPONSES

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GARRARD COUNTY
TIM DAVIS, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2018

FINANCIAL STATEMENT FINDINGS:

2018-001 The Sheriff's Office Lacks Adequate Segregation Of Duties

This is a repeat finding documented in the prior year audit report as finding 2017-001. The sheriff's office lacks adequate segregation of duties over receipts, disbursements, and monthly reconciliations. Internal control procedures indicate the sheriff's bookkeeper opens mail, collects payments from customers, prepares deposits, prepares checks for the sheriff's signature, posts transactions to the receipts and disbursements ledgers, prepares monthly and quarterly reports, and prepares monthly bank reconciliations.

The sheriff does have segregation of duties as part of the internal control procedures for his office. The lack of adequate segregation of duties increases the risk that undetected errors could occur. Additionally, the lack of adequate segregation of duties could result in misappropriation of assets or inaccurate financial reporting to external agencies, such as the Department for Local Government. A lack of adequate segregation of duties could result in undetected misappropriation of assets and inaccurate financial reporting. Good internal controls dictate the same employee should not handle, record, and reconcile receipts. Further, the same employee should not be responsible for preparing, recording, and reconciling disbursements. The segregation of duties over various accounting functions such as opening mail, preparing deposits, recording receipts and disbursements, and preparing monthly reports, or the implementation of compensating controls is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. If this is not feasible due to budgetary constraints, cross checking procedures could be implemented and documented by the individual performing the procedure.

We recommend the sheriff separate the duties involved in receiving cash, preparing deposits, writing checks, posting to ledgers, preparing monthly bank reconciliations, and comparing financial reports to ledgers. However, if an adequate segregation of duties is not feasible, compensating controls should be implemented and documented by the individual performing the procedure.

Sheriff's Response: Not provided enough funding to have enough staff.

2018-002 The Sheriff Did Not Comply With KRS 61.310(8) Regarding Donations

The sheriff's office failed to meet the requirements of KRS 61.310(8). The sheriff maintained two donation accounts during calendar year 2018, a Drug Abuse Resistance Education (DARE) account and donation account. During calendar year 2018, the sheriff received a donation totaling \$4,756 for the DARE account and \$500 for the donation account. The minimum requirements outlined in KRS 61.310(8) were not met for these donations because the sheriff did not maintain proper documentation to support the funds received and paid out of these accounts.

The sheriff did not require donors to include relevant information along with their donation, to meet the KRS 61.310(8) requirements regarding documentation related to donations.

The sheriff made disbursements totaling \$6,774 from the DARE account and \$2,408 from the donation account. Per KRS 61.310(8), "[a]ny purpose for which the donation is given" is required to be included with donations made to the sheriff's office. The sheriff failed to require the donor to include this, which resulted in disbursements of donated funds without supporting documentation of which donation was associated with the disbursement, increasing the risk that donated funds could be improperly used.

GARRARD COUNTY
 TIM DAVIS, SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2018
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-002 The Sheriff Did Not Comply With KRS 61.310(8) Regarding Donations (Continued)

KRS 61.310(8)(a) states, “[a] sheriff may accept a donation of money or goods to be used for the public purpose of his or her office if the sheriff established a register for recording all donations that includes, at 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 work; and
5. Any purpose for which the donation is given.

The register shall constitute a public record, and be made available to the public for inspection in the sheriff’s office during regular business hours.”

We recommend that the sheriff comply with KRS 61.310(8) for all donations he receives.

Sheriff’s Response: Account closed, monies transferred to fiscal court.

2018-003 The Sheriff Did Not Make All Disbursements By Check

The Garrard County Sheriff’s Office maintains several accounts for the receipt of grants and donations. In 2018, two disbursements were made from the donation account using counter checks and the sheriff withdrew \$80 cash from the grant account to pay for an online report. The sheriff did not realize that all disbursements are required to be made by check.

The sheriff’s failure to make all disbursements in the form of a check drawn on two of the sheriff’s accounts is an issue of non-compliance with regards to Department for Local Government (DLG) requirements under the authority of KRS 68.210. This also significantly increases the risk that funds can be used inappropriately and go undetected.

The Department for Local Government, under the authority of KRS 68.210, has established minimum requirements for all local officials (and employees) that handle public funds in the *County Budget Preparation and State Local Finance Officer Policy Manual*. One of the minimum requirements established is “Disbursements by check only.” The use of counter checks and withdrawing cash does not meet the requirements for making all disbursements by check only.

We recommend the sheriff make all disbursements by check in all accounts maintained by the office as required by the DLG.

Sheriff’s Response: Corrected as prior audit and finding. Account closed.

GARRARD COUNTY
 TIM DAVIS, SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2018
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-004 The Sheriff Did Not Deposit Receipts Daily

This is a repeat finding documented in the prior year audit report as finding 2017-002. The sheriff did not deposit receipts daily in 2018. The sheriff has not established internal controls requiring a daily deposit of all funds received by his office. The sheriff's bookkeeper indicated that on most days receipts were minimal, therefore, receipts were batched by deposit date rather than daily. The sheriff's office planned to prepare deposits on Mondays and Fridays unless daily receipts were considered significant. Nine deposits totaling \$28,595 were made during the month of May 2018, which is consistent with the policy described by the bookkeeper.

Failure to deposit receipts daily is an issue of non-compliance with the Department for Local Government requirements for handling public funds. Failure to deposit receipts daily also exposes the sheriff's office to the risk of misappropriation of funds or inaccurate financial reporting.

The Department for Local Government, under the authority of KRS 68.210, has established minimum requirements for all government officials that handle public funds in the *County Budget Preparation and State Local Finance Officer Policy Manual*. With regards to receipts, governmental officials handling public funds are required to make "Daily deposits into a federally insured banking institution." In addition, good internal controls dictate that receipts should be deposited intact on a daily basis.

We recommend the sheriff make deposits daily as required by the Department for Local Government under the authority granted by KRS 68.210.

Sheriff's Response: Trying to comply when possible, lack of staff and small amounts weekly.

2018-005 The Sheriff Failed To Properly Classify Employees As Hourly Or Salaried

This is a repeat finding from prior year audit report as finding 2017-004. The Garrard County Sheriff's Office paid its school resource officer and bookkeeper on a monthly basis. Payroll checks were issued around the 25th of each month. Auditor was not able to support paycheck amounts by comparing payroll summary report and timesheets. Both employees prepared a timesheet, however; timesheets included overtime which could not be verified reviewing of payroll summary reports.

According to the sheriff, a significant portion of the Garrard County Sheriffs' employees (school resource officer and bookkeeper) are being treated as salaried.

The sheriff's bookkeeper and school resource officer payroll summaries were not supported by timesheets for each employee. Payroll summaries did not include a breakdown of hours worked or include overtime incurred.

KRS 337.320(1) states, "[e]very employer shall keep a record of: (a) The amount paid each pay period to each employee; (b) The hours worked each day and each week by each employee; and (c) Such other information as the executive director requires."

Good internal controls dictate that timesheets be kept for payroll verification, as a record of leave time used, and to document employees are working at least the minimum number of hours to be eligible for full-time benefits such as retirement and health insurance.

GARRARD COUNTY
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 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2018
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-005 The Sheriff Failed To Properly Classify Employees As Hourly Or Salaried (Continued)

KRS 337.285(1) states, “[n]o employer shall employ any of his employees for a work week longer than forty (40) hours, unless such employee receives compensation for his employment in excess of forty (40) hours in a work week at a rate of not less than one and one-half (1-1/2) times the hourly wage rate at which he is employed.”

OAG 79-448, discusses Section 3 of the Kentucky Constitution stating that Section 3 “is unequivocal on the point that public emolument to any person must be based on the consideration of public services. By the strongest implication this means ‘public services actually rendered.’ It does not mean ‘public services to be rendered.’”

803 KAR 1:070 Section 3(3)(a) states “[t]o qualify for the administrative exemption, an employee’s primary duty shall include the exercise of discretion and independent judgment with respect to matters of significance. The exercise of discretion and independent judgment shall involve the comparison and the evaluation of possible courses of conduct, and acting or making a decision after the various possibilities have been considered. The term ‘matters of significance’ refers to the level of importance or consequence of the work performed. (b)...Factors to consider if determining whether an employee exercises discretion and independent judgment with respect to matters of significance include, but are not limited to: whether the employee has authority to commit the employer in matters that have significant financial impact; whether the employee has authority to waive or deviate from established policies and procedures without prior approval; whether the employee has authority to negotiate and bind the company on significant matters[.]”

803 KAR 1:070 section 10 defines a salaried employee as one being paid on a “salary basis”, meaning an employee regularly receives a predetermined amount of compensation each pay period on a weekly, or less frequent, basis. The predetermined amount cannot be reduced because of variations in the quality or quantity of the employee’s work. Subject to certain exceptions, an exempt employee must receive the full salary for any week in which the employee performs any work, regardless of the number of days or hours worked. In addition, Section 11 states that in order to qualify for exemption, employees generally must be paid at not less than \$455 per week on a salary basis. If the employer makes deductions from an employee’s predetermined salary, i.e., because of the operating requirements of the business, that employee is not paid on a “salary basis”.

We recommend the sheriff contact the county attorney and the U.S. Department of Labor to obtain an opinion if any employee under his supervision can be considered a salaried employee.

Sheriff’s Response: The findings were addressed and corrected after audits completed. Audits occurred after years had been completed then found to be good and went back to re-audit. We have done payroll the way the ordinance states since being fee pooled. Did payroll and issued payroll as checked by county treasurer.

Auditor’s Reply: During the review process, information was identified that required additional fieldwork and findings. As noted above, it is important to have employees in the proper classification of salary and non-salary and to have the proper support and payment of overtime.

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 TIM DAVIS, SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2018
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-006 The Sheriff's Office Lacks Adequate Internal Controls Over Payroll

This is a repeat finding documented in the prior year audit report as finding 2017-003. Garrard County Sheriff's employees are separated into two groups for payroll purposes. The Garrard County Sheriff's Office prepares payroll for court security and administrative staff including the sheriff. The personnel in each of these groups have various requirements for employment such as full-time, part-time, and salaried and our testing of payroll included an examination of these requirements and the documentation maintained by the sheriff to support payroll expenditures.

The Garrard County Sheriff does not have appropriate internal controls over the payroll process. During our testing of payroll the following issues were noted:

- County Personnel Policy requires a lunch period to be taken. Documentation of a lunch period was not annotated on the bookkeeper and school resource officer's timesheets.
- Bookkeeper and school resource officer timesheets were not footed correctly.
- Bookkeeper and school resource officer incurred overtime during period tested. Overtime incurred was not documented on payroll summary report which is used to issue payroll disbursements.
- One employee's timesheet was not signed by the employee or a supervisor.
- Payroll summary for administrative staff was not supported by accurate timesheets associated with pay period tested.

According to the sheriff, he was unaware of many of the U.S. Department of Labor requirements and Kentucky Revised Statutes (KRS) that govern payroll. Additionally, human error combined with the lack of internal controls have allowed these payroll issues to go undocumented and uncorrected.

The sheriff is not in compliance with federal and state labor regulations or the county's personnel policy and procedure manual. The lack of controls over payroll have allowed employees to be underpaid. Additionally, timesheets under stated the hours for administrative employees.

KRS 337.320(1) states "[e]very employer shall keep a record of: (a) The amount paid each pay period to each employee; (b) The hours worked each day and each week by each employee; and (c) Such other information as the executive director requires."

Good internal controls dictate that timesheets be kept for payroll verification, as a record of leave time used, and to document employees are working at least the minimum number of hours to be eligible for full-time benefits such as retirement and health insurance.

The Garrard County Personnel Policy and Procedures manual states "[l]unch periods will be taken in the period between 11:00 a.m. and 2:00 p.m., except in the case of emergency or necessity as determined by the County Official or Department Head."

The United States Department of Labor – Wage and Hour Division defines Kentucky's "Minimum Length of Meal Period Required under State Law for Adult Employees in Private Sector" as "Reasonable off-duty period, ordinarily ½ hour but shorter period permitted under special conditions, between 3rd and 5th hour of work. Not counted as time worked. Coffee breaks and snack time not to be included in meal period."

GARRARD COUNTY
 TIM DAVIS, SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2018
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-006 The Sheriff's Office Lacks Adequate Internal Controls Over Payroll (Continued)

KRS 337.355 states, in part, "[e]mployers, except those subject to the Federal Railway Labor Act, shall grant their employees a reasonable period for lunch, and such time shall be as close to the middle of the employee's scheduled work shift as possible. In no case shall an employee be required to take a lunch period sooner than three (3) hours after his work shift commences, nor more than five (5) hours from the time his work shift commences."

We recommend the Garrard County Sheriff strengthen internal controls over payroll by maintaining leave balances, requiring employees and supervisors to sign timesheets, ensure timesheets reflect actual hours worked, require all employees to maintain timesheets and require employees to document lunch periods on timecards. We further recommend the official ensure employees are in compliance with the U.S. Department of Labor, state law, and the Garrard County Personnel Policy and Procedures manual.

Sheriff's Response: The findings were addressed and corrected after audits completed. Audits occurred after years had been completed then found to be good and went back to re-audit. We have done payroll the way the ordinance states since being fee pooled. Did payroll and issued payroll as checked by county treasurer.

Auditor's Reply: During the review process, information was identified that required additional fieldwork and findings. As stated above, there were issues noted in the payroll process due to the lack of good internal controls. As recommended the sheriff should strengthen internal controls over payroll by maintaining leave balances, requiring employees and supervisors to sign timesheets, ensure timesheets reflect actual hours worked, require all employees to maintain timesheets and require employees to document lunch periods on timecards. Also the Sheriff should ensure employees are in compliance with the U.S. Department of Labor, state law, and the Garrard County Personnel Policy and Procedures manual.

2018-007 The Garrard County Sheriff Did Not Abide By The Fee Pooling Ordinance And Materially Misstated His Quarterly Report

The Garrard County Sheriff deposited \$290,467 in funds from the county into the sheriff's payroll account and wrote checks from the payroll bank account for calendar year 2018 payroll expenditures. The county fee pooling ordinance dictates that the county treasurer shall pay such payrolls. Also, these disbursements were not recorded on the sheriff's fourth quarter report, which serves as his financial statement, requiring material audit adjustments.

The sheriff did not have controls in place to ensure that he was abiding by the fee pooling ordinance and that his financial statement was materially accurate. A misstatement could result in an increased risk of uncorrected errors, theft, loss or misappropriated assets.

The county fee pooling ordinance dictates that the sheriff shall certify to the treasurer for payment of each bi-monthly pay period, the names and hours of each employee of their respective offices who worked during such pay period and the treasurer shall pay such payrolls.

KRS 134.192(11) requires a complete statement of all funds received by his or her office for official services, showing separately the total income received by his or her office for services rendered, exclusive of his or her commissions for collecting taxes, and the total funds received as commissions for collecting state, county, and school taxes, and a complete statement of all expenditures of his or her office.

GARRARD COUNTY
TIM DAVIS, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2018
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-007 The Garrard County Sheriff Did Not Abide By The Fee Pooling Ordinance And Materially Misstated His Quarterly Report (Continued)

We recommend the Garrard County Sheriff abide by the county fee pooling ordinance. If he wishes to continue payroll disbursements through his fee account, he should consult with the county judge/executive and the fiscal court to have the ordinance amended as needed. We further recommend the sheriff post all receipts and disbursements on his quarterly reports.

Sheriff's Response: The findings were addressed and corrected after audits completed. Audits occurred after years had been completed then found to be good and went back to re-audit. We have done payroll the way the ordinance states since being fee pooled. Did payroll and issued payroll as checked by county treasurer.

Auditor's Reply: During the review process, information was identified that required additional fieldwork and findings. As stated in the fee pooling ordinance, "the sheriff's expenses and expenditures shall be paid by the county treasurer."