

**REPORT OF THE AUDIT OF THE
POWELL COUNTY
SHERIFF**

**For The Year Ended
December 31, 2015**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY
AUDIT OF THE
POWELL COUNTY SHERIFF

For The Year Ended
December 31, 2015

The Auditor of Public Accounts has completed the Powell County Sheriff's audit for the year ended December 31, 2015. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the receipts, disbursements, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$10,419 from the prior year, resulting in excess fees of \$7,579 as of December 31, 2015. Receipts decreased by \$19,269 from the prior year and disbursements decreased by \$8,850.

Report Comments:

- 2015-001 The Sheriff Was Not Involved In The Daily Financial Activities Of His Office
- 2015-002 The Sheriff's Office Lacks Adequate Segregation Of Duties
- 2015-003 The Sheriff Did Not Settle His 2015 Fee Account Or Present A Final Settlement To The Fiscal Court
- 2015-004 The Sheriff Did Not Settle His 2014 Fee Account
- 2015-005 The Sheriff Did Not Settle His 2013 Fee Account
- 2015-006 The Sheriff Did Not Resolve The Deficit In His 2012 Fee Account
- 2015-007 The Sheriff Lacked Adequate Controls Over Disbursements
- 2015-008 The Sheriff Had \$2,123 In Disallowed Disbursements
- 2015-009 The Sheriff Did Not Make Lease Payments In Accordance With The Lease Agreement
- 2015-010 The Sheriff Did Not Pay The Fiscal Court Fees Collected For The Service Of Subpoenas And Civil Summons To The Fiscal Court
- 2015-011 The Sheriff Wrote Checks On Accounts Which Had Insufficient Funds To Cover The Disbursements
- 2015-012 The Sheriff Did Not Pay Invoices Timely
- 2015-013 The Sheriff Lacked Controls Over Payroll
- 2015-014 The Sheriff Did Not Ensure His W-2 For Calendar Year 2015 Was Accurate
- 2015-015 The Sheriff Has Not Resolved A Possible Conflict Of Interest
- 2015-016 The Sheriff Did Not Prepare Form 1099 For All Applicable Contract Labor
- 2015-017 The Sheriff Did Not Provide A Written Policy And Procedures Manual For Calendar Year 2015
- 2015-018 The Sheriff Did Not Prepare Or Submit An Annual Asset Forfeiture Report
- 2015-019 The Sheriff Did Not Submit All Quarterly Reports To The Department For Local Government As Required
- 2015-020 The Sheriff's Fourth Quarter Report Did Not Accurately Reflect Total Receipts And Total Disbursements

Deposits:

The sheriff's deposits were insured and collateralized by bank securities.

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CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	1
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS	4
NOTES TO FINANCIAL STATEMENT	7
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 <i>GOVERNMENT AUDITING STANDARDS</i>	13
COMMENTS AND RECOMMENDATIONS	17

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable James Anderson, Powell County Judge/Executive
The Honorable Danny Rogers, Powell County Sheriff
Members of the Powell 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 Powell County, Kentucky, for the year ended December 31, 2015, 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 as described in Note 1, which is a basis of accounting other than accounting principles generally accepted in the United States of America. 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 James Anderson, Powell County Judge/Executive
 The Honorable Danny Rogers, Powell County Sheriff
 Members of the Powell 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 Powell 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 Powell County Sheriff, as of December 31, 2015, 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 Powell County Sheriff for the year ended December 31, 2015, 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 March 20, 2018, on our consideration of the Powell County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and 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.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

- 2015-001 The Sheriff Was Not Involved In The Daily Activities Of His Office
- 2015-002 The Sheriff's Office Lacks Adequate Segregation Of Duties
- 2015-003 The Sheriff Did Not Settle His 2015 Fee Account Or Present A Final Settlement To The Fiscal Court
- 2015-004 The Sheriff Did Not Settle His 2014 Fee Account
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- 2015-010 The Sheriff Did Not Pay The Fiscal Court Fees Collected For The Service Of Subpoenas And Civil Summons To The Fiscal Court

The Honorable James Anderson, Powell County Judge/Executive
The Honorable Danny Rogers, Powell County Sheriff
Members of the Powell County Fiscal Court

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

- 2015-011 The Sheriff Wrote Checks On Accounts Which Had Insufficient Funds To Cover The Disbursements
- 2015-012 The Sheriff Did Not Pay Invoices Timely
- 2015-013 The Sheriff Lacked Controls Over Payroll
- 2015-014 The Sheriff Did Not Ensure His W-2 For Calendar Year 2015 Was Accurate
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- 2015-019 The Sheriff Did Not Submit All Quarterly Reports To The Department For Local Government As Required
- 2015-020 The Sheriff's Fourth Quarter Report Did Not Accurately Reflect Total Receipts And Total Disbursements

Respectfully submitted,

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

Mike Harmon
Auditor of Public Accounts

March 20, 2018

POWELL COUNTY
DANNY ROGERS, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2015

Receipts

Federal Grants	\$	7,703	
State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)			7,277
State Fees For Services:			
Finance and Administration Cabinet	\$	52,675	
Sheriff Security Service		<u>7,586</u>	60,261
Circuit Court Clerk - Fines and Fees Collected			6,309
Fiscal Court			63,383
County Clerk - Delinquent Taxes			15,597
Commission On Taxes Collected			130,454
Fees Collected For Services:			
Auto Inspections		1,660	
Accident and Police Reports		485	
Serving Papers		20,676	
Carry Concealed Deadly Weapon Permits		<u>4,115</u>	26,936
Other:			
Add-On Fees		24,266	
Drug Forfeiture		5,207	
School Resource Officer		44,000	
Miscellaneous		<u>5,451</u>	78,924
Interest Earned			121
Borrowed Money:			
State Advancement			<u>21,115</u>
Total Receipts			418,080

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

POWELL COUNTY
DANNY ROGERS, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2015
(Continued)

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-			
Deputies' Salaries	\$	196,266	
Other Salaries		7,302	
Overtime		8,365	
Contracted Services-			
Vehicle Maintenance and Repairs		13,029	
Materials and Supplies-			
Office Materials and Supplies		7,014	
Uniforms		3,761	
Auto Expense-			
Gasoline		32,286	
Other Charges-			
Dues		430	
Postage		1,673	
Bond		1,557	
Miscellaneous		10,683	
Capital Outlay-			
Office Equipment		5,776	
Unpaid Obligations-			
Fiscal Court - Paper Fees		3,670	\$ 291,812
Debt Service:			
State Advancement		21,115	
Bank Note		6,817	
Lease Purchase - Vehicle		6,187	34,119
Total Disbursements			\$ 325,931
Less: Disallowed Disbursements			
Overdraft Bank Charges		1,263	
Fees for Late Payments		154	
Unnecessary Items (Candy, Personal Items, etc.)		706	2,123
Total Allowable Disbursements			<u>323,808</u>

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

POWELL COUNTY
DANNY ROGERS, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2015
(Continued)

Net Receipts	\$ 94,272
Less: Statutory Maximum	<u>82,752</u>
Excess Fees	11,520
Less: Training Incentive Benefit	<u>3,941</u>
Excess Fees Due County for 2015	<u>\$ 7,579</u>

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

POWELL COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2015

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 2015 services
- Reimbursements for 2015 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2015

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).

POWELL COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2015
 (Continued)

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

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. 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 the plan. The county's contribution rate for nonhazardous employees was 17.67 percent for the first six months and 17.06 percent for the last six months.

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. Members contribute five percent (nonhazardous) of their annual creditable compensation and one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a four percent (nonhazardous) 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.

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.

POWELL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2015
(Continued)

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

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

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the sheriff's deposits may not be returned. The Powell 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, 2015, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. United States Forest Service Grant

The Powell County Sheriff's office received \$7,703 from the United States Forest Service for patrolling. This was a reimbursement for payroll of officers patrolling the Daniel Boone National Forest.

Note 5. Interlocal Agreement - Powell County Board of Education

The office of the sheriff entered into an agreement with the Powell County Board of Education wherein the school system agreed to reimburse the sheriff's office for the cost of the school resource officer program and two school resource officers' salaries, a sum of \$44,000. The sheriff received four quarterly installments of \$11,000 on or before the first day of each calendar quarter of calendar year 2015.

Note 6. Note Payable

On June 5, 2015, the Powell County Fiscal Court entered into a short-term loan for three vehicles totaling \$73,960 to be used by the sheriff's office. The sheriff's office is making the payments on the bank note. The original agreement required one principal payment due on June 30, 2015, plus interest at a rate of 3.25 percent. Each year in June the agreement renews with the bank for an additional one year term. The current agreement has a maturity date of June 30, 2018, the interest rate remains at 3.25 percent. During calendar year 2015, the sheriff's office made principal payments totaling \$6,817. The outstanding principal balance as of December 31, 2015, was \$67,143.

Note 7. Lease Purchase Agreement

In March 2014, the Powell County Sheriff's office entered into an agreement to purchase a truck in the amount of \$19,500. The sheriff paid \$3,000 at the time of the agreement and is required to make annual payments of \$6,187 until paid in full. As of December 31, 2015, the remaining balance of the agreement was \$10,721.

POWELL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2015
(Continued)

Note 8. Lease Agreement

The Powell County Sheriff's office was committed to a lease agreement for a copier. The agreement requires a monthly payment of \$105 for 60 months to be completed on March 11, 2016. The total remaining balance of the agreement was \$2,302 as of December 31, 2015.

Note 9. Crime Stoppers In Schools

Crime Stoppers in Schools is a school-supported program to decrease crime and increase pride within the school and local community by rewarding valid sharing of information regarding criminal activity. The Powell County Sheriff's Department, Powell County Schools, and Whitaker Bank of Powell County sponsor the program. The beginning balance was \$195. There were no receipts or disbursements for calendar year 2015. The balance as of December 31, 2015, was \$195.

Note 10. Asset Forfeiture Accounts

Federal Asset Forfeiture

The office of the sheriff received monies from federal agencies for funds recovered in drug related cases. The account had a beginning balance of \$186. There were no receipts or disbursements for calendar year 2015. The balance as of December 31, 2015, was \$186.

Non-Federal Asset Forfeiture

The office of the sheriff received monies from the local and state agencies for funds recovered in drug related cases. The account had a beginning balance of \$39,764, receipts of \$6,914, and disbursements of \$44,305. The balance as of December 31, 2015, was \$2,373.

Note 11. Related Party Transactions

The office of the sheriff does business with a local garage and repair shop. The owner of this repair shop works as a special deputy for the sheriff's office. The total amount paid to this repair shop during 2015 was \$2,820.

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 James Anderson, Powell County Judge/Executive
The Honorable Danny Rogers, Powell County Sheriff
Members of the Powell 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 Powell County Sheriff for the year ended December 31, 2015, and the related notes to the financial statement and have issued our report thereon dated March 20, 2018. The Powell 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 Powell 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 Powell County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Powell County Sheriff's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting 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 comments and recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2015-001, 2015-002, 2015-007, 2015-008, 2015-009, 2015-011, 2015-012, 2015-013, 2015-014, 2015-018, and 2015-020 to be material weaknesses.



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

Internal Control over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying comments and recommendations as item 2015-017 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Powell 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 comments and recommendations as items 2015-003, 2015-004, 2015-005, 2015-006, 2015-008, 2015-009, 2015-010, 2015-011, 2015-012, 2015-013, 2015-014, 2015-015, 2015-016, 2015-018, 2015-019, and 2015-020.


Sheriff's Responses to Findings

The Powell County Sheriff's responses to the findings identified in our audit are described in the accompanying comments and recommendations. The 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

March 20, 2018

COMMENTS AND RECOMMENDATIONS

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POWELL COUNTY
DANNY ROGERS, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2015

FINANCIAL STATEMENT FINDINGS:

2015-001 The Sheriff Was Not Involved In The Daily Financial Activities Of His Office

The sheriff was not involved in the daily financial activities of his office. Numerous weaknesses in the control environment of the sheriff's office significantly increase the risk of fraud and misappropriation of funds, and decrease the accuracy of records provided. This condition is a result of poorly designed policies and procedures; inconsistent, incomplete, and inaccurate implementation of controls; and lack of management oversight and involvement. The noted weaknesses, such as inadequate segregation of duties and inaccurate or incomplete financial reports and ledgers, could affect the sheriff's ability to ensure that financial data is recorded, processed, and reported in an accurate and reliable manner. This impacts the sheriff's ability to ensure that assets were sufficiently safeguarded. The cumulative effect of these control weaknesses increases the risk of material misstatement caused by error or fraud.

Management has a responsibility to design and implement internal controls that provide reasonable assurance regarding the reliability of financial reporting. Internal control is a management process for keeping an entity on course in achieving its business objectives. Internal controls should ensure resources are protected from waste, loss, and misuse and ensure reliable data is obtained, maintained, and fairly disclosed. Entities are required to establish controls to provide reasonable assurance that the recording, processing, and reporting of data is properly performed within the framework of financial management systems.

The following recommendations are supplemented by additional recommendations presented throughout this report:

- The sheriff should be more diligent in the day-to-day operations of his office by providing direct oversight of financial reporting for all receipts and disbursements.
- The sheriff should implement internal controls over the financial accounting system that ensure an adequate internal control structure, including management oversight; provide reasonable assurance that assets are safeguarded and transactions are processed in accordance with applicable laws and regulations; and ensure transactions are recorded, reconciled, processed, and summarized to permit the preparation of reliable financial data.
- The sheriff should segregate duties so that no one person can both create and conceal fraudulent activity or commit an undetected material error.
- The sheriff should train employees to ensure that each employee understands both the activities and the accounting principles needed for their positions.
- The sheriff should implement sufficient supervisory review of key functions and activities, and ensure managers clearly understand their roles in the supervisory process. All supervisory reviews should be evidenced in writing.

Sheriff's Response: As Sheriff I am ultimately available for all responsibilities of this office 24-7. I am always aware of activities within my office, not only deputies, but clerks as well. Due to lack of deputies and short staffed, I attempt to rotate my presence in my office as well as work on the road. My office clerk's always inform me the status of daily monetary and activity reports within the office environment.

2015-002 The Sheriff's Office Lacks Adequate Segregation Of Duties

The sheriff's office lacks adequate segregation of duties. The sheriff's bookkeeper collects payments from customers, prepares deposits, writes checks, posts transactions to the receipts ledger, post checks to the disbursements ledger, and prepares monthly and quarterly reports. The sheriff or another employee did not document oversight of any of these activities.

POWELL COUNTY
DANNY ROGERS, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2015
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-002 The Sheriff's Office Lacks Adequate Segregation Of Duties (Continued)

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

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

Sheriff's Response: There is not enough money in our budget to honor this request. In most instances the two clerk's do discuss daily activities.

2015-003 The Sheriff Did Not Settle His 2015 Fee Account Or Present A Final Settlement To The Fiscal Court

The sheriff did not settle his 2015 fee account and he did not present a final settlement to the fiscal court for calendar year 2015. In order to settle the account, the sheriff should collect and pay the following:

Assets

Cash in Bank		\$ 10,413
Receivables:		
Due from Sheriff - Disallowed Disbursements	\$ 875	
Due from 2015 Tax Account - Commissions	<u>2,624</u>	
Total Receivables		<u>3,499</u>
Total Assets		13,912

Liabilities

Unpaid Obligations:		
Due to 2016 Fee Account - Deposited into 2015 in Error	2,663	
Due to Fiscal Court - Serving Paper Fees	<u>3,670</u>	
Total Unpaid Obligations		<u>6,333</u>
Excess Fees Due County for 2015		<u>\$ 7,579</u>

POWELL COUNTY
DANNY ROGERS, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2015
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-003 The Sheriff Did Not Settle His 2015 Fee Account Or Present A Final Settlement To The Fiscal Court (Continued)

The sheriff does not have procedures in place to ensure that an annual settlement is presented to the fiscal court and that excess fees are properly paid. Also, the sheriff does not have procedures in place to ensure that disbursements are paid from the appropriate bank accounts. The failure to pay liabilities timely causes taxing districts and other governmental agencies to be deprived of funds for significant time periods. After all amounts are collected and paid, the sheriff will have excess fees due to the county in the amount of \$7,579. KRS 134.192 states that each sheriff shall annually settle his or her accounts with the department, the county, and any district for which the sheriff collects taxes on or before September 1 of each year. A complete statement of all funds received by his or her office for official services, showing separately the total income received by his office for services rendered, exclusive of his 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, including his salary, compensation of deputies and assistants, and reasonable expenses. We recommend the sheriff take the necessary steps to ensure the amounts above are collected and paid as soon as possible. We further recommend the sheriff settle his accounts before September 1 of each year hereafter.

Sheriff's Response: We are waiting to collect fees from Districts to resolve this issue as soon as possible.

2015-004 The Sheriff Did Not Settle His 2014 Fee Account

The sheriff did not settle his 2014 fee account. In order to settle the account, the sheriff should collect and pay the following:

Assets

Cash in Bank:

School Resource Officer Account	\$ 6,526
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Receivables:

Due from Sheriff - Disallowed Expenditures	\$ 4,075 *
Due from 2013 Fee - '13 Exp Pd from '14, Dep Error, Loan Pmt	<u>1,861</u>

Total Receivables	<u>5,936</u>
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Excess Fees Due The County For Calendar Year 2014	<u>\$ 12,462</u>
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* This amount has been reduced from the amount reported in the calendar year 2014 audit due to the sheriff paying \$900 in personal funds to the 2014 fee account after the date of that audit

The sheriff does not have procedures in place to ensure that disbursements are paid from the appropriate bank accounts. Also, there were disallowed disbursements in the 2014 audit. The failure to pay liabilities timely causes taxing districts and other governmental agencies to be deprived of funds for significant time periods. After all amounts are collected and paid, the sheriff will have excess fees due to the county in the amount of \$12,462.

POWELL COUNTY
DANNY ROGERS, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2015
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-004 The Sheriff Did Not Settle His 2014 Fee Account (Continued)

KRS 134.192 states that each sheriff shall annually settle his or her accounts with the department, the county, and any district for which the sheriff collects taxes on or before September 1 of each year. Further, KRS 64.820 states that, “[t]he fiscal court shall collect any amount due the county from county officials as determined by the audit of the official conducted pursuant to KRS 43.070 and KRS 64.810 if the amount can be collected without suit.” In the event the fiscal court cannot collect the amount due the county from the county official without suit, the fiscal court shall then direct the county attorney to institute suit for the collection of the amount reported by the Auditor or certified public accountant to be due the county within 90 days from the date of receiving the Auditor’s or certified public accountant’s report. We recommend the sheriff take the necessary steps to ensure the amounts above are collected and paid as soon as possible. This matter will be referred to the Powell County Attorney.

Sheriff’s Response: We will be working to resolve this issue as soon as possible.

2015-005 The Sheriff Did Not Settle His 2013 Fee Account

The sheriff did not settle his 2013 fee account. In order to settle the account, the sheriff should collect and pay the following:

Assets

Cash in Bank - 2013 Fee Account		\$	0
Receivables:			
Due From 2012 Fee Account - Deposit Errors	\$	10,043	
Due From Sheriff - Overpayment of Salary		750	
Due From Sheriff - Disallowed Expenditures		<u>419</u>	
Total Receivables			<u>11,212</u>
Total Assets			11,212
<u>Liabilities</u>			
Unpaid Obligations:			
Due To 2014 Fee Account - Various Errors		1,861	
Due To Fiscal Court - Paper Fees		<u>3,594</u>	
Total Unpaid Obligations			<u>5,455</u>
Excess Fees Due The County For Calendar Year 2013		\$	<u>5,757</u>

The sheriff does not have procedures in place to ensure that disbursements are paid from the appropriate bank accounts. Also, there were disallowed disbursements in the 2013 audit.

POWELL COUNTY
DANNY ROGERS, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2015
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-005 The Sheriff Did Not Settle His 2013 Fee Account (Continued)

The failure to pay liabilities timely causes taxing districts and other governmental agencies to be deprived of funds for significant time periods. After all amounts are collected and paid, the sheriff will have excess fees due to the county in the amount of \$5,757. KRS 134.192 states that each sheriff shall annually settle his or her accounts with the department, the county, and any district for which the sheriff collects taxes on or before September 1 of each year. Further, KRS 64.820 states, “[t]he fiscal court shall collect any amount due the county from county officials as determined by the audit of the official conducted pursuant to KRS 43.070 and KRS 64.810 if the amount can be collected without suit. In the event the fiscal court cannot collect the amount due the county from the county official without suit, the fiscal court shall then direct the county attorney to institute suit for the collection of the amount reported by the Auditor or certified public accountant to be due the county within 90 days from the date of receiving the Auditor’s or certified public accountant’s report. We recommend the sheriff take the necessary steps to ensure the amounts above are collected and paid as soon as possible. This matter will be referred to the Powell County Attorney.

Sheriff’s Response: We will be working to resolve this issue as soon as possible.

2015-006 The Sheriff Did Not Resolve The Deficit In His 2012 Fee Account

After all known unpaid liabilities were accounted for, the sheriff had a deficit of \$11,449 in his 2012 fee account. This deficit was caused by deposit errors and disallowed disbursements. The sheriff received a deposit of in lieu of tax money in error and did not reimburse it when received; however, used the receipts to fund his 2012 fee account. These funds were paid back to the fiscal court on April 29, 2013 from the 2013 fee account. Since 2012 expenditures cannot be paid by the 2013 fee account, these funds must be reimbursed to this account from the sheriff. In order to settle the account, the sheriff should collect and pay the following:

Assets

Cash in Bank - 2012 Fee Account	\$	0
Receivables:		
Due From Sheriff - Disallowed Disbursements		947
Total Assets		947

Liabilities

Unpaid Obligations:		
Due To 2013 Fee Account - Deposit Errors	\$	10,043
Due To Fiscal Court - Paper Fees		2,353
Total Unpaid Obligations		12,396
Total Fund Balance as of December 31, 2012		\$ (11,449)

POWELL COUNTY
DANNY ROGERS, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2015
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-006 The Sheriff Did Not Resolve The Deficit In His 2012 Fee Account (Continued)

The failure to pay liabilities timely causes taxing districts and other governmental agencies to be deprived of funds for significant time periods. KRS 64.820 states, “[t]he fiscal court shall collect any amount due the county from county officials as determined by the audit of the official conducted pursuant to KRS 43.070 and KRS 64.810 if the amount can be collected without suit.” In the event the fiscal court cannot collect the amount due the county from the county official without suit, the fiscal court shall then direct the county attorney to institute suit for the collection of the amount reported by the Auditor or certified public accountant to be due the county within 90 days from the date of receiving the Auditor’s or certified public accountant’s report. We recommend the sheriff take the necessary steps to ensure the amounts above are collected and paid as soon as possible. This matter will be referred to the Powell County Attorney.

Sheriff’s Response: This issue is due to a check deposited into the Sheriff’s Account with same documentation as the Forestry Payment we received for our Co-op. We did not know that this was PILT money which was supposed to have been paid to the County. Whenever this was brought to our attention the money was paid to the Fiscal Court from the Commission of the 2012 Taxes from the 2013 Fee Account. Since this time we have received PILT several times and have had the Bank return said PILT and since that time County has finally set up their SAM account so that it is deposited in the correct account.

Auditor’s Reply: Although the deposit error has been corrected, the 2012 deficit remains and is the responsibility of the sheriff.

2015-007 The Sheriff Lacked Adequate Controls Over Disbursements

The sheriff’s office lacked strong internal controls over disbursements. The lack of adequate controls over disbursements, inadequate segregation of duties, and absence of review procedures, as described in comments 2015-001 and 2015-002 led to multiple discrepancies as follows:

Due to the lack of effective controls, numerous exceptions were noted as follows:

- 2015 disbursements totaling \$12,954 were paid from the 2014 fee account;
- Disallowed disbursements totaling \$2,123 (see finding 2015-008)
- Overdrawn bank balances (see finding 2015-011)
- Invoices paid as much as 23 months late (see finding 2015-012)
- Disbursements not posted to the ledgers (see finding 2015-020)
- A check in the amount of \$5,000 was written to a deputy, which was cashed and used to purchase equipment for the sheriff’s office.

There were not adequate review procedures in place, as described in finding 2015-001, to detect, eliminate, or reduce errors. Taxpayer funds were misspent as noted by disallowed disbursements. Invoices and lease payments not being paid timely could result in substantial late fees, penalties, or other ramifications. Disbursements not properly posted to the ledgers result in incomplete and misstated financial statements. Invoices without adequate detail could lead to improper or disallowed disbursements.

Strong internal controls require that adequate documentation and sufficient review of all disbursements are necessary to reduce the risk of errors and misstatements. We recommend the sheriff implement procedures that strengthen controls over disbursements to eliminate the exceptions noted above in the future.

POWELL COUNTY
 DANNY ROGERS, SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended December 31, 2015
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-007 The Sheriff Lacked Adequate Controls Over Disbursements (Continued)

Sheriff's Response: Due to the Overpayment in the 2015 Tax Account for several districts this caused a financial burden as to the operation of our office. We also at that time received a County Contribution from the County and we used that for payroll which in most instances we had to request this more than once, which caused a delay in deposit for payroll.

The comment in regard to the \$5,000 that was paid to the deputy was paid on 12-31-2015 due to AT&T policy not to take a check. The reason for this was we have to spend our money by the end of the year or we have to turn over as excess fees and we used this for supplies and things we need for upcoming year. This money was used to purchase I Pads, supplies and equipment for the deputies and documentation was provided to the Auditors for description and amounts.

Auditor's Reply: The Department for Local Government's County Budget Preparation And State Local Finance Officer Policy Manual requires all disbursements to be by check.

2015-008 The Sheriff Had \$2,123 In Disallowed Disbursements

The sheriff expended a total of \$2,123 for the following disallowed items:

- Overdraft bank charges of \$1,263 were paid as penalties for bank accounts being overdrawn
- A total of \$706 was paid for items that are not necessary to the operation of the office, including, but not limited to; candy and other items given to kids for Halloween; and other personal items such as food, clothing, and laundry detergent purchased at a retail warehouse club store.
- Late fees of \$154 were paid for payments not made timely

In April 2017, the sheriff personally repaid \$1,248 to the 2015 fee account for a portion of the bank charges and personal items purchased at a retail warehouse club store during calendar year 2015. This reduces the amount currently owed by him to \$875.

This is a result of a lack of internal controls over disbursements, as described in finding 2015-007, and lack of management oversight as described in finding 2015-001. The disallowed expenditures result in taxpayer funds being spent inappropriately. In addition, the sheriff personally owes \$2,123 to the 2015 fee account.

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. We recommend the sheriff reimburse the remaining \$875 to the 2015 fee account from his personal funds for these disallowed disbursements. Furthermore, we recommend the sheriff only expend funds for allowable purposes in the future.

Sheriff's Response: Any candy purchased was used for Safety programs for Halloween and Community Trick or Treat. Also was used for incentives for programs which the School Resource Officer provided for students. Any other purchase in error was already paid back to fee account.

POWELL COUNTY
DANNY ROGERS, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2015
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-009 The Sheriff Did Not Make Lease Payments In Accordance With The Lease Agreement

On February 24, 2011, the sheriff entered into a 60 month lease agreement for a copier/printer that requires monthly payments of \$105 plus applicable monthly usage fees for copies exceeding the monthly allotment stipulated in the agreement. The sheriff did not make any lease payments during calendar year 2015 in accordance with the lease agreement. The lease was eventually paid off in June 2017 with funds from the 2015 fee account.

This is a result of a lack of internal controls over disbursements as described in finding 2015-007 and lack of management oversight as described in finding 2015-001. The sheriff is in violation of the lease terms outlined in the lease agreement and is in violation of KRS 65.140.

Per the agreement, the sheriff should have remitted minimum monthly lease payments in the amount of \$105 plus applicable print charges. Furthermore, KRS 65.140(2) states in part, "all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor's invoice[.]" In order to fulfill contractual agreements, avoid late fees and penalties, and comply with KRS 65.140, we recommend the sheriff remit payment for all leases timely.

Sheriff's Response: We will work to resolve this matter.

2015-010 The Sheriff Did Not Pay The Fiscal Court Fees Collected For The Service Of Subpoenas And Civil Summons To The Fiscal Court

The sheriff did not pay fiscal court fees collected for serving subpoenas and civil summons for the fiscal court. During calendar year 2015, the sheriff collected \$18,373 in civil summons fees and subpoena fees. Of this amount, \$3,670 constituted fees belonging to the fiscal court. The sheriff is aware of the ordinance and chose not to pay the required amount to the fiscal court. The failure to pay fees timely resulted in an unpaid obligation of \$3,670 to the fiscal court, as noted in finding 2015-003. As authorized under Judicial Branch Budget Bill (HB 577) and KRS 64.091, and approved by the Powell County Fiscal Court in Ordinance 00-06-29A, an additional fee of \$10 shall be charged for the service of a subpoena and for the service of a civil summons. Amounts collected should be turned over to the fiscal court monthly. We recommend the sheriff pay amounts due to the fiscal court monthly as required by ordinance. We further recommend the sheriff implement controls to ensure all future amounts due the fiscal court are paid timely.

Sheriff's Response: The small amount of money received at \$10.00 per civil paper served is such a small amount of money that would not begin to even be noticed by the monetary needs of the Fiscal Court; but, this small amount is very beneficial to our small department. I continue to request that this Ordinance is done away with.

Auditor's Reply: The sheriff cannot choose to ignore an ordinance because it would be more beneficial to keep these receipts in the sheriff's office. Abolishing the ordinance would simply cease collection of the fee, not transfer the fee from the county to the sheriff.

POWELL COUNTY
 DANNY ROGERS, SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended December 31, 2015
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-011 The Sheriff Wrote Checks On Accounts Which Had Insufficient Funds To Cover The Disbursements

The sheriff wrote cold checks on the 2015 fee and the school resource officer bank accounts. The 2015 fee bank account was overdrawn on at least 39 days of the calendar year. The school resource officer bank account was overdrawn on at least eight days of calendar year 2015. The sheriff was not adequately reconciling the fee account to the bank balance throughout the year. The sheriff does not have controls in place to ensure that the cash balance in the bank was sufficient to cover all checks written. The bank charged \$1,263 in overdraft penalties, which the sheriff will have to personally pay back to the fee account.

The state local finance officer, under the authority of KRS 68.210, established minimum accounting requirements which include reconciling receipts and disbursements to monthly bank statements. We recommend the sheriff properly utilize bank reconciliations in order to determine the available funds in all accounts. We further recommend the sheriff reimburse the accounts a total of \$1,263 from his personal funds for these disallowed disbursements, as recommended in finding 2015-008.

Sheriff's Response: This was due to School delay in signing School Resource contract and delayed payment for officers. This was resolved when we received our Bank Statement. Once the contract was signed this resolved all matters.

2015-012 The Sheriff Did Not Pay Invoices Timely

At least 18 invoices in our sample of 51 disbursements were not paid within 30 working days, some as much as 23 months late. This is a result of a lack of internal controls over disbursements as described in finding 2015-007 and lack of management oversight as described in finding 2015-001.

The late payments resulted in \$154 of late fees and penalties which the sheriff will have to personally pay back. KRS 65.140(2) states in part, "all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor's invoice[.]" In order to avoid late fees and penalties and to comply with KRS 65.140, we recommend the sheriff pay invoices within 30 days. We further recommend the sheriff deposit personal funds of \$154 into the 2015 fee account as recommended in finding 2015-008.

Sheriff's Response: Due to the financial burden from the overpayment of districts and my office not receiving that money owed, some invoices were not paid as to we made payroll first.

2015-013 The Sheriff Lacked Adequate Controls Over Payroll

The sheriff's office lacked adequate internal controls over the processing of payroll, specifically over timesheets and gross wage calculations. A total of 35 timesheets were tested for 12 employees and numerous issues were noted. Review procedures were in place; however, they were not adequately performed to eliminate or reduce errors. Due to the lack of effective controls, numerous exceptions were noted as follows:

- One instance in which one employee was paid their regular pay and vacation pay for the same pay week
- Two instances in which an hourly employee did not have any hours listed on the timesheet, but was paid for 80 hours
- Nine instances in which three part time "salary" employees did not have daily totals nor total hours listed on the timesheet

POWELL COUNTY
 DANNY ROGERS, SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended December 31, 2015
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-013 The Sheriff Lacked Adequate Controls Over Payroll (Continued)

- Two instances in which two employees' overtime was not paid correctly - the employee worked more than forty hours per week but was not compensated at time and a half
- One instance in which one employee's overtime was not paid correctly - the employee did NOT work more than forty hours per week but was compensated at time and a half
- Four instances in which four employees' total hours listed on the timesheet did not agree to the hours documented
- One instance in which one employee did not sign the timesheet
- One instance in which the supervisor did not sign the timesheet

Good internal controls dictate that adequate controls and sufficient review are necessary to reduce the risk of errors and misstatements. One necessary element for internal controls over payroll is that every timesheet list the hours worked each day and each pay period. KRS 337.320 states that every employer shall keep a record of the amount paid each pay period to employees and the hours worked each day and each week for employees. In addition, the hours paid must agree to the hours documented. KRS 337.285 outlines the requirements for overtime compensation, which state employees must be compensated at time and a half for hours worked in excess of forty in one week. Finally, each timesheet should be signed by the employee and a supervisor. We recommend the sheriff review the procedures that are in place and strengthen controls over the payroll process. The sheriff should ensure compliance with the applicable laws and regulations and ensure all hours worked are completely and accurately documented, timesheets are signed by employees and supervisors, and overtime payments are accurate.

Sheriff's Response: Part of these comments should be directed to the Financial Manager of the Fiscal Court. Other items which refer to the Sheriff's Office as always I will try to improve.

2015-014 The Sheriff Did Not Ensure His W-2 For Calendar Year 2015 Was Accurate

The sheriff's W-2 for calendar year 2015 listed wages in excess of the amount actually received. The overstatement totaled \$3,910. The former fiscal court payroll clerk did not properly void a check for training incentive from the payroll system and the check appeared on the 2015 W-2 as if the sheriff had received this payment when he did not. The sheriff did not have adequate controls in place to review payroll documentation prepared by the fiscal court to ensure accuracy. The sheriff's W-2 was overstated by \$3,910, which could have resulted in errors in the amounts of taxes the sheriff paid for that year. In addition, it is a violation of KRS 141.010, KRS 141.335, and Section 3401(a) of the Internal Revenue Code to improperly report wages on a W-2 form. A strong internal control system requires the sheriff to review payroll reports and other payroll documents prepared by another entity to ensure completeness and correctness. Additionally, KRS 141.010 and Section 3401(a) of the Internal Revenue Code define "wages" earned in a given period and KRS 141.335 outlines requirements to report wages to employees. We recommend the sheriff review all W-2 forms and other payroll reports each year to ensure all items are complete and accurate.

Sheriff's Response: My office does not prepare payroll and have asked for this to be corrected.

2015-015 The Sheriff Has Not Resolved A Possible Conflict Of Interest

An employee of the sheriff's office is also serving as a magistrate of the fiscal court, which may constitute a conflict of interest. On June 5, 2012, the sheriff hired an individual to serve as deputy sheriff for the sheriff's office. On January 1, 2015, this person was elected to serve as a magistrate of the fiscal court, an incompatible

POWELL COUNTY
DANNY ROGERS, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2015
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-015 The Sheriff Has Not Resolved A Possible Conflict Of Interest (Continued)

office. The deputy sheriff did not vacate the first office of employment upon being elected to serve on the fiscal court. The employee chose to accept both positions and did not consult with the county attorney or attorney general regarding the potential conflict of interest in doing so. When this person accepted an appointment as a deputy sheriff then accepted the office of magistrate, his position of deputy sheriff could be vacated as a matter of law. Any actions he has taken as a deputy sheriff after accepting the magistrate appointment may be null and void.

Per the Attorney General's *Conflicts of Interest and Incompatible Offices* manual, a county officer may not serve as a county employee. KRS 61.080(12) makes the positions of magistrate (justice of the peace) and deputy sheriff incompatible. Also, KRS 61.090 states, "[t]he acceptance by one (1) in office of another office or employment incompatible with the one (1) he holds shall operate to vacate the first." In addition, this may constitute a common law incompatibility of office because the office of deputy sheriff, as an employee of the county is subordinate to the position of magistrate. OAG 83-252; Hermann v. Lampe, 194 S.W. 122 (Ky. 1917). We recommend the sheriff seek advice from the county attorney and comply with his recommendations in order to ensure that there are no conflicts of interest.

Sheriff's Response: The sheriff did not provide a response.

2015-016 The Sheriff Did Not Prepare Form 1099 For All Applicable Contract Labor

As a trustee/agent, the sheriff is responsible for reporting contract labor payments to the appropriate agencies in a timely manner. We noted three vendors for which an Internal Revenue Service (IRS) Form 1099 appeared necessary. The sheriff did not issue any 1099s during calendar year 2015. The sheriff and bookkeeper were unaware of Form 1099 reporting requirements. If 1099 forms are not properly issued to all applicable vendors, it increases the risk that taxable income will not properly be reported to state and federal agencies. In addition, the sheriff is in violation of IRS regulations and could be subject to fines and/or penalties associated with such violations. The IRS requires Form 1099 be issued to individual contractors for services resulting in income of \$600 or more. We recommend the sheriff take the appropriate steps necessary to ensure Form 1099 is prepared and submitted for all vendors that meet the IRS criteria.

Sheriff's Response: We had never been advised we needed to prepare these until 2017 during the Audit and did prepare for 2017 once we were made aware.

Auditor's Reply: Management is responsible for being familiar with and complying with all state and federal laws and regulations.

2015-017 The Sheriff Did Not Provide A Written Policy And Procedures Manual For Calendar Year 2015

The sheriff was unable to provide auditors with a written policy and procedures manual established for his office to address administrative and personnel standards nor had he adopted the county's policy. There were several issues noted during the audit that would have been clarified had the sheriff enacted a policy and procedures manual or administrative code or adopted the county's administrative code. For example, some deputies earn compensatory time. Without a policy in place, we cannot determine if compensatory time was earned and paid appropriately. Deputies perform off-duty work for private companies. Without a policy in place, there is an increased risk of potential liability, litigation, and claims against the sheriff, the sheriff's office, and/or the

POWELL COUNTY
 DANNY ROGERS, SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended December 31, 2015
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-017 The Sheriff Did Not Provide A Written Policy And Procedures Manual For Calendar Year 2015
 (Continued)

county. The sheriff failed to adopt a policy and procedures manual or administrative code for 2015. Auditors were unable to determine if the sheriff was compliant and consistent with office policies and procedures. Good internal controls dictate consistent treatment of personnel and properly executed policies be established and distributed. We recommend the sheriff establish an office-wide policy and procedures manual or adopt the county's administrative code. If he chooses to implement his own policies, he should review them for reasonableness, ensure they do not violate any statutes, put them in writing, and communicate them to all employees.

Sheriff's Response: A Policy and Procedure Manual was provided to the Auditor. I am currently revising this manual.

Auditor's Reply: The Policy and Procedure Manual provided was not put into effect until 2017.

2015-018 The Sheriff Did Not Prepare Or Submit An Annual Asset Forfeiture Report

The sheriff did not comply with KRS 218A.440, which requires law enforcement agencies to file an annual asset forfeiture report. The report was not filed due to lack of controls over report preparation and lack of oversight by the sheriff to ensure all applicable regulations and statutes are followed. Failure to prepare or submit an annual forfeiture report constitutes noncompliance with KRS 218A.440, a lack of availability of records to approving authorities, and potential ramifications as outlined in the statute. KRS 218A.440(1) states, "[e]ach law enforcement agency seizing money or property pursuant to KRS 218A.415 shall, at the close of each fiscal year, file a statement with the Auditor of Public Accounts, and with the secretary of justice and public safety, containing a detailed listing of all money and property seized in that fiscal year and the disposition thereof. The listing shall identify all property so seized." We recommend the sheriff comply with KRS 218A.440 by preparing an annual forfeiture asset report and submitting it to all of the required agencies.

Sheriff's Response: The sheriff did not provide a response.

2015-019 The Sheriff Did Not Submit All Quarterly Reports To The Department For Local Government As Required

The sheriff did not submit a third or fourth quarter report to the Department for Local Government (DLG) as required. This condition was caused by the lack of management oversight. Failure to comply with these regulations result in a lack of availability of financial records to approving authorities. KRS 68.210 states, "[t]he administration of the county uniform budget system shall be under the supervision of the state local finance officer who may inspect and shall supervise the administration of accounts and financial operations and shall prescribe and shall install, by July 1, 1985, a system of uniform accounts for all counties and county officials." The state local finance officer requires a cumulative quarterly report be submitted by the 30th day following the close of each quarter. We recommend the sheriff provide all financial records to DLG when required.

Sheriff's Response: We will try and get those to Local Government in a more timely manner.

POWELL COUNTY
DANNY ROGERS, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2015
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-020 The Sheriff's Fourth Quarter Report Did Not Accurately Reflect Total Receipts And Total Disbursements

The sheriff's fourth quarter report, which serves as the sheriff's financial statement, reflected discrepancies in total receipts and total disbursements for calendar year 2015, requiring material audit adjustments. Controls were not in place to ensure that \$50,930 of receipts and \$43,253 of disbursements of the school resource officer bank account were included on the financial statement. A misstatement could result in an increased risk of uncorrected errors, theft, loss, or misappropriated assets. KRS 134.192(11) states that in counties with population of less than 70,000, the sheriff's annual settlement shall include, "[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[.]" We recommend the sheriff ensure a complete and accurate fourth quarter report is prepared in order to ensure all receipts and disbursements are accounted for properly.

Sheriff's Response: Until Fall of 2016 when the 2014 Audit was being done I had never included the School Resource Account in my Quarterly Reports due to being in a separate account and therefore I was not aware that I had to include it. So it was too late to change for 2015 and 2016. This matter is now resolve in 2017.