

**REPORT OF THE AUDIT OF THE
ROWAN COUNTY
SHERIFF**

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



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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Walter "Doc" Blevins, Rowan County Judge/Executive
The Honorable Matt Sparks, Rowan County Sheriff
Members of the Rowan 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 Rowan County, Kentucky, for the year ended December 31, 2016, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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

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



The Honorable Walter “Doc” Blevins, Rowan County Judge/Executive
 The Honorable Matt Sparks, Rowan County Sheriff
 Members of the Rowan 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 Rowan 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 Rowan County Sheriff, as of December 31, 2016, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the Rowan County Sheriff for the year ended December 31, 2016, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2018, on our consideration of the Rowan County Sheriff’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control over financial reporting and compliance.

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

- 2016-001 The Sheriff’s Office Has An Internal Control Weakness In Disbursements Of The KY ASAP Local Funds Account That Resulted In \$200 Of Disallowed Disbursements
- 2016-002 The Sheriff’s Office Has An Internal Control Weakness In Disbursements Of The Asset Forfeiture Account

Respectfully submitted,



Mike Harmon
 Auditor of Public Accounts

September 27, 2018

ROWAN COUNTY
MATT SPARKS, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2016

Receipts

State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)	\$	40,306	
State Fees For Services:			
Court Security	\$	138,690	
Finance and Administration Cabinet		10,516	
Sheriff Security Service		<u>12,008</u>	161,214
Circuit Court Clerk:			
Fines and Fees Collected			816
Fiscal Court			146,320
County Clerk - Delinquent Taxes			41,091
Board of Education:			
School Resource Officer			38,487
Commission On Taxes Collected			420,652
Fees Collected For Services:			
Auto Inspections		9,250	
Accident and Police Reports		735	
Serving Papers		21,660	
Special Detail		307	
Carry Concealed Deadly Weapon Permits		<u>9,490</u>	41,442
Other:			
Add-On Fees		25,037	
Telecommunications Tax		5,349	
Food and Drink/Jurors		109	
Transporting Prisoners		945	
Miscellaneous		<u>1,623</u>	33,063
Interest Earned			46
Borrowed Money:			
State Advancement			<u>215,000</u>
Total Receipts			1,138,437

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

ROWAN COUNTY
MATT SPARKS, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2016
(Continued)

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-	
Deputies' Gross Salaries	\$ 294,132
Clerks' Gross Salaries	78,687
Part-Time Gross Salaries	130,920
School Resource Officer	27,000
Sheriff's Project	41,560
Employee Benefits-	
Employer's Share Social Security	51,880
Contracted Services-	
Contracted Services	4,472
Advertising	454
Vehicle Maintenance and Repairs	66,883
Deputy Testing/Training	396
Materials and Supplies-	
Office Materials and Supplies	9,387
Uniforms	9,351
Computer Software	10,000
Other Charges-	
Conventions and Travel	5,000
Dues	455
Postage	6,000
Bond	1,165
Food/Drink for Jurors	109
Cell Phone/Radio/Pager	10,000
Paper Service to Fiscal Court	5,390
Deputy Expense - Prisoner Transport	4,265
K-9 Unit	2,901
Miscellaneous	488

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

ROWAN COUNTY
MATT SPARKS, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2016
(Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay: (Continued)

Capital Outlay-		
Vehicle Equipment	\$ 1,625	
Office Equipment	<u>10,998</u>	\$ 773,518
Debt Service:		
Vehicle Lease	26,402	
State Advancement	<u>215,000</u>	<u>241,402</u>
Total Disbursements		<u>\$ 1,014,920</u>
Net Receipts		123,517
Less: Statutory Maximum		<u>83,356</u>
Excess Fees		40,161
Less: Training Incentive Benefit		<u>1,984</u>
Excess Fees Due County for 2016		38,177
Payment to Fiscal Court - May 31, 2017		<u>36,266</u>
Balance Due Fiscal Court at Completion of Audit*		<u>\$ 1,911</u>

* - The sheriff presented a check to the fiscal court for excess fees on September 27, 2018.

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2016

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

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

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

B. Basis of Accounting

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

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

- Interest receivable
- Collection on accounts due from others for 2016 services
- Reimbursements for 2016 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2016

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

C. Cash and Investments

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

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

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

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

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

Nonhazardous

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

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

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

The county's contribution rate for nonhazardous employees was 17.06 percent for the first six months and 18.68 percent for the last six months.

Hazardous

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

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan.

Members in the plan contribute a set percentage of their salary each month to their own accounts. Hazardous members contribute eight percent of their annual creditable compensation and also contribute one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A hazardous member's account is credited with a seven and one-half percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

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

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

Hazardous (Continued)

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008, aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

The county's contribution rate for hazardous employees was 32.95 percent for the first six months and 31.06 percent for the last six months.

Health Insurance Coverage

CERS also provides post-retirement health care coverage as follows:

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

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

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

Hazardous employees whose participation began on or after July 1, 2003, earn 15 dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, the employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

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

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

Note 3. Deposits

The Rowan 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 Rowan 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. On December 31, 2016, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$362,652

Note 4. Lease Agreement

The Rowan County Sheriff's office was committed to a lease agreement for two vehicles. The agreement requires a monthly payment of \$2,200 for 36 months to be completed in January 2018. The total remaining balance of the agreement was \$26,077 as of December 31, 2016.

Note 5. Asset Seizure Account

The Rowan County Sheriff's office maintains an account for the purpose of maintaining assets seized during the course of criminal investigations. On January 1, 2016, the balance was \$51,662. During calendar year 2016, the account received seizures of \$4,699 and interest of \$21. The account transferred \$39,817 to the sheriff's asset forfeiture account per court order, and returned \$533 to property owners. The balance as of December 31, 2016, was \$16,032.

Note 6. Asset Forfeiture Account

The Rowan County Sheriff's office maintains an account for the purpose of receiving assets forfeited as a result of drug related legal proceedings. On January 1, 2016, the balance was \$23,840. During calendar year 2016, the account received forfeitures of \$103,150, court ordered payments of \$9,072, and interest of \$39. The account expended \$75,098 for direct law enforcement purposes. The balance as of December 31, 2016, was \$61,003.

Note 7. Federal Asset Forfeiture Account

The Rowan County Sheriff's office maintains an account for the purpose of receiving federal assets forfeited as a result of drug related legal proceedings. On January 1, 2016, the balance was \$1,441. During calendar year 2016, the account received federal forfeitures of \$15,288 and interest of \$3. The account expended \$329 for direct law enforcement purposes. The balance as of December 31, 2016, was \$16,403.

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

Note 8. Citizens Police Academy Account

The Rowan County Sheriff's office maintains an account for donations made to give citizens a better understanding of law enforcement procedures. In January 1, 2016, the balance was \$485. There was no activity in the account during calendar year 2016.

Note 9. Kentucky Agency For Substance Abuse Policy (KY-ASAP) Local Funds

The Rowan County Sheriff's office maintains an account for the purpose of receiving funds awarded from the Rowan County Local KY-ASAP Board. The funds are to be used for specific drug enforcement activities. The account was opened in January 2016. During calendar year 2016, the account received funds in the amount of \$2,500. The account expended \$1,300 for drug enforcement activities. The unexpended balance was \$1,200 as of December 31, 2016.

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 Walter “Doc” Blevins, Rowan County Judge/Executive
The Honorable Matt Sparks, Rowan County Sheriff
Members of the Rowan 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 Rowan County Sheriff for the year ended December 31, 2016, and the related notes to the financial statement and have issued our report thereon dated September 27, 2018. The Rowan 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 Rowan 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 Rowan County Sheriff’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Rowan County Sheriff’s internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified certain deficiencies in internal control, which are described in the accompanying Schedule of Findings and Responses as items 2016-001 and 2016-002 that we consider to be significant deficiencies.



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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Rowan 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Views of Responsible Official and Planned Corrective Action

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

Purpose of this Report

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

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

September 27, 2018

SCHEDULE OF FINDINGS AND RESPONSES

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ROWAN COUNTY
MATT SPARKS, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2016

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES:

2016-001 The Sheriff's Office Has An Internal Control Weakness In Disbursements Of The KY ASAP Local Funds Account That Resulted In \$200 Of Disallowed Disbursements

On April 27, 2016, the sheriff wrote a check for a cash withdrawal of \$1,500 from the Kentucky Agency for Substance Abuse (KY ASAP) Local Funds account for use on joint training exercises with personnel and K-9 units from the Rowan County Sheriff and other sheriff's departments. The sheriff retained receipts signed by the participating individuals dated April 27, 2016, indicating they had each received \$500. Another receipt for \$300 was dated November 29, 2016, and was to one of the same individuals that received \$500 on April 27, 2016. No receipt or invoice was provided for the remaining \$200. The individual who received a total of \$800 was not issued a Form 1099 for tax reporting.

The sheriff stated he thought the account was not a checking account, and therefore had to make a cash withdrawal in order to pay the individuals. However, the account does appear to be a checking account, but the office did not order checks for the account, which is why a counter check was used to make the cash withdrawal. The sheriff was not aware of Form 1099 reporting requirements for income tax purposes.

As a result, the sheriff is unable to account for \$200 of KY ASAP local funds, which should be repaid by the sheriff to the KY ASAP Local Funds account. Furthermore, the individual who received \$800 of income did not have to pay any taxes on those funds.

The Department for Local Government's state local finance officer, under the authority of KRS 68.210, requires all disbursements be made by check. This disbursement was by check, but it was for cash. If a check can be written to cash, it stands to reason checks could have been written directly to the individuals, which would have eliminated the issue of the undocumented \$200. Fee officials are required to expend funds on allowable expenses as defined in the case of Funk v. Milliken, 317 S.W.2d 499 (Ky. 1958). In Funk v. Milliken, Kentucky's highest court reaffirmed the rule 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 personal expenses. Without documentation, there is no way to show the expenditure was necessary, beneficial to the public and not a personal expense, and therefore is not allowable. Also, the Internal Revenue Service (IRS) requires the Form 1099 to be issued to individual contractors for services resulting in income of \$600 or more during a calendar year.

We recommend the sheriff do the following:

- reimburse \$200 to the ASAP grant account from his personal funds for the undocumented cash withdrawal;
- write checks only when disbursements have proper supporting documentation; and
- issue IRS Form 1099 to any individual paid more than \$600 by the sheriff's office.

Sheriff's Response: The ASAP account was a new account we opened and we were uncertain as to how to manage it. The \$200 disallowed disbursement was used appropriately and approved by the ASAP board but I failed to document this disbursement properly. The \$200 disbursement has been refunded to the account.

ROWAN COUNTY
MATT SPARKS, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2016
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2016-002 The Sheriff's Office Has An Internal Control Weakness In Disbursements Of The Asset Forfeiture Account

The sheriff's office made \$14,800 of cash withdrawals from the asset forfeiture account for use in drug enforcement activities. These withdrawals and activities are allowable; however, the method of withdrawal for \$14,300 was by debit card at an ATM, and the remaining \$500 was by counter check with only one signature. The ATM withdrawals and check were not approved by anyone other than the employee who made the withdrawals. There is also no documentation that the monthly reports showing the use of these funds are being reviewed by anyone. Furthermore, any unused cash is not being maintained in a secure place when not in use.

The sheriff has not provided direct supervision of or ensured that he or his designee maintained proper oversight of the asset forfeiture account withdrawals, monthly reporting, and cash on hand.

ATM withdrawals, a lack of dual signatures on checks, and lack of approval of monthly reports allows transactions to occur that may not be authorized by the sheriff. Unsecured cash is susceptible to misappropriation.

The Department for Local Government's state local finance officer, under the authority of KRS 68.210, requires all disbursements be made by check. Good internal control practices include making disbursements by check that includes the sheriff's signature. By ensuring cash withdrawals are authorized and reported properly, both the sheriff and his employees are protected should discrepancies be found. Furthermore, cash should always be maintained in a secure location when not in use.

We recommend cash withdrawals be made by check. The checks should be signed by the sheriff, his designee, or two individuals, with one being the sheriff. We also recommend that if the sheriff is not signing the checks, he approve the monthly reports for the use of these funds. If the sheriff is signing the checks, he or his designee should approve the monthly reports. We further recommend that any unused cash from these transactions be maintained in a secure location, such as a safe in the sheriff's office. This cash should be regularly counted, and any use should be documented and witnessed.

Sheriff's Response: The narcotics detective at the sheriff's office worked for twenty five years in the Drug Investigation Section of the Kentucky State Police. I also worked and retired from the KSP. While at the sheriff's department we have been using the same process the KSP has used for years for asset forfeiture disbursements. The auditor has suggested we use checks instead of ATM withdraws of these funds and we will immediately begin following her recommendations.