

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

**For The Year Ended
December 31, 2017**



**MIKE HARMON
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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, 2017, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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

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

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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, 2017, 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, 2017, 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 April 10, 2019, 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, 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 Powell County Sheriff's internal control over financial reporting and compliance.

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

- 2017-001 The Sheriff Was Not Involved In The Daily Financial Activities Of His Office
- 2017-002 The Sheriff's Office Lacks Adequate Segregation Of Duties
- 2017-003 The Sheriff Did Not Settle His 2017 Fee Account Or Present A Final Settlement To The Fiscal Court
- 2017-004 The Sheriff Did Not Settle His 2016 Fee Account
- 2017-005 The Sheriff Did Not Settle His 2015 Fee Account
- 2017-006 The Sheriff Did Not Settle His 2014 Fee Account
- 2017-007 The Sheriff Did Not Settle His 2013 Fee Account
- 2017-008 The Sheriff Did Not Resolve The Deficit In His 2012 Fee Account
- 2017-009 The Sheriff Did Not Submit All Quarterly Reports To The Department For Local Government As Required
- 2017-010 The Sheriff Lacks Adequate Controls Over Disbursements

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)

- 2017-011 The Sheriff Had \$1,708 In Disallowed Disbursements
- 2017-012 The Sheriff Did Not Pay Invoices Timely
- 2017-013 The Sheriff Does Not Have Controls In Place Over Fuel Purchases
- 2017-014 The Sheriff Did Not Adequately Reconcile His Bank Account And Wrote Checks Which Had Insufficient Funds To Cover The Disbursements
- 2017-015 The Sheriff Did Not Pay Fiscal Court Fees Collected For The Service Of Subpoenas And Civil Summons To The Fiscal Court
- 2017-016 The Sheriff Lacked Adequate Controls Over Payroll
- 2017-017 The Sheriff Has Not Resolved A Possible Conflict Of Interest

Respectfully submitted,

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

Mike Harmon
Auditor of Public Accounts

April 10, 2019

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

For The Year Ended December 31, 2017

Receipts

Federal Grants	\$	4,163
State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)		12,134
State Fees For Services:		
Finance and Administration Cabinet	\$ 53,741	
Sheriff Security Service	5,821	
Transporting Prisoners	266	59,828
Circuit Court Clerk:		
Fines and Fees Collected		5,992
Fiscal Court		5,052
County Clerk - Delinquent Taxes		19,621
Commission On Taxes Collected		154,467
Fees Collected For Services:		
Auto Inspections	2,030	
Accident and Police Reports	255	
Serving Papers	26,779	
Carry Concealed Deadly Weapon Permits	3,660	32,724
Other:		
Add-On Fees	19,448	
Board of Education - School Resource Officer	44,000	
Copies	839	
Miscellaneous	2,786	67,073
Interest Earned		74
Borrowed Money:		
State Advancement		23,060
Total Receipts		384,188

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, 2017
(Continued)

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$ 111,797
Resource Officer Salary	37,376
KLEFPF Salaries	10,830
Overtime	11,117

Employee Benefits-

Employer's Share Retirement (KLEFPF)	1,833
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Contracted Services-

Advertising	21
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Materials and Supplies-

Office Materials and Supplies	7,242
Uniforms	2,795

Auto Expense-

Gasoline	28,993
Maintenance and Repairs	7,951

Other Charges-

Dues	456
Carry Concealed Deadly Weapon Permits	110
Copier	942
Equipment	4,572
Postage	1,335
Bond	826
Dry Cleaning	122
Training Expenses	103
Blood Draws	900
Miscellaneous	1,492

Unpaid Obligations-

Fiscal Court - Paper Service Fees	4,810
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Capital Outlay-

Vehicles	2,500	\$ 238,123
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Debt Service:

State Advancement	23,060	
Bank Note - Vehicles	21,801	44,861

Total Disbursements \$ 282,984

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, 2017
(Continued)

Disbursements (Continued)

Less: Disallowed Disbursements			
Unnecessary Items	\$	544	
No Documentation		869	
Items Not Adequately Documented		193	
Overdraft Bank Charges		102	\$ 1,708
			<hr/>
Total Allowable Disbursements			281,276
			<hr/>
Net Receipts			102,912
Less: Statutory Maximum			85,085
			<hr/>
Excess Fees			17,827
Less: Training Incentive Benefit			4,052
			<hr/>
Balance Due Fiscal Court at Completion of Audit*			<u>\$ 13,775</u>

* - The sheriff presented a check to the fiscal court for excess fees on February 25, 2019 in the amount of \$6,616.

POWELL COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2017

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 2017 services
- Reimbursements for 2017 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2017

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.

POWELL COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2017
 (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 members contribute five percent 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 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 18.68 percent for the first six months and 19.18 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%

POWELL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2017
(Continued)

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

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

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, 2017, 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 \$4,163 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 during calendar year 2017.

POWELL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2017
(Continued)

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, 2019, and the interest rate remains at 3.25 percent. During calendar year 2017, the sheriff's office made a principal payment in the amount of \$20,000 and an interest payment in the amount of \$1,801. The balance as of December 31, 2017, was \$24,416.

Note 7. 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 2017. The balance as of December 31, 2017, was \$195.

Note 8. Asset Forfeiture Accounts Federal Asset Forfeiture

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 2017. The balance as of December 31, 2017, 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 \$10,854, receipts of \$12,412, and disbursements of \$19,981. The balance as of December 31, 2017, was \$3,285.

Note 9. 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 2017 was \$2,132.

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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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, 2017, and the related notes to the financial statement and have issued our report thereon dated April 10, 2019. 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 was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weakness and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2017-001, 2017-002, 2017-003, 2017-004, 2017-005, 2017-006, 2017-007, 2017-008, and 2017-009 to be material weaknesses.

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

Internal Control over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2017-010, 2017-011, 2017-012, 2017-013, 2017-014, and 2017-016 to be significant deficiencies.

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 Schedule of Findings and Responses as items 2017-003, 2017-004, 2017-005, 2017-006, 2017-007, 2017-008, 2017-009, 2017-014, 2017-015, 2017-016, and 2017-017.

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

April 10, 2019

SCHEDULE OF FINDINGS AND RESPONSES

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POWELL COUNTY
DANNY ROGERS, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2017

FINANCIAL STATEMENT FINDINGS:

2017-001 The Sheriff Was Not Involved In The Daily Financial Activities Of His Office

This is a repeat finding and was included in the prior year audit report as finding 2016-001. The sheriff was not involved in the financial daily activities of his office. Numerous weaknesses in the control environment of the Powell County 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 following deficiencies were noted:

- A lack of segregation of duties over receipts and disbursements.
- A final settlement was not presented to the fiscal court and excess fees were not paid timely for 2017.
- Prior year accounts have not been settled and amounts due to the fiscal court have not been paid.
- Not all quarterly financial reports were submitted to the Department for Local Government.
- A lack of adequate controls over disbursements.
- Disallowed disbursements totaling \$1,708.
- Invoices not paid timely.
- Bank account was not adequately reconciled and checks written with insufficient funds to cover them.
- Quarterly financial reports were not submitted to the Department for Local Government.

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 provide 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 implement sufficient supervisory review of key functions and activities. All supervisory reviews should be evidenced in writing.

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

POWELL COUNTY
DANNY ROGERS, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2017
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-002 The Sheriff's Office Lacks Adequate Segregation Of Duties

This is a repeat finding and was included in the prior year audit report as finding 2016-002. 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, posts 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.

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 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.

We recommend the sheriff 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: The sheriff did not provide a response.

POWELL COUNTY
DANNY ROGERS, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2017
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-003 The Sheriff Did Not Settle His 2017 Fee Account Or Present A Final Settlement To The Fiscal Court

This finding is similar in nature to prior year audit report finding 2016-003. The sheriff did not settle his 2017 fee account, and he did not present a final settlement to the fiscal court for calendar year 2017. In order to settle the account, the sheriff should collect and pay the following:

Assets

Cash in Bank	\$	0
Receivables:		
Due From 2016 Tax Account	\$	10,261
Due From Sheriff - Disallowed Disbursements		<u>1,708</u>
Total Receivables		<u>11,969</u>
Total Assets		11,969

Liabilities

Unpaid Obligations:		
Due To Fiscal Court - Serving Paper Fees	\$	4,810
Total Liabilities		<u>\$ 4,810</u>
Excess Fees Due County For 2017		<u>\$ 7,159</u>

This is a result of a lack of management oversight by the sheriff as described in finding 2017-001. He did not ensure that an annual settlement was presented to the fiscal court and that excess fees were properly paid. The failure to pay liabilities caused the fiscal court to be deprived of funds for significant time periods.

KRS 134.192 states, “[e]ach 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.” KRS 134.192(11) requires, “[a] complete statement of all funds received by his or her office for official services, showing separately the total income received by his or her office for services rendered, exclusive of his or her commissions for collecting taxes, and the total funds received as commissions for collecting state, county, and school taxes;” and “[a] complete statement of all expenditures of his or her office, including his or her 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: The sheriff did not provide a response.

POWELL COUNTY
DANNY ROGERS, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2017
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-004 The Sheriff Did Not Settle His 2016 Fee Account

This is a repeat finding and was included in the prior year audit report as finding 2016-003. The sheriff did not settle his 2016 fee account. In order to settle the account, the sheriff should collect the amounts due to the 2016 fee account and then pay the remaining excess fees to the county as shown below:

Assets

Cash in Bank - 2016 Fee Account	\$	0
Receivables:		
Due from Sheriff - Disallowed Disbursements	\$	1,154
Due from 2015 Tax Account - Add-on Fees		<u>8,612</u>
Total Receivables		<u>9,766</u>
Total Assets		<u>9,766</u>
Excess Fees Due The County For Calendar Year 2016	\$	<u>9,766</u>

Note: This account was closed on February 1, 2019. The receivable balances are still due to the fiscal court. Since the reported liabilities in the prior year finding were due to the fiscal court, they have been included in the ending excess fee balance due.

This is a result of a lack of management oversight by the sheriff as described in finding 2017-001. He did not ensure that his 2016 fee account was properly settled and that excess fees were properly paid. Also, there were disallowed disbursements reported in the 2016 audit. As a result, the sheriff owes the county excess fees in the amount of \$9,766.

KRS 134.192 states, “[e]ach 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.” Furthermore, KRS 64.820(1) 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.” KRS 64.820(2) states, “[i]n 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 ninety (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: The sheriff did not provide a response.

POWELL COUNTY
DANNY ROGERS, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2017
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-005 The Sheriff Did Not Settle His 2015 Fee Account

This is a repeat finding and was included in the prior year audit report as finding 2016-004. The sheriff did not settle his 2015 fee account. In order to settle the account, the sheriff should collect the amounts due to the 2015 fee account and then pay the remaining excess fees to the county as shown below:

Assets

Cash in Bank - 2015 Fee Account	\$	0
Receivables:		
Due from Sheriff - Disallowed Disbursements	\$	885
Due from 2015 Tax Account - Commissions		<u>2,609</u>
Total Receivables		<u>3,494</u>
Total Assets		<u>3,494</u>
Excess Fees Due The County For Calendar Year 2015	\$	<u><u>3,494</u></u>

Note: This account was closed on January 16, 2019. The receivable balances are still due to the fiscal court. Since the reported liabilities in the prior year finding were due to the fiscal court, they have been included in the ending excess fee balance due.

This is a result of a lack of management oversight by the sheriff as described in finding 2017-001. He did not ensure that his 2015 fee account was properly settled and that excess fees were properly paid. Also, there were disallowed disbursements reported in the 2015 audit. As a result, the sheriff owes the county excess fees in the amount of \$3,494.

KRS 134.192 states, “[e]ach 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.” Furthermore, KRS 64.820(1) 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.” KRS 64.820(2) states, “[i]n 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 ninety (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: The sheriff did not provide a response.

POWELL COUNTY
 DANNY ROGERS, SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2017
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-006 The Sheriff Did Not Settle His 2014 Fee Account

This is a repeat finding and was included in the prior year audit report as finding 2016-005. The sheriff did not settle his 2014 fee account. In order to settle the account, the sheriff should collect the amounts due to the 2014 fee account and then pay the remaining excess fees to the county as shown below:

Assets

Cash in Bank - 2014 Fee Account	\$	0
Receivables:		
Due from Sheriff - Disallowed Expenditures		4,075
Due from 2013 Fee - Various Errors		<u>1,861</u>
Total Receivables		<u>5,936</u>
Excess Fees Due The County For Calendar Year 2014	\$	<u>5,936</u>

Note: This account was closed on January 16, 2019. The receivable balances are still due to the fiscal court.

This is a result of a lack of management oversight by the sheriff as described in finding 2017-001. He did not ensure that his 2014 fee account was properly settled and that excess fees were properly paid. Also, there were disallowed disbursements reported in the 2014 audit. As a result, the sheriff owes the county excess fees in the amount of \$5,936.

KRS 134.192 states, “[e]ach 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.” Furthermore, KRS 64.820(1) 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.” KRS 64.820(2) states, “[i]n 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 ninety (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: The sheriff did not provide a response.

POWELL COUNTY
DANNY ROGERS, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2017
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-007 The Sheriff Did Not Settle His 2013 Fee Account

This is a repeat finding and was included in the prior year audit report as finding 2016-006. 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
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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>
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Total Assets		11,212
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Liabilities

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>
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Excess Fees Due The County For Calendar Year 2013	<u>\$</u>	<u>5,757</u>
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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. 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, “[e]ach 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.” Furthermore, KRS 64.820(1) 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.” KRS 64.820(2) states, “[i]n 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 ninety (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: The sheriff did not provide a response.

POWELL COUNTY
DANNY ROGERS, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2017
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-008 The Sheriff Did Not Resolve The Deficit In His 2012 Fee Account

This is a repeat finding and was included in the prior year audit report as finding 2016-007. After all known unpaid liabilities were accounted for, the sheriff had a deficit of \$11,449 in his 2012 fee account. 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		<u>947</u>
Total Assets		947

Liabilities

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

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, they 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. The failure to pay liabilities caused the fiscal court to be deprived of funds for significant time periods.

KRS 64.820(1) 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.” KRS 64.820(2) states, “[i]n 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 ninety (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: The sheriff did not provide a response.

POWELL COUNTY
 DANNY ROGERS, SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2017
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-009 The Sheriff Did Not Submit All Quarterly Reports To The Department For Local Government As Required

This is a repeat finding and was included in the prior year audit report as finding 2016-020. The sheriff did not submit a second or third quarter report to the Department for Local Government as required. This was caused by the lack of management oversight as described in finding 2017-001. 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 the Department for Local Government when required.

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

2017-010 The Sheriff Lacks Adequate Controls Over Disbursements

This is a repeat finding and was reported in the prior year audit as finding 2016-008. 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 discussed in finding 2017-001 and 2017-002, led to multiple discrepancies as follows:

- There were disallowed disbursements totaling \$1,708 (see finding 2017-011).
- Invoices were paid as much as eight months late (see finding 2017-012).

There were not adequate review procedures in place, as described in finding 2017-001, to detect, eliminate, or reduce errors. Taxpayer funds were misspent as noted by disallowed disbursements. Invoices and lease payments not paid timely could result in substantial late fees, penalties, or other ramifications.

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.

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

2017-011 The Sheriff Had \$1,708 In Disallowed Disbursements

This is a repeat finding and was reported in the prior year audit report as finding 2016-009. The sheriff expended a total of \$1,708 for the following disallowed items:

- Items not necessary for the operation of the sheriff's office totaling \$544 (stickers and candy).
- One item did not have documentation in the amount of \$869, which could be personal in nature.
- Items not adequately documented totaling \$193. The invoices for these items did not provide sufficient detail to determine if the item was an allowable expense of the sheriff's office.
- Overdraft bank charges totaling \$102

POWELL COUNTY
DANNY ROGERS, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2017
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-011 The Sheriff Had \$1,708 In Disallowed Disbursements (Continued)

This is the result of a lack of internal controls over disbursements as described in finding 2017-010 and lack of management oversight as described in finding 2017-001. The disallowed disbursements result in taxpayer funds being spent inappropriately. In addition, the sheriff personally owes \$1,708 to the 2017 fee account to reimburse these disallowed disbursements.

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 \$1,708 to the 2017 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: The sheriff did not provide a response.

2017-012 The Sheriff Did Not Pay Invoices Timely

This is a repeat finding and was reported in the prior year audit report as finding 2016-010. At least six invoices in our sample of 30 disbursements were not paid within 30 working days, some as much as eight months late. This condition is a result of a lack of internal controls over disbursements as described in finding 2017-010 and lack of management oversight as described in finding 2017-001. Failure to pay invoices timely results in noncompliance with statutes and can result in late fees and other penalties.

KRS 65.140 states, "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.

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

2017-013 The Sheriff Does Not Have Controls In Place Over Fuel Purchases

The sheriff's office lacks controls over fuel purchases. Receipts are not maintained for fuel purchased. The sheriff utilizes a third party fuel purchasing system, but does not follow the procedures for fuel purchases the system is designed to monitor. The sheriff receives a monthly invoice from the vendor used for purchasing fuel. These invoices list each person purchasing fuel along with the vehicle mileage, quantity, and price. We noted the following issues regarding fuel purchases:

- Fuel card users routinely did not list the vehicle mileage when purchasing fuel.
- Periodic use of fuel cards by two special deputies (special deputies are sworn officers of the sheriff's office but are not employees and do not receive wages from the sheriff's office). The sheriff's office does not have a policy regarding fuel and vehicle use by special deputies.

The sheriff did not have controls in place to adequately monitor fuel purchases. Besides payroll expenses, fuel purchases are the largest single expense for the sheriff's office. Without proper documentation of these fuel purchases by vehicle unit number and by the assigned deputy, the risk of fuel being purchased for personal use or by unauthorized users greatly increases.

POWELL COUNTY
DANNY ROGERS, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2017
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-013 The Sheriff Does Not Have Controls In Place Over Fuel Purchases (Continued)

Good internal controls over fuel purchases require the sheriff to ensure that adequate documentation is maintained to support the disbursement, which includes the odometer readings for all vehicles and the person purchasing the fuel. Strong internal controls over the current fuel card system would require each employee or vehicle be assigned a specific card, would specify that cards not be shared, and would prohibit multiple users from using the same card. This creates accountability for each user of the fuel cards. In addition, the sheriff should have a policy regarding fuel purchases by special deputies or other non-employees. In very rare instances this might be acceptable, but the sheriff should outline the specific situations in which this would be necessary.

We recommend the sheriff properly use this third party fuel purchasing system and ensure that all fuel purchases are properly supported by proper documentation, which includes accurate odometer readings and designation of proper vehicle unit numbers. We also recommend the sheriff review and reconcile the third party fuel reports monthly to note any employees not following proper fuel purchase procedures. Furthermore, we recommend the sheriff establish policies and procedures to address fuel card use by special deputies.

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

2017-014 The Sheriff Did Not Adequately Reconcile His Bank Account And Wrote Checks Which Had Insufficient Funds To Cover The Disbursements

The sheriff's fourth quarter financial report did not reconcile to the bank account as of December 31, 2017. Also, the sheriff wrote two checks on the 2017 fee account when the bank balance was insufficient to cover them and was charged overdraft fees by the bank. The two checks were a combined total of \$20,027. The sheriff was not adequately reconciling the fee account to the bank balance throughout the year.

This is a result of a lack of management oversight by the sheriff as described in finding 2017-001. The sheriff did not ensure his bank account was properly reconciled and that the cash balance throughout the year was sufficient to cover all checks written. As a result, the sheriff's fourth quarter report, which serves as the sheriff's annual financial statement, was not complete and reconciled to the bank account. Further, there were overdraft fees charged by the bank for the checks written when the bank balance was insufficient to cover them.

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 ensure the quarterly financial reports are reconciled to the bank balance in the future. Furthermore, we recommend the sheriff properly utilize bank reconciliations in order to determine the available funds in his bank account.

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

POWELL COUNTY
 DANNY ROGERS, SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2017
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-015 The Sheriff Did Not Pay Fiscal Court Fees Collected For The Service Of Subpoenas And Civil Summons To The Fiscal Court

This is a repeat finding and was included in the prior year audit report as finding 2016-013. The sheriff did not pay fiscal court fees collected for serving subpoenas and civil summons to the fiscal court. During calendar year 2017, the sheriff collected \$24,050 in civil summons fees and subpoena fees. Of this amount, \$4,810 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 \$4,810 to the fiscal court, as noted in finding 2017-003.

As authorized under 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 sheriff did not provide a response.

2017-016 The Sheriff Lacked Adequate Controls Over Payroll

This is a repeat finding and was reported in the prior year audit report as finding 2016-015. The sheriff's office lacked adequate internal controls over the processing of payroll, specifically over timesheets and gross wage calculations.

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:

- An office employee's timesheet for one pay period did not add correctly. This employee was paid for 84 regular hours, 16 holiday hours, and 64 overtime hours for the pay period. Based on the timesheet submitted, this employee was overpaid for 4 hours of regular time and 4 hours of overtime. Also, this employee did not complete an overtime request form as required by the sheriff's policy manual.
- Two employees did not have hours listed on their timesheets, but rather just wrote "Salary" on the timesheet.
- Leave balances were not properly maintained. Only one full time employee maintained leave balances.

Due to issues noted with timesheets, payroll has not been documented adequately and may not be calculated correctly. 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 requires 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. As a matter of internal control, the hours paid must agree to the hours documented and each timesheet should be signed by the employee and a supervisor.

POWELL COUNTY
DANNY ROGERS, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2017
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-016 The Sheriff Lacked Adequate Controls Over Payroll (Continued)

Furthermore, these issues are in violation of the sheriff's policy manual. Section 9.1(1.) states, "[e]ach deputy of this office shall keep an individual timesheet for each pay period. Each member shall use this timesheet to record their hours worked." Section 9.12 states, "[a]n overtime request form shall be completed with each block of overtime worked."

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 and payroll calculations are accurate.

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

2017-017 The Sheriff Has Not Resolved A Possible Conflict Of Interest

This is a repeat finding and was reported in the prior year audit report as finding 2016-016. 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 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.