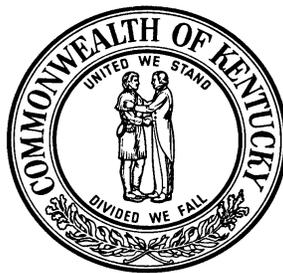


**REPORT OF THE AUDIT OF THE
FORMER BULLITT COUNTY
SHERIFF**

**For The Period
January 1, 2018 Through January 6, 2019**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jerry Summers, Bullitt County Judge/Executive
The Honorable Donnie Tinnell, Former Bullitt County Sheriff
The Honorable Walt Sholar, Bullitt County Sheriff
Members of the Bullitt County Fiscal Court

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying Statement of Receipts and Disbursements - Regulatory Basis of the former Sheriff of Bullitt County, Kentucky, and the Statement of Receipts, Disbursements, and Fund Balances of the Sheriff's Operating Fund and County Fund with the State Treasurer - Regulatory Basis for the period January 1, 2018 through January 6, 2019, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements 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 statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements 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 statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, 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 statements 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 statements.

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



The Honorable Jerry Summers, Bullitt County Judge/Executive
The Honorable Donnie Tinnell, Former Bullitt County Sheriff
The Honorable Walt Sholar, Bullitt County Sheriff
Members of the Bullitt County Fiscal Court

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

As described in Note 1 of the financial statements, the financial statements are prepared by the former Bullitt 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 statements 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 statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the former Bullitt County Sheriff, for the period January 1, 2018 through January 6, 2019, 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 statements referred to above present fairly, in all material respects, the receipts and disbursements of the former Bullitt County Sheriff and the receipts, disbursements, and fund balances of the former Bullitt County Sheriff's operating fund and county fund with the state treasurer for the period January 1, 2018 through January 6, 2019, 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 November 20, 2019, on our consideration of the former Bullitt County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance.

The Honorable Jerry Summers, Bullitt County Judge/Executive
The Honorable Donnie Tinnell, Former Bullitt County Sheriff
The Honorable Walt Sholar, Bullitt County Sheriff
Members of the Bullitt County Fiscal Court

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

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

- 2018-001 The Former Bullitt County Sheriff Was Noncompliant With State Law By Operating A Tow Lot And Collecting Fees For Towing And Vehicle Storage
- 2018-002 The Former Bullitt County Sheriff's Office Lacked Adequate Segregation Of Duties Over Receipts And Reconciliations
- 2018-003 The Former Bullitt County Sheriff's Office Did Not Have Adequate Controls Over Disbursements

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

November 20, 2019

BULLITT COUNTY
DONNIE TINNELL, FORMER SHERIFF
STATEMENT OF RECEIPTS AND DISBURSEMENTS - REGULATORY BASIS

For The Period January 1, 2018 Through January 6, 2019

Receipts

State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)		\$ 174,910
State Fees for Services:		
Finance and Administration Cabinet	\$ 25,924	
Sheriff Security Service	141,773	
Transporting Prisoners	<u>45,989</u>	213,686
Fiscal Court:		
E911 Salaries and Benefits	872,548	
Salary Benefits Reimbursement	1,301,478	
DARE	25,000	
Fiscal Court Support	850,000	
Transport Prisoners	38,000	
Election Commissions	<u>840</u>	3,087,866
County Clerk - Delinquent Taxes		59,719
Commission on Taxes	1,135,928	
Commission on School Taxes	<u>957,838</u>	2,093,766
Fees Collected for Services:		
Auto Inspections	19,500	
Accident/Police Reports	15,726	
Serving Papers	150,022	
Carry Concealed Deadly Weapon Permits	38,475	
Carry Concealed Deadly Weapon Photos	5,540	
Traffic Court	1,038	
Transport Prisoners	8,806	
School Resource Officer	<u>35,999</u>	275,106
Other:		
Add-On Fees	105,865	
Miscellaneous	14,008	
Tow Lot Fees	<u>188,044</u>	307,917
Interest Earned		<u>2,513</u>
Total Receipts		6,215,483

The accompanying notes are an integral part of the financial statements.

BULLITT COUNTY
DONNIE TINNELL, FORMER SHERIFF
STATEMENT OF RECEIPTS AND DISBURSEMENTS - REGULATORY BASIS
For The Period January 1, 2018 Through January 6, 2019

Disbursements

Operating Disbursements and Capital Outlay:

Operating Disbursements:

Tow Lot:

Wrecker Service Fees	\$	61,460	
Supplies and Equipment		17,390	
Postage		1,046	
Maintenance and Monitoring		10,480	
Taxes and Transfers		4,343	
Online Surplus Sales Fees		8,062	
Miscellaneous		<u>1,032</u>	\$ 103,813

Capital Outlay:

Vehicles			<u>80,835</u>
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Total Disbursements			<u>184,648</u>
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Net Receipts			6,030,835
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Payments to State Treasurer:

75% Operating Fund *		5,675,883	
25% County Fund		<u>351,556</u>	<u>6,027,439</u>

Balance Due at Completion of Audit			<u>\$ 3,396</u>
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* Includes reimbursed expenses in the amount of \$4,621,217 for the audit period.
See Note 1 of Notes to Financial Statements.

The accompanying notes are an integral part of the financial statements.

BULLITT COUNTY
DONNIE TINNELL, FORMER SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
FUND BALANCES OF THE SHERIFF'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS

For The Period January 1, 2018 Through January 6, 2019

	75% Operating Fund	25% County Fund	Totals
Fund Balance - January 1, 2018	\$ 5,399	\$	\$ 5,399
<u>Receipts</u>			
Fees Paid to State - Operating Funds (75%)	5,675,883		5,675,883
Fees Paid to State - County Funds (25%)		22,730	22,730
Kentucky State Treasurer	328,826		328,826
Total Funds Available	6,010,108	22,730	6,032,838
<u>Disbursements</u>			
Bullitt County Fiscal Court	261,950	22,730	284,680
Kentucky State Treasurer	386,861		386,861
Personal Services-			
Official's Statutory Maximum	111,799		111,799
Deputies' Salaries	3,056,306		3,056,306
Employee Benefits-			
Employer's Share Social Security	236,693		236,693
Employer's Share Retirement	823,313		823,313
Employer's Share Health Insurance	603,672		603,672
Contracted Services-			
Hardware/Software Agreements	64,860		64,860
Supplies and Materials-			
Office Supplies	19,316		19,316
Advertising	177		177
Uniforms	7,413		7,413

The accompanying notes are an integral part of the financial statements.

BULLITT COUNTY
DONNIE TINNELL, FORMER SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
FUND BALANCES OF THE SHERIFF'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS
For The Period January 1, 2018 Through January 6, 2019
(Continued)

	75%	25%	
	Operating	County	
	Fund	Fund	Totals
Disbursements (Continued)			
Other Charges-			
Patrol Equipment	\$ 27,655	\$	\$ 27,655
Dues	3,489		3,489
Juror Meals	408		408
Miscellaneous	898		898
Postage	21,019		21,019
Telephone/Fax/Cellular	25,209		25,209
Training	3,302		3,302
Transport	5,880		5,880
Auto Expenses-			
Gasoline	150,361		150,361
Maintenance and Repairs	65,118		65,118
Capital Outlay-			
Lease Payments - Vehicles	134,409		134,409
Total Disbursements	<u>6,010,108</u>	<u>22,730</u>	<u>6,032,838</u>
Fund Balance - January 6, 2019	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statements.

BULLITT COUNTY
NOTES TO THE FINANCIAL STATEMENTS

January 6, 2019

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 due from the sheriff as determined by the audit.

KRS 64.350 establishes that a fee official in counties with a population over 70,000 has two funds with the state treasurer for the deposit of fees collected. Seventy-five percent (75%) of the fees collected are deposited in the sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected are deposited to the county fiscal court fund and paid to the fiscal courts, urban-county governments, or consolidated local governments of the respective counties quarterly no later than April 15, July 15, October 15, and January 15. These funds are closed at the end of each official term by paying the balances to the respective county government.

Also, some revenues of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are treated as revenue in the 75 percent fund.

The financial statements have been prepared on a regulatory basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. This basis demonstrates compliance with the laws of Kentucky and is a special purpose framework. Under this regulatory basis of accounting, receipts and disbursements are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31:

- Interest receivable
- Collection on accounts due from others for 2018 services
- Reimbursements for 2018 activities
- Payments due other governmental entities for December tax and fee collections
- Payroll expenditures incurred but not paid
- Payments due vendors for goods or services provided in 2018

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).

BULLITT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
January 6, 2019
(Continued)

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

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

The sheriff's contribution for calendar year 2016 was \$669,321, calendar year 2017 was \$737,600, and calendar year 2018 was \$823,313.

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 KRS Board of Directors based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a four percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

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

The county's contribution rate for nonhazardous employees was 19.18 percent for the period January 1, 2018 through June 30, 2018 and 21.48 percent for the period July 1, 2018 through January 6, 2019.

Hazardous

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008, are required to contribute 9 percent of their salary to be allocated as follows: 8 percent will go to the member's account and 1 percent will go to the KRS insurance fund.

BULLITT COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 January 6, 2019
 (Continued)

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

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 7.5 percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

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 31.55 percent for the period January 1, 2018 through June 30, 2018 and 35.34 percent for the period July 1, 2018 through January 6, 2019.

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS provides post-retirement health care coverage as follows:

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

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

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

BULLITT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
January 6, 2019
(Continued)

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

Other Post-Employment Benefits (OPEB) (Continued)

A. Health Insurance Coverage - Tier 1 (Continued)

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.

Benefits are covered under KRS 161.714 with exception of COLA and retiree health benefits after July 2003.

B. Health Insurance Coverage - Tier 2 and Tier 3 - Nonhazardous

Once members reach a minimum vesting period of 15 years, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually by 1.5 percent. This was established for Tier 2 members during the 2008 Special Legislative Session by House Bill 1. During the 2013 Legislative Session, Senate Bill 2 was enacted, creating Tier 3 benefits for members.

The monthly insurance benefit has been increased annually as a 1.5 percent cost of living adjustment (COLA) since July 2003 when the law changed. The annual increase is cumulative and continues to accrue after the member's retirement.

Tier 2 member benefits are covered by KRS 161.714 with exception of COLA and retiree health benefits after July 2003. Tier 3 members are not covered by the same provisions.

C. Health Insurance Coverage - Tier 2 and Tier 3 - Hazardous

Once members reach a minimum vesting period of 15 years, earn fifteen dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually by 1.5 percent. 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 was established for Tier 2 members during the 2008 Special Legislative Session by House Bill 1. During the 2013 Legislative Session, Senate Bill 2 was enacted, creating Tier 3 benefits for members.

The monthly insurance benefit has been increased annually as a 1.5 percent COLA since July 2003 when the law changed. The annual increase is cumulative and continues to accrue after the member's retirement.

D. Cost of Living Adjustments - Tier 1

The 1996 General Assembly enacted an automatic cost of living adjustment (COLA) provision for all recipients of KRS benefits. During the 2008 Special Session, the General Assembly determined that each July beginning in 2009, retirees who have been receiving a retirement allowance for at least 12 months will receive an automatic COLA of 1.5 percent. The COLA is not a guaranteed benefit. If a retiree has been receiving a benefit for less than 12 months, and a COLA is provided, it will be prorated based on the number of months the recipient has been receiving a benefit.

BULLITT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
January 6, 2019
(Continued)

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

Other Post-Employment Benefits (OPEB) (Continued)

E. Cost of Living Adjustments - Tier 2 and Tier 3

No COLA is given unless authorized by the legislature with specific criteria. To this point, no COLA has been authorized by the legislature for Tier 2 or Tier 3 members.

F. Death Benefit

If a retired member is receiving a monthly benefit based on at least 48 months of service credit, KRS will pay a \$5,000 death benefit payment to the beneficiary designated by the member specifically for this benefit. Members with multiple accounts are entitled to only one death benefit.

KRS Annual Financial Report and Proportionate Share Audit Report

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

KRS also issues proportionate share audit reports for both total pension liability and other post-employment benefits for CERS determined by actuarial valuation as well as each participating county's proportionate share. Both the Schedules of Employer Allocations and Pension Amounts by Employer and the Schedules of Employer Allocations and OPEB Amounts by Employer reports and the related actuarial tables are available online at <https://kyret.ky.gov>. The complete actuarial valuation report, including all actuarial assumptions and methods, is also available on the website or can be obtained as described in the paragraph above.

Note 3. Deposits

The former Bullitt 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 former Bullitt County Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 66.480(1)(d) and KRS 41.240. As of January 6, 2019, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

BULLITT COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 January 6, 2019
 (Continued)

Note 4. Lease Agreements

The former Bullitt County Sheriff's office was committed to the following lease agreements as of January 6, 2019:

Item Purchased	Monthly (*Annual) Payment	Term of Agreement	Ending Date	Principal Balance January 6, 2019
CSI Hardware Lease	\$ 3,155	12 Months	11/1/2019	\$ 31,550
CSI Software Lease	2,000	12 Months	6/27/2019	12,000
CSI Software Interface	250	12 Months	10/1/2019	2,250
Ford Sedans (12) *	88,501	4 Years	7/2/2018	0
Ford Trucks (4) *	44,424	3 Years	5/17/2018	0
Total				<u>\$ 45,800</u>

Note 5. DARE Account

The former sheriff's office maintained an account for the deposit of donations to be used for Drug Abuse Resistance Education (DARE) activities. The balance on January 1, 2018, was \$1,644. During the audit period, receipts totaled \$1,011 and disbursements were \$1,555. The balance on January 6, 2019, was \$1,100. This account was transferred to the new sheriff.

Note 6. State Drug Confiscated Property Account

The former sheriff's office maintained an account for the deposit and disbursement of funds received as a result of property confiscated during drug-related law enforcement activities. These funds are to be expended for law enforcement purposes. The balance on January 1, 2018, was \$15,610. During the audit period, receipts totaled \$91,064 and disbursements were \$100,864. The balance on January 6, 2019, was \$5,810. This account was transferred to the new sheriff.

Note 7. Credit Card Account

The former sheriff's office maintained an account for tax, fee, and tow lot credit card payments to the sheriff's office. The balance on January 1, 2018, was \$1. During the audit period, there were receipts and disbursements of \$345,887. The balance on January 6, 2019, was \$1. This account was transferred to the new sheriff.

Note 8. Federal Asset Forfeiture Account

The former sheriff's office maintained an account for the deposit and disbursement of funds received as a result of cash confiscated during federal drug-related law enforcement activities. The balance on January 1, 2018, was \$2,675. During the audit period, receipts totaled \$40,834 and disbursements were \$5,359. The balance on January 6, 2019, was \$38,150. This account was transferred to the new sheriff.

BULLITT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
January 6, 2019
(Continued)

Note 9. High Intensity Drug Enforcement Unit Account

The former sheriff's office maintained an account for the deposit and disbursement of funds associated with the seizure of funds held until the court system issues orders on disposition of the funds. The balance on January 1, 2018, was \$345,901 and receipts totaled \$181,387 during the audit period. Transfers to the state drug fund totaled \$89,736 and to the US Marshall totaled \$26,190. The balance on January 6, 2019, was \$411,362. This account was transferred to the new sheriff.

Note 10. Donation Account

The former sheriff's office opened an account to collect donations for bulletproof vests in September 2015. The balance on January 1, 2018, was \$126 and receipts totaled \$426. The balance on January 6, 2019, was \$552. This account was transferred to the new sheriff.

Note 11. Prior Term Deficit

The former Bullitt County Sheriff had a \$787,285 deficit balance in the 75% for the term ending December 31, 2014. The deficit was reduced by \$149,071 in calendar year 2015. Between January 1, 2016 and August 31, 2017, the Bullitt Fiscal Court made payments to the Kentucky State Treasurer totaling \$252,000. During calendar year 2018, county fees applied \$328,826 of excess fees due the fiscal court towards the debt. On April 10, 2019, county fees diverted \$58,035 from the sheriff's 75% fund monies to pay off the prior term deficit. Excess fees in the amount of \$261,950 were turned over to the fiscal court on May 22, 2019, closing out the term ending January 6, 2019.

Note 12. Contingencies

The Bullitt County Sheriff's office was involved in multiple lawsuits. While individually they may not be significant, in the aggregate they could negatively impact the sheriff's financial position. Due to the uncertainty of the litigation, a reasonable estimate of the financial impact on the sheriff's office cannot be made at this time.

Note 13. Subsequent Event

The following event occurred subsequent to January 6, 2019:

On October 23, 2019, both Sheriff Sholar and former Sheriff Tinnell were served with a Complaint in Bullitt Circuit Court alleging a Class Action Complaint for state law violations and intentional trespass to chattels and requesting compensatory and punitive damages relating to the improper operation of a tow lot from February 1, 2017 through 2019. The matter has been referred to the sheriff's insurer, and the insurer has appointed counsel to handle the matter. Due to the matter just recently being filed, no answer has been filed to date and due to the uncertainty of the litigation, a reasonable estimate of the financial impact on the sheriff's office cannot be made at this time.

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

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jerry Summers, Bullitt County Judge/Executive
The Honorable Donnie Tinnell, Former Bullitt County Sheriff
The Honorable Walt Sholar, Bullitt County Sheriff
Members of the Bullitt County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements 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 and Disbursements - Regulatory Basis of the former Sheriff of Bullitt County, Kentucky, the Statement of Receipts, Disbursements, and Fund Balances of the Sheriff's Operating Fund and County Fund with the State Treasurer - Regulatory Basis for the period January 1, 2018 through January 6, 2019, and the related notes to the financial statements, and have issued our report thereon dated November 20, 2019. The former Bullitt County Sheriff's financial statements are 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 statements, we considered the former Bullitt 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 statements, but not for the purpose of expressing an opinion on the effectiveness of the former Bullitt County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Bullitt County Sheriff's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2018-001, 2018-002, and 2018-003 to be material weaknesses.



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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the former Bullitt County Sheriff's financial statements are 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying Schedule of Findings and Responses as item 2018-001.

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,

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

November 20, 2019

SCHEDULE OF FINDINGS AND RESPONSES

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BULLITT COUNTY
DONNIE TINNELL, FORMER SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Period January 1, 2018 Through January 6, 2019

FINANCIAL STATEMENT FINDINGS:

2018-001 The Former Bullitt County Sheriff Was Noncompliant With State Law By Operating A Tow Lot And Collecting Fees For Towing And Vehicle Storage

This is a repeat finding and was reported in the prior year audit report as finding 2017-001. The Bullitt County Sheriff's office began operating a tow lot in February 2017, charging vehicle owners \$25 per day for towing and storing their vehicles. This fee was not an allowable fee of the sheriff's office during the time period covered by the audit. State statutes only permit sheriffs to collect fees that are specified in law. Customers who did not pay their fees by an established deadline were asked to forfeit ownership of their vehicles to the sheriff's office. The former sheriff then auctioned these vehicles.

During calendar year 2018, the former sheriff deposited \$188,044 of tow lot fees and proceeds from auctioned vehicles into a separate bank account. These fees were not remitted to the Finance and Administration Cabinet as required. From these funds, the former sheriff expended \$184,648 on towing company charges, vehicles, and operational items, bypassing the procurement guidelines established by the Finance and Administration Cabinet for counties with population of 70,000 or more.

Furthermore, the former sheriff's year-end financial statement was materially misstated because the receipts and disbursements from the tow lot bank account were omitted from the former sheriff's final Fourth Quarter Report. Material audit adjustments were necessary to add the activity to the financial statement.

The former sheriff operated a tow lot in order to increase revenue for his office. Effective internal controls were not in place to ensure the sheriff's office collected only allowable fees and that all disbursements followed applicable procurement guidelines. There were no internal controls in place to ensure the former sheriff's final Fourth Quarter Report was accurate and complete. Financial statement misstatements could result in increased risk of uncorrected errors, theft, loss, or misappropriated assets.

KRS 64.410 mandates that the sheriff cannot collect fees he is not directed to collect by state law. KRS 64.090 provides a list of fees a sheriff is authorized to collect. Towing fees and related storage fees were not allowable during the time period covered by the audit (subsequently amended June 27, 2019).

KRS 64.345 states that each officer shall, on the first day of each month, send to the Finance and Administration Cabinet a statement, subscribed and sworn to by him, showing the amount of money received or collected by or for him the preceding month as fees or compensation for official duties and shall, with these statements, send to the Finance and Administration Cabinet the amount so collected or received.

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 to be submitted by the 30th day following the close of each quarter.

KRS 64.345 establishes that procurement oversight shall be retained by the Office of the Controller created pursuant to KRS 42.0201.

BULLITT COUNTY
 DONNIE TINNELL, FORMER SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Period January 1, 2018 Through January 6, 2018
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-001 The Former Bullitt County Sheriff Was Noncompliant With State Law By Operating A Tow Lot
 And Collecting Fees For Towing And Vehicle Storage (Continued)

We recommend the sheriff's office only collect mandated fees, remit all collections to the Finance and Administration Cabinet monthly, abide by procurement guidelines, and post all receipts and disbursements on the Fourth Quarter Reports. We further recommend the balance in the tow lot bank account be remitted to the appropriate account with the Finance and Administration Cabinet.

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

2018-002 The Former Bullitt County Sheriff's Office Lacked Adequate Segregation Of Duties Over Receipts
 And Reconciliations

This is a repeat finding and was reported in the prior year audit report as finding 2017-006. The former Bullitt County Sheriff's office lacked adequate segregation of duties. The former sheriff's bookkeeper collected payments from customers, issued receipts, posted transactions to the receipts ledger, prepared the quarterly reports, and performed the monthly bank reconciliations. Daily checkout sheets were prepared by a deputy clerk who also collected payments from customers and prepared the deposit tickets. Oversight by either the former sheriff or another employee was not always documented for these activities.

The former sheriff indicated that this condition is a result of 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 or inaccurate financial reporting to external agencies such as the Department for Local Government.

The segregation of duties over various accounting functions such as opening mail, preparing deposits, recording receipts, reconciling monthly bank statements, 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's office separate the duties involved in receiving cash, preparing deposits, posting to the receipts ledger, preparing monthly bank reconciliations, and comparing financial reports to ledgers. If due to a limited budget this is not feasible, cross checking procedures could be implemented and documented by the individual performing the procedure.

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

BULLITT COUNTY
DONNIE TINNELL, FORMER SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Period January 1, 2018 Through January 6, 2018
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-003 The Former Bullitt County Sheriff's Office Did Not Have Adequate Controls Over Disbursements

This is a repeat finding and was reported in the prior year audit report as finding 2017-002. The former Bullitt County Sheriff's office did not have adequate controls over disbursements. The following deficiencies were noted:

- Original invoices were not always kept;
- Invoices were not date stamped when received;
- Invoices were not effectively canceled in order to prevent duplicate payments; and
- Fuel credit card receipts were not maintained and not compared to the monthly fuel invoices.

These deficiencies were caused by a lack of internal controls and a lack of oversight of disbursements procedures.

Failure to maintain adequate supporting documentation for expenditures could result in disallowed expenditures requiring personal funds to be deposited into the account. Failure to properly maintain the original invoice, to document the date received, and to effectively cancel invoices, as required by the Department for Local Government, could lead to fraudulent invoices being paid or duplicate payments.

The *Financial Operations Manual for Over 70K Counties* requires the official to attach the vendor's original bill or invoice, with the date stamped on the lower left hand corner and retain a copy for their own records. Strong internal controls dictate that invoices or other documents should be effectively cancelled in order to prevent duplicate payments.

We recommend the sheriff's office ensure all original invoices are maintained and are properly date stamped when received in the lower left hand corner as required by the *Financial Operations Manual for Over 70K Counties* issued by the Department for Local Government (DLG). Original invoices should be effectively cancelled to prevent duplicate payments. Additionally, we recommend the sheriff implement a policy to ensure that all fuel bill original receipts are turned in to the deputy in charge of the monthly fuel bill reconciliation. These receipts should be compared to the monthly credit card invoice and evidenced by initials or a signature.

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