

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

**For The Period
January 1, 2020 Through August 16, 2020**



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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Kenneth Imes, Calloway County Judge/Executive
The Honorable Sam Steger, Jr., Former Calloway County Sheriff
The Honorable Nicky Knight, Calloway County Sheriff
Members of the Calloway 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 former Sheriff of Calloway County, Kentucky, for the period January 1, 2020 through August 16, 2020, 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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AN EQUAL OPPORTUNITY EMPLOYER M / F / D



The Honorable Kenneth Imes, Calloway County Judge/Executive
The Honorable Sam Steger, Jr., Former Calloway County Sheriff
The Honorable Nicky Knight, Calloway County Sheriff
Members of the Calloway 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 former Calloway County Sheriff on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the former Calloway County Sheriff, for the period January 1, 2020 through August 16, 2020, or changes in financial position or cash flows thereof for the period 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 former Calloway County Sheriff for the period January 1, 2020 through August 16, 2020, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2021, on our consideration of the former Calloway 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 former Calloway 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 discusses the following report comments:

- 2020-001 The Former Calloway County Sheriff Did Not Have Internal Controls Over Financial Reporting
- 2020-002 The Former Calloway County Sheriff's Office Did Not Have Adequate Segregation Of Duties

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

September 29, 2021

CALLOWAY COUNTY
 SAM STEGER, JR., FORMER SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Period January 1, 2020 Through August 16, 2020

Receipts

Federal Highway Safety Grant	\$	2,503
State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)		43,666
State Fees For Services:		
Finance and Administration Cabinet	\$	52,541
Sheriff Security Service		3,020
Cabinet For Health And Family Services		1,446
		57,007
Circuit Court Clerk:		
Fines and Fees Collected		3,035
Fiscal Court		482,476
County Clerk - Delinquent Taxes		13,933
Commission On Taxes Collected		40,749
Fees Collected For Services:		
Auto Inspections		12,050
Serving Papers		29,910
Carry Concealed Deadly Weapon Permits		6,485
School Security		21,007
Prisoner Transport		13,049
Fingerprints		1,070
City of Hazel		5,000
		88,571
Other:		
Add-On Fees		41,702
Miscellaneous		5,532
County Attorney Traffic School		489
Jury Reimbursement		184
		47,907
Interest Earned		1,104
Borrowed Money:		
State Advancement		260,000
Bank Note		25,000
		285,000
Total Receipts		1,065,951

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

CALLOWAY COUNTY
 SAM STEGER, JR., FORMER SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Period January 1, 2020 Through August 16, 2020
 (Continued)

Disbursements

Operating Disbursements:

Personnel Services-

Deputies' Gross Salaries \$ 729,047

Dispatch Salaries 107,025

Employee Benefits-

Employer's Share Social Security 60,525

Materials and Supplies-

Equipment Expense 19,695

Auto Expense-

Maintenance and Repairs 30,421

Other Charges-

Conventions and Travel 3,559

Postage 1,216

Miscellaneous 5,850

County Ordinance 4,100 \$ 961,438

Debt Service:

Promissory Note -Principal 25,000

Promissory Note - Interest 54 25,054

Total Disbursements \$ 986,492

Net Receipts 79,459

Less: Statutory Maximum 67,673

Excess Fees 11,786

Less: Training Incentive Benefit 4,313

Excess Fees Due County 7,473

Payments to Fiscal Court - September 8, 2020 7,468

Balance Due Fiscal Court at Completion of Audit \$ 5

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

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENT

August 16, 2020

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

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

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

B. Basis of Accounting

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

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

- Interest receivable
- Collection on accounts due from others for 2020 services
- Reimbursements for 2020 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2020

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 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.

CALLOWAY COUNTY
 NOTES TO FINANCIAL STATEMENT
 August 16, 2020
 (Continued)

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

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 24.06 percent for the period January 1, 2020 through August 16, 2020.

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.

CALLOWAY COUNTY
 NOTES TO FINANCIAL STATEMENT
 August 16, 2020
 (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)

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. Cost of Living Adjustments - Tier 1

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

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

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

E. Death Benefit

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

KRS Annual Financial Report and Proportionate Share Audit Report

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

CALLOWAY COUNTY
 NOTES TO FINANCIAL STATEMENT
 August 16, 2020
 (Continued)

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

KRS Annual Financial Report and Proportionate Share Audit Report (Continued)

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 Calloway County Sheriff maintained deposits of public funds with federally insured banking institutions as required by the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*. The DLG Manual strongly recommends perfected pledges of securities covering all public funds except direct federal obligations and funds protected by federal insurance. In order to be perfected 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. These requirements were met.

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 Calloway County Sheriff did not have a deposit policy for custodial credit risk, but rather followed the requirements of the DLG *County Budget Preparation and State Local Finance Officer Policy Manual*. As of August 16, 2020, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Federal Grant

The Calloway County Sheriff's office received a Highway Safety grant from the Kentucky Transportation Cabinet's Office of Highway Safety in the amount of \$2,503. Funds totaling \$2,503 were expended during the period. The unexpended grant balance was \$0 as of August 16, 2020.

Note 5. Short-term Debt

A. Direct Borrowings

1. On June 16, 2020, the Murray Bank issued an unsecured fixed rate loan in the amount of \$25,000 for the purpose of providing financing for payroll of the sheriff's office. Principal and interest, which is calculated at a fixed rate of 3.96 percent is due July 19, 2020. In the event of default, the bank may declare the entire unpaid principal balance, and all accrued unpaid interest, due immediately. The bank also reserves a right of setoff in all the borrower's accounts and to administratively freeze all such accounts. The balance of this note was paid in full as of August 16, 2020.
2. The former sheriff borrowed a state advancement of funds in the amount of \$260,000 to defray the expenses of the office for 2020. The incoming sheriff is responsible for paying off the advancement.

CALLOWAY COUNTY
 NOTES TO FINANCIAL STATEMENT
 August 16, 2020
 (Continued)

Note 5. Short-term Debt (Continued)

B. Changes in Short-term Debt

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Direct Borrowings	\$	\$ 285,000	\$ 25,000	\$ 260,000
Total Short-term Debt	<u>\$ 0</u>	<u>\$ 285,000</u>	<u>\$ 25,000</u>	<u>\$ 260,000</u>

Note 6. Long-Term Debt

A. Direct Borrowings

- On July 16, 2018, the Murray Bank issued a fixed rate loan in the amount of \$31,897 for the purpose of purchasing a vehicle for the sheriff's office. Principal and interest, which is calculated at a fixed rate of 3.25 percent is due annually on December 18 beginning on December 18, 2018. The loan is secured by a first security interest in the vehicle being purchased. In the event of default, the bank may declare the entire unpaid principal balance, and all accrued unpaid interest, due immediately. The bank also reserves a right of setoff in all the borrower's accounts and to administratively freeze all such accounts. The balance of this note was \$10,748 as of August 16, 2020. Future principal and interest payments are as follows:

Period Ended <u>December 31</u>	<u>Principal</u>	<u>Interest</u>
2020	<u>\$ 10,748</u>	<u>\$ 317</u>
Totals	<u>\$ 10,748</u>	<u>\$ 317</u>

- On February 21, 2019, the Murray Bank issued a fixed rate loan in the amount of \$30,208 for the purpose of purchasing a vehicle for the sheriff's office. Principal and interest, which is calculated at a fixed rate of 3.96 percent, is due annually December 20 beginning December 20, 2019. The loan is secured by a first security interest in the vehicle being purchased. In the event of default, the bank may declare the entire unpaid principal balance, and all accrued unpaid interest, due immediately. The bank also reserves a right of setoff in all the borrower's accounts and to administratively freeze all such accounts. The balance of this note was \$20,392 as of August 16, 2020. Future principal and interest payments are as follows:

Period Ended <u>December 31</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 9,998	\$ 808
2021	<u>10,394</u>	<u>412</u>
Totals	<u>\$ 20,392</u>	<u>\$ 1,220</u>

CALLOWAY COUNTY
 NOTES TO FINANCIAL STATEMENT
 August 16, 2020
 (Continued)

Note 6. Long-Term Debt (Continued)

A. Direct Borrowings (Continued)

3. On July 23, 2019, the Murray Bank issued a fixed rate loan in the amount of \$31,755 for the purpose of purchasing a vehicle for the sheriff's office. Principal and interest, which is calculated at a fixed rate of 3.96 percent is due annually on July 25 beginning on July 25, 2020. The loan is secured by a first security interest in the vehicle being purchased. In the event of default, the bank may declare the entire unpaid principal balance, and all accrued unpaid interest, due immediately. The bank also reserves a right of setoff in all the borrower's accounts and to administratively freeze all such accounts. The balance of this note was \$20,455 as of August 16, 2020. Future principal and interest payments are as follows:

Period Ended	Principal	Interest
<u>December 31</u>		
2021	\$ 10,628	\$ 810
2022	9,827	389
Totals	<u>\$ 20,455</u>	<u>\$ 1,199</u>

4. On December 3, 2019, the Murray Bank issued a fixed rate loan in the amount of \$27,046 for the purpose of purchasing a vehicle for the sheriff's office. Principal and interest, which is calculated at a fixed rate of 3.96 percent is due in annually December 20 beginning on December 20, 2020. The loan is secured by a first security interest in the vehicle being purchased. In the event of default, the bank may declare the entire unpaid principal balance, and all accrued unpaid interest, due immediately. The bank also reserves a right of setoff in all the borrower's accounts and to administratively freeze all such accounts. The balance of this note was \$27,024 as of August 16, 2020. Future principal and interest payments are as follows:

Period Ended	Principal	Interest
<u>December 31</u>		
2020	\$ 8,687	\$ 1,070
2021	9,030	726
2022	9,307	450
Totals	<u>\$ 27,024</u>	<u>\$ 2,246</u>

5. On July 23, 2019, the Murray Bank issued a fixed rate loan in the amount of \$31,555 for the purpose of purchasing a vehicle for the sheriff's office. Principal and interest, which is calculated at a fixed rate of 3.96 percent is due annually July 25 beginning on July 25, 2020. The loan is secured by a first security interest in the vehicle being purchased. In the event of default, the bank may declare the entire unpaid principal balance, and all accrued unpaid interest, due immediately. The bank also reserves a right of setoff in all the borrower's accounts and to administratively freeze all such accounts. The balance of this note was \$20,319 as of August 16, 2020. Future principal and interest payments are as follows:

Period Ended	Principal	Interest
<u>December 31</u>		
2021	\$ 10,561	\$ 805
2022	9,758	386
Totals	<u>\$ 20,319</u>	<u>\$ 1,191</u>

CALLOWAY COUNTY
 NOTES TO FINANCIAL STATEMENT
 August 16, 2020
 (Continued)

Note 6. Long-Term Debt (Continued)

B. Changes in Long-term Debt

	Beginning Balance (*Restated)	Additions	** Reductions	Ending Balance	Due Within One Year
Direct Borrowings	\$ 98,960	\$	\$ 22	\$ 98,938	\$ 29,433
Total Long-term Debt	<u>\$ 98,960</u>	<u>\$ 0</u>	<u>\$ 22</u>	<u>\$ 98,938</u>	<u>\$ 29,433</u>

* Beginning balance restated by \$32,242, due to errors in the prior year.

** Bank adjustment to principal (Note 6.A.4)

C. Aggregate Debt Schedule

Period Ended December 31	Direct Borrowings	
	Principal	Interest
2020	\$ 29,433	\$ 2,195
2021	40,613	2,753
2022	28,892	1,225
Totals	<u>\$ 98,938</u>	<u>\$ 6,173</u>

Note 7. Lease Agreement

The Calloway County Sheriff's office was committed to a lease agreement for a copy machine. The agreement requires a monthly payment of \$119.

Note 8. Forfeiture Account

The former Calloway County Sheriff maintained a separate account for court ordered forfeitures of money and property. The beginning balance of the account was \$6,126. During the period January 1, 2020 through August 16, 2020, receipts totaled \$3,194 and disbursements totaled \$8,631, leaving an ending balance of \$689 as of August 16, 2020. This account was transferred to the incoming sheriff.

Note 9. Donation Account

The former Calloway County Sheriff maintained a donations account. Receipts for this account are interest earned on deposits and donations made to the sheriff's department. The beginning balance of the account was \$1,723. During the period January 1, 2020 through August 16, 2020, receipts totaled \$260 and disbursements totaled \$1,428, leaving an ending balance of \$555 as of August 16, 2020. This account was transferred to the incoming sheriff.

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENT
August 16, 2020
(Continued)

Note 10. Sheriff's Drug Enforcement Account

The former Calloway County Sheriff maintained a drug enforcement account. Receipts for this account are interest earned on deposits and funding from the Calloway County Fiscal Court to use for drug buys. The beginning balance of the account was \$12,768. During the period January 1, 2020 through August 16, 2020, receipts totaled \$69 and there were no disbursements, leaving an ending balance of \$12,837 as of August 16, 2020. This account was transferred to the incoming sheriff.

Note 11. City of Hazel Agreement

The former Calloway County Sheriff contracted with the City of Hazel to provide law enforcement services. The current contract runs from July 1, 2019 to June 30, 2020. The amount they received from this agreement during the period was \$5,000.

Note 12. Fiduciary Accounts

A. Sheriff's Evidence Holding Account

The former Calloway County Sheriff deposited cash evidence into custodial bank account. These funds are held until a resolution in the form of a court order is received. The funds are then remitted in accordance with the court order. The account had a beginning balance of \$2,869 with receipts of \$15 and \$141 of disbursements for the period January 1, 2020 through August 16, 2020. The account balance was \$2,743 as of August 16, 2020. This account was transferred to the incoming sheriff.

B. Trust Accounts

The Calloway Sheriff is periodically required by the Calloway County Judicial System to act as the Public Administrator of decedents' estates until these estates can be settled. Additionally, the Calloway County Sheriff is periodically required by the Calloway County Judicial System to act as the Public Administrator for minor beneficiaries until they reached the appropriate age to receive benefits. The former Calloway County Sheriff maintained the following custodial account, which was transferred to the incoming sheriff:

Mattox Estate

The account had a beginning balance of \$1,742 with no receipts or disbursements for the audit period. The account balance was \$1,742 as of August 16, 2020.

Note 13. Contingencies

The former sheriff is involved in a lawsuit. 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 14. Subsequent Events

The former sheriff resigned on August 17, 2020 and a new sheriff was immediately appointed by the county judge/executive on that same date. All business on August 17, 2020 was deposited into the incoming sheriff's account.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
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The Honorable Kenneth Imes, Calloway County Judge/Executive
The Honorable Sam Steger, Jr., Former Calloway County Sheriff
The Honorable Nicky Knight, Calloway County Sheriff
Members of the Calloway 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 former Calloway County Sheriff for the period January 1, 2020 through August 16, 2020, and the related notes to the financial statement and have issued our report thereon dated September 29, 2021. The former Calloway 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 former Calloway County Sheriff's internal control over financial reporting (internal control) as a basis for designing 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 former Calloway County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Calloway 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 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 2020-001 and 2020-002 to be material weaknesses.



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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the former Calloway 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 financial statement. 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 matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2020-001.

Views of Responsible Official and Planned Corrective Action

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

Purpose of this Report

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

Respectfully submitted,

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

September 29, 2021

SCHEDULE OF FINDINGS AND RESPONSES

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CALLOWAY COUNTY
SAM STEGER, JR., FORMER SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Period January 1, 2020 Through August 16, 2020

FINANCIAL STATEMENT FINDINGS:

2020-001 The Former Calloway County Sheriff Did Not Have Internal Controls Over Financial Reporting

This is a repeat finding and was included in the prior year audit report as finding 2019-001. The former Calloway County Sheriff's Settlement was misstated and required multiple audit adjustments. Receipts were misstated in the amount of \$78,994, while disbursements were misstated in the amount of \$25,054. Furthermore, the failure to maintain accurate records results in the former sheriff not being compliance with KRS 68.210.

The condition is the result of the sheriff's office's failure to implement a systematic approach to the recording or receipts and disbursements. Instead of properly classifying receipts and disbursements by type or source, it was common practice for the sheriff's office to lump them together, many times as miscellaneous. Due to the lack of a strong internal control system over the recording of receipts and disbursements, material audit adjustments were required to correct the former sheriff's financial statement.

Strong internal controls over recording receipts and disbursements are essential to ensure that all receipts and disbursements are properly accounted for and classified on the financial statements. The sheriff is responsible for the design and implementation of policies and procedures that will ensure receipts and disbursements are recorded properly and that financial reports are stated accurately. Additionally, KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* requires accurate financial reporting.

We recommend the sheriff's office strengthen internal controls over the recording of receipts and disbursements and financial reporting. Posting receipts and disbursements in appropriate categories will reduce the need for audit adjustments and help ensure the financial statement is accurately stated.

Former Sheriff's Response: The current Sheriff has implemented corrective measures to ensure that adequate internal controls are in place.

2020-002 The Former Calloway County Sheriff's Office Did Not Have Adequate Segregation Of Duties

This is a repeat finding and was included in the prior year audit report as finding 2019-003. The former Calloway County Sheriff's office lacked adequate segregation of duties. The bookkeeper was required to perform multiple tasks such as collecting cash from customers, preparing disbursement checks, recording receipts and disbursements, performing monthly bank reconciliations, and preparing quarterly reports. To offset the risk associated with a lack of segregation of duties, the former sheriff implemented compensating controls including dual signatures on all checks, cross-checking procedures, and reviewing quarterly reports; however, these procedures were not sufficient enough to reduce the risks associated with the lack of segregation of duties.

A lack of segregation of duties or strong oversight increases the risk of undetected errors. According to the sheriff's office, this lack of segregation of duties is caused by the diversity of operations with a limited number of staff.

Proper segregation of duties over accounting and reporting functions is essential for providing protection from undetected errors occurring. Additionally, properly segregated duties protects employees in the normal course of performing their daily responsibilities. When staff size is limited, it may be necessary to implement compensating controls to achieve an acceptable level of protection for both the office and individual employees.

CALLOWAY COUNTY
SAM STEGER, JR., FORMER SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Period January 1, 2020 Through August 16, 2020
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2020-002 The Former Calloway County Sheriff's Office Did Not Have Adequate Segregation Of Duties
(Continued)

We recommend the sheriff's office segregate the duties noted above to the extent allowed by budget restrictions. For those duties that could not be segregated due to a limited number of staff, strong management oversight by the sheriff or designee could be a cost effective alternative. This oversight should include reviewing the receipts and disbursements ledgers and monthly bank reconciliations. Documentation, such as the sheriff's or designee's initials or signature, should be provided on those items that were reviewed.

Former Sheriff's Response: The current Sheriff has implemented corrective measures to ensure that adequate internal controls are in place.