

**REPORT OF THE AUDIT OF THE
GARRARD COUNTY
SHERIFF**

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



**MIKE HARMON
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable John Wilson, Garrard County Judge/Executive
The Honorable Tim Davis, Garrard County Sheriff
Members of the Garrard 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 Garrard County, Kentucky, for the year ended December 31, 2016, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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

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



The Honorable John Wilson, Garrard County Judge/Executive
The Honorable Tim Davis, Garrard County Sheriff
Members of the Garrard 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 Garrard 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 Garrard County Sheriff, as of December 31, 2016, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2018, on our consideration of the Garrard 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 John Wilson, Garrard County Judge/Executive
The Honorable Tim Davis, Garrard County Sheriff
Members of the Garrard 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:

- 2016-001 The Sheriff Transferred \$7,000 In Federal Forfeiture Funds To The 2016 Fee Account
- 2016-002 The Sheriff Did Not Obtain Bids For A Disbursement In Excess Of \$20,000
- 2016-003 The Sheriff Did Not Make All Disbursements By Check
- 2016-004 The Sheriff Did Not Maintain Supporting Documentation For All Disbursements
- 2016-005 The Sheriff Did Not Deposit Receipts Daily
- 2016-006 The Sheriff's Office Lacks Adequate Internal Controls Over Payroll
- 2016-007 Court Security Officers' Timesheets Did Not Reflect Correct Hours Worked
- 2016-008 The Sheriff's Office Paid Deputies As Salaried Employees
- 2016-009 The Sheriff's Office Payroll Earnings Records Do Not Agree With W-2 Forms

Respectfully submitted,

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

Mike Harmon
Auditor of Public Accounts

April 23, 2018

GARRARD COUNTY
TIM DAVIS, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2016

Receipts

State Grants		\$ 5,640
State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)		26,686
State Fees For Services:		
Finance and Administration Cabinet	\$ 74,409	
Sheriff Security Service	<u>4,204</u>	78,613
Circuit Court Clerk:		
Fines and Fees Collected		1,779
Fiscal Court		112,294
County Clerk - Delinquent Taxes		19,007
Commission On Taxes Collected		312,693
Other Fees On Taxes Collected		29,845
Fees Collected For Services:		
Auto Inspections	3,555	
School Security	34,000	
Serving Papers	31,739	
Carry Concealed Deadly Weapon Permits	<u>11,300</u>	80,594
Other:		
Hold Harmless	4,729	
Fingerprints/Tax Bill Search	1,765	
Miscellaneous	<u>11,123</u>	17,617
Borrowed Money:		
State Advancement		<u>180,000</u>
Total Receipts		864,768

Disbursements

Operating Disbursements:

Personnel Services-

Deputies' Salaries	\$ 247,292
Court Security Salaries	74,966
Other Salaries	34,326
Overtime	1,512
KLEFPF	26,686

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

GARRARD COUNTY
TIM DAVIS, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2016
(Continued)

Disbursements (continued)

Operating Disbursements: (continued)

Employee Benefits-		
Employer's Share Social Security	\$	32,659
Contracted Services-		
Advertising		4,917
Vehicle Maintenance and Repairs		17,041
Materials and Supplies-		
Office Materials and Supplies		5,637
Uniforms		10,030
Auto Expense-		
Gasoline		13,533
Other Charges-		
Conventions and Travel		1,115
Dues		609
K-9		2,519
Tax Expense		5,434
County Filing Fees		6,190
Unemployment Insurance		3,142
Law Enforcement Equipment		5,640
Miscellaneous		2,857
		<u>496,105</u>
Debt Service:		
State Advancement		180,000
Vehicle Loan - Principal		28,134
Vehicle Loan - Interest		732
		<u>208,866</u>
Total Disbursements		<u>\$ 704,971</u>
Net Receipts		159,797
Less: Statutory Maximum		<u>79,386</u>
Excess Fees		80,411
Less: Training Incentive Benefit		<u>1,984</u>
Excess Fees Due County for 2016		78,427
Payment to Fiscal Court - February 2, 2017		<u>78,427</u>
Balance Due Fiscal Court at Completion of Audit		<u><u>\$ 0</u></u>

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

GARRARD COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2016

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

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

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

B. Basis of Accounting

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

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

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

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

C. Cash and Investments

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

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

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

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

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

Nonhazardous

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

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

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

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

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%

GARRARD COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2016
(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 Garrard 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 Garrard 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, 2016, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Note Payable

The Garrard County Sheriff's office was liable for a secured note payable in the amount of \$66,376 for the purchase of police cruisers. The note matured on July 1, 2017, and the interest rate was 2.8 percent. The Garrard County Sheriff's office was in compliance with the terms of the agreement as of December 31, 2016. In January 2017, the Garrard County Fiscal Court adopted a fee-pooling ordinance for the sheriff's office and assumed the note (with a remaining balance of \$38,242) and took possession of the cruisers.

Note 5. Lease Agreement

The Garrard County Sheriff's office was committed to a lease agreement for a copier. The agreement requires a monthly payment of \$185 for 48 months to be completed on May 15, 2019. The total remaining balance of the agreement was \$5,190, as of December 31, 2016.

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

Note 6. Forfeiture Accounts

Under terms mandated by the United States Department of Justice and the Commonwealth of Kentucky, the Garrard County Sheriff's office receives proceeds from the confiscation, surrender, or sale of real and personal property involved in drug related convictions. These funds are to be used exclusively for law enforcement activities and are not included in excess fees.

A. State Forfeiture Account

The balance in the account as of January 1, 2016, was \$32,661. During 2016, receipts were \$600 and disbursements were \$25,000. The balance as of December 31, 2015, was \$8,261.

B. Federal Forfeiture Account

The balance in the account as of January 1, 2016, was \$37,569. During 2016, receipts were \$29,408 and disbursements were \$19,448. The balance as of December 31, 2016, was \$47,529.

Note 7. Garrard County DARE Program Account

The Garrard County Sheriff's office maintains the Garrard County DARE Program Account. The balance in the account as January 1, 2016, was \$816. During 2016, receipts were \$2,500 and disbursements were \$3,022. The balance in the account as of December 31, 2016, was \$294.

Note 8. Donation Account

The Garrard County Sheriff's office maintains an account for the receipt of donations. These funds may be used for the operation of the Sheriff's office as established by KRS 61.310. The balance in this account on January 1, 2016, was \$549. During 2016, receipts were \$1,375 and disbursements were \$616. The balance in the account as of December 31, 2016, was \$1,308.

Note 9. Grant

The Garrard County Sheriff's office received a Homeland Security LEPT grant of \$5,640 in calendar year 2015. During 2016, the sheriff purchased law enforcement equipment totaling \$5,640. The grant balance as of December 31, 2016, was \$0.

Note 10. County Police Force and Fee-Pooling Ordinance

In December 2016, the Garrard County Fiscal Court passed a fee-pooling ordinance for the sheriff's office and created the Garrard County Police Force. The fee-pooling ordinance requires the sheriff's office to submit fees collected to the county treasurer on a monthly basis. Operating expenses of the sheriff's office will then be paid by the county treasurer in a manner similar to all other county expenses.

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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*

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable John Wilson, Garrard County Judge/Executive
The Honorable Tim Davis, Garrard County Sheriff
Members of the Garrard 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 Garrard County Sheriff for the year ended December 31, 2016, and the related notes to the financial statement and have issued our report thereon dated April 23, 2018. The Garrard 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 Garrard 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 Garrard County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Garrard 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 2016-004, 2016-005, 2016-006, 2016-007, 2016-008, and 2016-009 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 Garrard 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 2016-001, 2016-002, 2016-003, 2016-005, 2016-006, 2016-007, 2016-008, and 2016-009.

Views of Responsible Official and Planned Corrective Action

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

Purpose of this Report

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

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

April 23, 2018

SCHEDULE OF FINDINGS AND RESPONSES

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GARRARD COUNTY
TIM DAVIS, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2016

FINANCIAL STATEMENT FINDINGS:

2016-001 The Sheriff Transferred \$7,000 In Federal Forfeiture Funds To The 2016 Fee Account

This is a repeat finding reported to the sheriff in the prior year audit report as finding 2015-001. Our review of the sheriff's bank statements indicates the sheriff transferred \$7,000 of federal forfeiture funds to the fee account in January 2016. Inquiries of the sheriff and bookkeeper indicate these funds were transferred to cover January payroll expenses. Funds for January payroll were not available in the 2016 fee account because the sheriff's application for state advancement was not submitted timely.

Failure to submit the application for state advancement timely resulted in the sheriff not having fee account funds available to make the initial 2016 payroll. When federal forfeiture funds are transferred to the fee account they lose their identity and make it extremely difficult to determine if they were spent for the intended purposes.

The U.S. Department of Justice has issued *A Guide to Equitable Sharing for State and Local Law Enforcement Agencies* (Guide) that "seeks to assist state and local law enforcement agencies participating in the program by clarifying the directives they must follow to obtain and use equitably shared funds." As stated in the guide, "equitably shared funds shall be used by law enforcement agencies for law enforcement purposes only." Federal guidelines also include 'impermissible uses' of equitable sharing funds; specifically, one of the 'impermissible uses' is salaries. The Guide states, "[e]quitably shared funds may not be used to pay the salaries and benefits of sworn or non-sworn law enforcement personnel."

We recommend the sheriff discontinue the practice of transferring federal forfeiture funds to the fee account to cover payroll and/or fee account expenses. We also recommend the sheriff restrict the expenditure of federal forfeiture funds to those items defined in federal guidelines. Furthermore, we recommend the sheriff make timely application for participation in the state advancement program which is designed to assist sheriffs in obtaining funds necessary to operate the office when fees are not available.

Sheriff's Response: This was done in the prior administration. We no longer use this to supplement salary in January. It will no longer be an issue. Was not done in 2017.

2016-002 The Sheriff Did Not Obtain Bids For A Disbursement In Excess Of \$20,000

The Garrard County Sheriff's office transported inmates for the county in 2016. In June 2016, the sheriff purchased a Ford E-350 van to be used as an inmate transport vehicle. The sheriff expended \$25,000 from the State Forfeiture Account for the purchase; however, bids were not obtained prior to the acquisition of the inmate transport vehicle.

The sheriff did not consider the purchase of a 2007 Ford E-350 van an expenditure that required bidding. The sheriff's failure to obtain bids for the purchase of the van is an issue of non-compliance with regard to the requirements of KRS 424.260(1).

KRS 424.260(1) states, "[e]xcept where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district, or board or commission of a city or county, or sheriff or county clerk, may make a contract, lease, or other agreement for materials, supplies except perishable meat, fish, and vegetables, equipment, or for contractual services other than professional, involving an

GARRARD COUNTY
 TIM DAVIS, SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2016
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-002 The Sheriff Did Not Obtain Bids For An Expenditure In Excess Of \$20,000 (Continued)

expenditure of more than twenty thousand dollars (\$20,000) without first making newspaper advertisement for bids.”

We recommend the sheriff obtain bids for expenditures in excess of \$20,000 as required by KRS 424.260(1).

Sheriff's Response: Was not aware of this until the audit. Bids will be taken on all expenditures above \$20,000 in all future business.

2016-003 The Sheriff Did Not Make All Disbursements By Check

The Garrard County Sheriff's office maintains several accounts for the receipt of grants and funds forfeited as the result of criminal investigations. Generally, the funds in these accounts are used to support law enforcement activities of the sheriff's office. In 2016, the sheriff used funds in the state forfeiture account to purchase an inmate transport vehicle and funds from the grants account to purchase body-armor for deputies. In each of these instances the sheriff obtained a cashier's check for the purchase and mailed the cashier's check to the vendor.

According to the sheriff, he did not realize that all disbursements are required to be made by check. The sheriff's failure to make all disbursements in the form of a check drawn on one of the sheriff's accounts is an issue of non-compliance with regard to the Department for Local Government requirements under the authority of KRS 62.810.

The Department for Local Government (DLG), under the authority of KRS 68.210, has established minimum requirements for all local officials (and employees) that handle public funds. One of the minimum established requirements is “[d]isbursements by check only.” The sheriff obtained cashier's checks for the purchase of the inmate transport vehicle and the deputies' body-armor. The use of cashier's checks does not meet the requirement for making all “disbursements by check only.”

We recommend the sheriff make disbursements by check only as required by DLG.

Sheriff's Response: Violation was in reference to using cashiers' checks as requested by vendors. Will write checks from office accounts on all purchases in the future.

2016-004 The Sheriff Did Not Maintain Supporting Documentation For All Disbursements

The Garrard County Sheriff's office did not maintain adequate supporting documentation for all disbursements made during 2016. The sheriff is maintaining monthly credit card statements for credit card disbursements; however, individual receipts or invoices for items appearing on monthly credit card statements have not been maintained as required. Additionally, supporting documentation was not maintained for disbursements made from the sheriff's donation account.

The sheriff awarded scholarships for \$250 to two Garrard County High School seniors on the basis of an essay contest (one female student and one male student). The sheriff did not maintain supporting documentation of the essay contest or the essays submitted. The sheriff did not realize that each transaction appearing on a monthly credit card statement must have adequate supporting documentation (an individual receipt for the disbursement

GARRARD COUNTY
TIM DAVIS, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2016
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-004 The Sheriff Did Not Maintain Supporting Documentation For All Disbursements (Continued)

or invoices). The sheriff was also unaware of the necessity of retaining supporting documentation for all disbursements made from the donations account. The sheriff has not established internal controls requiring the maintenance of adequate supporting documentation for all disbursements made from sheriff's office accounts. Payments from the sheriff's fee account agreed with monthly credit card statements in most instances; however, supporting documentation must be maintained for each transaction reflected on monthly statements. Additionally, supporting documentation must be maintained for all disbursements from made from all accounts maintained by the sheriff's office.

The sheriff's failure to maintain adequate supporting documentation for all disbursements is an issue of non-compliance with regard to rulings made by Kentucky's highest court.

In accordance with 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 maintain adequate supporting documentation for all disbursements as required by Kentucky's highest court in Funk v. Milliken.

Sheriff's Response: Did not have a couple receipts to provide to auditor at the time of audit. Located receipts. Will keep all documentation on scholarship expenditures.

2016-005 The Sheriff Did Not Deposit Receipts Daily

The sheriff did not deposit receipts daily in 2016. The sheriff has not established internal controls requiring a daily deposit of all funds received by his office. The sheriff's bookkeeper indicated that on most days receipts were minimal. The sheriff's office planned to prepare deposits on Mondays and Fridays unless daily receipts were considered significant. Our testing reflected nine deposits totaling \$52,634 in the month of October 2016 which is consistent with the policy described by the bookkeeper.

Failure to deposit receipts daily is an issue of noncompliance with the Department for Local Government (DLG) requirements for handling public funds. Failure to deposit receipts daily also exposes the sheriff's office to the risks of misappropriation of funds and inaccurate financial reporting.

DLG, under the authority of KRS 68.210, has established minimum requirements for all government officials that handle public funds in the *County Budget Preparation and State Local Finance Officer Policy Manual*. With regard to receipts, government officials handling public funds are required to make "[d]aily deposits into a federally insured bank account."

We recommend the sheriff make deposits daily as required by DLG.

Sheriff's Response: Making daily deposits as necessary.

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FINANCIAL STATEMENT FINDINGS: (Continued)

2016-006 The Sheriff's Office Lacks Adequate Internal Controls Over Payroll

Garrard County Sheriff's employees are separated into three groups for payroll purposes. The Garrard County Sheriff's office prepares payroll for road deputies, court security officers and administrative staff including the sheriff. The personnel in each of these groups have various requirements for employment such as full-time, part-time, and salaried and our testing of payroll included an examination of these requirements and the documentation maintained by the sheriff to support payroll expenditures.

The Garrard County Sheriff does not have appropriate internal controls over the payroll process. During 2016, the following issues were noted:

- The bookkeeper does not have a timesheet.
- One timesheet in the test period was not signed by the employee.
- All deputies' timecards were processed without supervisor approval.
- Two employees were paid without timesheet documentation.
- Comparisons of E-911 logs to timesheets indicated three deputies had nine instances of days worked or at least a partial day that was not included on the employees timesheet.
- Deputies' timesheets did not reasonably agree to the E-911 activity log.
- County personnel policy requires a lunch period to be taken. Documentation of a lunch period was not noted on timesheets.
- Employees did not always work sufficient hours to be considered full-time employees.
- Timesheets did not accurately reflect actual employees' activity such as sick, vacation, or transport
- Deputies' on-call time was not properly documented or properly paid.

Weak internal controls over payroll allowed these issues to go undetected and uncorrected by the sheriff.

The sheriff is not in compliance with federal and state labor regulations or the county's Personnel Policy and Procedure code.

Kentucky Revised Statutes (KRS) 337.320(1) requires every employer to "keep a record of: (a) [t]he amount paid each pay period to each employee; (b) [t]he hours worked each day and each week by each employee; and (c) [s]uch other information as the commissioner requires."

Timesheets should be kept for payroll verification, as a record of leave time used, and to document employees are working at least the minimum number of hours to be eligible for full-time benefits such as retirement and health insurance.

The Garrard County Personnel Policy and Procedures policy states, "[l]unch periods will be taken in the period between 11:00 a.m. and 2:00 p.m., except in the case of emergency or necessity as determined by the County Official or Department head."

The United States Department of Labor - Wage and Hour Division defines Kentucky's "Minimum Length of Meal Period Required under State Law for Adult Employees in Private Sector" as "[r]easonable off-duty period, ordinarily 1/2 hour but shorter period permitted under special conditions, between 3rd and 5th hour of work. Not counted as time worked. Coffee breaks and snack time not to be included in meal period."

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FINANCIAL STATEMENT FINDINGS: (Continued)

2016-006 The Sheriff's Office Lacks Adequate Internal Controls Over Payroll (Continued)

The Garrard County Personnel Policy and Procedures policy states “[r]egular full-time employees are those scheduled to work at least 37.5 hours per week. These employees will be eligible for county benefits.”

United States Department of Labor fact sheet #22 states “On-Call Time: An employee who is required to remain on call on the employer's premises is working while "on call." An employee who is required to remain on call at home, or who is allowed to leave a message where he/she can be reached, is not working (in most cases) while on call. Additional constraints on the employee's freedom could require this time to be compensated.”

We recommend the Garrard County Sheriff strengthen internal controls over payroll by requiring employees and supervisors to sign timecards, ensure timecards reflect actual hours worked, require all employees to maintain timecards, and require employees to document lunch periods on timecards. We further recommend the official ensure employees are in compliance with the U.S. Department of Labor, KRS, and the county's personnel policy.

Sheriff's Response: Working closer with bookkeeper to better control payroll & timesheets. New timesheets issued & explained to employees. Lunch period to be documented.

2016-007 Court Security Officers' Timesheets Did Not Reflect Correct Hours Worked

Garrard County Court Security Officers (CSOs) maintained individual time sheets which employees prepared on a monthly basis. The timesheets prepared reflect time in and time out on the days worked. Timesheet information is then transferred to a court security schedule on a bi-weekly basis. The court security schedule including the hours worked is sent to the bookkeeper who then issues payroll checks the following Tuesday. Our test procedures included a comparison of CSO's timesheets to the court security schedule and then to the actual payroll issued on March 29, 2016. Our test procedures indicated that payroll is being paid based on the court security schedules instead of actual time sheets.

Our test procedures further revealed the following inconsistencies when compared to the court security schedules used to issue payroll checks:

- The CSO schedule for February 2016 (used to calculate payroll) was arbitrarily revised and the following adjustments were subsequently made to the March 29, 2016 payroll:
 - 28 hours were added to four employees hours for the pay period
 - 11 hours were deducted from two employees hours for the pay period
- 18 instances of the CSO schedule not agreeing to employees' timesheets
 - Six occurrences of under-recording hours actually worked
 - Ten occurrences of miscalculating hours on the timesheets and then transferred to the CSO schedule
 - Two instances of employees working over five hours but having no lunch break
- Four instances of transport time were not included on the timesheets

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 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-007 Court Security Officers' Timesheets Did Not Reflect Correct Hours Worked (Continued)

The sheriff took office in January 2015 and he was unaware of many of the U.S. Department of Labor requirements and Kentucky Revised Statutes (KRS) that govern payroll. Additionally, human error combined with the lack of internal controls have allowed these payroll issues to go undocumented and uncorrected.

The lack of controls over payroll have allowed employees to be both overpaid and underpaid. Additionally, sufficient supporting documentation for payroll has not been maintained and numerous issues of noncompliance were noted with regard to KRS. Timesheets under and overstated the hours the CSOs actually worked. Misstatements in the amount of hours worked could have prevented employees from receiving benefits they were entitled to, such as retirement.

KRS 337.320(1) requires every employer to “keep a record of: (a) [t]he amount paid each pay period to each employee; (b) [t]he hours worked each day and each week by each employee; and (c) [s]uch other information as the commissioner requires.”

Timesheets should be kept for payroll verification, as a record of leave time used, and to document employees are working at least the minimum number of hours to be eligible for full-time benefits such as retirement and health insurance.

KRS 337.355 requires that “[e]mployers, except those subject to the Federal Railway Labor Act, shall grant their employees a reasonable period for lunch, and such time shall be as close to the middle of the employee's scheduled work shift as possible. In no case shall an employee be required to take a lunch period sooner than three (3) hours after his work shift commences, nor more than five (5) hours from the time his work shift commences[.]”

We recommend the Garrard County Sheriff strengthen internal controls over payroll by ensuring timecards reflect actual hours worked, requiring employees to document lunch periods on timecards, and ensuring compliance with KRS regarding payroll.

Sheriff's Response: New timesheets issued to supply correct information to fulfill requirements.

2016-008 The Sheriff Failed To Properly Classify Employees As Hourly Or Salaried

The Garrard County Sheriff's office paid its deputies and bookkeeper on a monthly basis. Payroll checks were issued around the 25th of each month. Paycheck amounts were the same (based on the individual's 'salary') regardless of the number of hours worked and were for the whole month (i.e. March 1 through March 31). A comparison of timesheets to the E-911 call log indicates deputies do not always work a 40 hour work-week but could also work over 40 hours in a week. The bookkeeper did not maintain a timesheet; therefore, hours could not be verified, nor could it be determined if the employee worked sufficient hours to be considered a full-time employee. Although the sheriff did keep a calendar of deputies' time off for sick leave or personal days, there was not a total of cumulative time allowed or used and the timesheets did not always reflect the employees' correct status. Additionally, not all timesheets could be located for review and some details (such as the year) were not documented on the timesheets. Our testing revealed one instance of a sheriff's deputy providing inmate transport and subsequently being incorrectly paid as contract labor instead of as a county employee.

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FINANCIAL STATEMENT FINDINGS: (Continued)

2016-008 The Sheriff Failed To Properly Classify Employees As Hourly Or Salaried (Continued)

For payroll purposes, Garrard County Sheriffs' deputies (road deputies and bookkeeper) were being treated as salaried. A schedule of four days on and four days off for road deputies, without consideration as to the actual work-week start or end, has allowed road deputies to be overpaid some weeks and underpaid in other weeks. The sheriff's bookkeeper and road deputies also did not maintain sufficient time records to ensure full-time employment status as defined by the county's personnel policy.

KRS 337.320(1) requires every employer to "keep a record of: (a) [t]he amount paid each pay period to each employee; (b) [t]he hours worked each day and each week by each employee; and (c) [s]uch other information as the commissioner requires."

Timesheets should be kept for payroll verification, as a record of leave time used, and to document employees are working at least the minimum number of hours to be eligible for full-time benefits such as retirement and health insurance.

KRS 337.285(1) states, "[n]o employer shall employ any of his employees for a work week longer than forty (40) hours, unless such employee receives compensation for his employment in excess of forty (40) hours in a work week at a rate of not less than one and one-half (1-1/2) times the hourly wage rate at which he is employed."

OAG 79-448, discusses Section 3 of the Kentucky Constitution stating that Section 3 "is unequivocal on the point that public emolument to any person must be based on the consideration of public services. By the strongest implication this means 'public services actually rendered.' It does not mean 'public services to be rendered.' "

803 KAR 1:070 Section 3(3) (a) states, "[t]o qualify for the administrative exemption, an employee's primary duty shall include the exercise of discretion and independent judgment with respect to matters of significance. The exercise of discretion and independent judgment shall involve the comparison and the evaluation of possible courses of conduct, and acting or making a decision after the various possibilities have been considered. The term 'matters of significance' refers to the level of importance or consequence of the work performed." 803 KAR 1:070 Section 3(3) (b) states, "[f]actors to consider if determining whether an employee exercises discretion and independent judgment with respect to matters of significance include, but are not limited to: . . . whether the employee has authority to commit the employer in matters that have significant financial impact; whether the employee has authority to waive or deviate from established policies and procedures without prior approval; whether the employee has authority to negotiate and bind the company on significant matters[.]"

803 KAR 1:070 section 10 defines a salaried employee as one being paid on a "salary basis," meaning an employee regularly receives a predetermined amount of compensation each pay period on a weekly, or less frequent, basis. The predetermined amount cannot be reduced because of variations in the quality or quantity of the employee's work. Subject to certain exceptions, an exempt employee must receive the full salary for any week in which the employee performs any work, regardless of the number of days or hours worked. In addition, to qualify for exemption, employees generally must be paid at not less than \$455 per week on a salary basis. If the employer makes deductions from an employee's predetermined salary, i.e., because of the operating requirements of the business, that employee is not paid on a "salary basis."

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FINANCIAL STATEMENT FINDINGS: (Continued)

2016-008 The Sheriff Failed To Properly Classify Employees As Hourly Or Salaried (Continued)

Per the IRS website “[u]nder common-law rules, anyone who performs services for you is your employee if you can control what will be done and how it will be done. This is so even when you give the employee freedom of action. What matters is that you have the right to control the details of how the services are performed.” The general rule is that an individual is an independent contractor if the payer has the right to control or direct only the result of the work, not ‘what’ will be done and ‘how’ it will be done.

We recommend the Garrard County Sheriff strengthen internal controls over payroll by requiring employees to complete and sign accurate timesheets and by having the timesheets reviewed and approved by the supervisors (documented by signing or initialing the timesheet). The timesheets could then be provided to the bookkeeper after the hours have been worked which would help to ensure accurate wages are being paid as well as ensure the wages are earned prior to payroll checks being issued. We recommend the sheriff document his policy for sick, vacation, and personal time and ensure the timesheets accurately reflect the use of these days.

We also recommend the sheriff’s office ensure employees are properly categorized as an employee or independent contractor of the sheriff’s office for payroll purposes. We further recommend the sheriff contact the county attorney and/or the department of labor to obtain an opinion if any employee under his supervision can be considered a salaried employee.

Sheriff’s Response: Was following previously accepted classifications from prior administration. Salary, timesheets, wages, schedules all corrected to fix this issue.

2016-009 The Sheriff’s Office Payroll Earnings Records Do Not Agree With W-2 Forms

Test procedures conducted on the sheriff’s office payroll for 2016 included a comparison of amounts paid reflected in payroll earnings records versus amounts reported on W-2 forms. This comparison revealed variances in amounts paid to the sheriff and several of his deputies. Specifically, the sheriff and eight deputies received compensation (reflected in the earnings records) in excess of the amounts reflected on their individual W-2 forms.

The sheriff’s bookkeeper indicated the cause of the discrepancy could be corrections made in the early part of 2016 to the payroll software program. An error was discovered in the software program with regard to amounts reflected as earnings for the sheriff and deputies. The bookkeeper indicated the amounts omitted from W-2 forms appear to have been associated with KLEFPF earnings, which are received from the state as assistance with law enforcement payroll costs.

W-2 forms issued to the sheriff and eight deputies do not appear to include all income received during 2016.

Amounts paid to the sheriff and deputies as reflected in payroll earnings records should agree with the amounts reported on the W-2 forms, with limited exceptions. We recommend the sheriff examine payroll earnings records and W-2 forms issued to determine if amended W-2s should be issued for 2016. We also recommend that in the future the sheriff ensure the amount of income reported on W-2 forms agrees with amounts reflected in the payroll earnings records.

Sheriff’s Response: Software problem, it has been corrected, and is being monitored on a regular basis for accuracy.