

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

**For The Year Ended
December 31, 2018**



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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Kenneth Imes, Calloway County Judge/Executive
The Honorable Sam Steger, Jr., 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 Sheriff of Calloway County, Kentucky, for the year ended December 31, 2018, 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.



The Honorable Kenneth Imes, Calloway County Judge/Executive
 The Honorable Sam Steger, Jr., 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 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 Calloway County Sheriff, as of December 31, 2018, 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 Calloway County Sheriff for the year ended December 31, 2018, 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 August 26, 2019, on our consideration of the 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 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:

- 2018-001 The Calloway County Sheriff Overspent His Approved Budget
- 2018-002 The Calloway County Sheriff Overspent The Maximum Salary Limit Fixed By The Fiscal Court
- 2018-003 The Calloway County Sheriff's Office Lacks Adequate Segregation Of Duties
- 2018-004 The Calloway County Sheriff Lacks Internal Controls Over Financial Reporting

Respectfully submitted,



Mike Harmon
 Auditor of Public Accounts

August 26, 2019

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

For The Year Ended December 31, 2018

Receipts

Federal Grant	\$	7,845	
State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)			71,399
State Fees For Services:			
Finance and Administration Cabinet	\$	145,813	
Sheriff Security Service		13,136	
Cabinet For Health And Family Services		<u>3,415</u>	162,364
Circuit Court Clerk:			
Fines and Fees Collected			11,153
Fiscal Court			555,920
County Clerk - Delinquent Taxes			26,019
Commission On Taxes Collected			591,532
Fees Collected For Services:			
Auto Inspections		19,205	
Accident and Police Reports		1,990	
Serving Papers		65,175	
Carry Concealed Deadly Weapon Permits		20,325	
Fingerprints		5,825	
School Security		75,077	
Transporting		19,485	
City of Hazel		<u>5,000</u>	212,082
Other:			
Add-On Fees		43,074	
Miscellaneous		17,836	
Fire and Rescue Dispatch		20,000	
Insurance Proceeds		17,122	
County Attorney Traffic School		6,517	
Jury Reimbursement		268	
Sale of Vehicles		<u>35,000</u>	139,817
Interest Earned			5,893

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

CALLOWAY COUNTY
 SAM STEGER, JR., SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2018
 (Continued)

Receipts (Continued)

Borrowed Money:

State Advancement	\$ 300,000	
Promissory Notes	107,654	\$ 407,654

Total Receipts 2,191,678

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-		
Deputies' Salaries	\$ 1,060,472	
Dispatch Salaries	230,957	
Employee Benefits-		
Employer's Share Social Security	104,417	
Materials and Supplies-		
Equipment Expense	31,574	
IT Expense	4,358	
Auto Expense-		
Maintenance and Repairs	52,884	
Other Charges-		
Training and Travel Expense	15,751	
Dues	3,449	
Postage	1,934	
New Hires	395	
Miscellaneous	2,721	
Towing	1,880	
Drug Screening	666	
Intuit	4,398	
County Ordinance	12,320	
Capital Outlay-		
Vehicles	77,154	1,605,330

Debt Service:

State Advancement	300,000	
Promissory Notes - Principal	125,151	
Promissory Notes - Interest	1,731	426,882

Total Disbursements 2,032,212

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

CALLOWAY COUNTY
SAM STEGER, JR., SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2018
(Continued)

Net Receipts	\$ 159,466
Less: Statutory Maximum	<u>99,291</u>
Excess Fees	60,175
Less: Training Incentive Benefit	<u>4,137</u>
Excess Fees Due County for 2018	56,038
Payment to Fiscal Court - February 4, 2019	<u>55,962</u>
Balance Due Fiscal Court at Completion of Audit	<u><u>\$ 76</u></u>

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

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2018

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 2018 services
- Reimbursements for 2018 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2018

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).

CALLOWAY COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2018
 (Continued)

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

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

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

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

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

The county's contribution rate for nonhazardous employees was 19.18 percent for the first half of the year and 21.48 percent for the second half of the year.

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%

CALLOWAY COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2018
 (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)

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.

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.

CALLOWAY COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2018
 (Continued)

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

KRS Annual Financial Report and Proportionate Share Audit Report

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

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

Note 3. Deposits

The Calloway 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 Calloway 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, 2018, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of November 19, 2018, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the sheriff's deposits in accordance with the security agreement.

Uncollateralized and Uninsured \$5,962,185

Note 4. Federal Grant

The Calloway County Sheriff's office received a Federal Highway Safety grant from the Department of Justice applicable from October 2017 to September 2018. During 2018, grant funds in the amount of \$7,845 were received.

Note 5. Note Payable

- A. The Calloway County Sheriff's office entered into a secured note payable to Murray Bank in the amount of \$25,252 on January 5, 2017. The purpose of the note was to purchase a vehicle for the sheriff's office. The balance of this note was paid in full as of December 31, 2018.

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2018
(Continued)

Note 5. Note Payable

- B. The Calloway County Sheriff's office entered into a secured note payable to Murray Bank in the amount of \$25,252 on January 5, 2017. The purpose of the note was to purchase a vehicle for the sheriff's office. The balance of this note was paid in full as of December 31, 2018.
- C. The Calloway County Sheriff's office entered into a secured note payable to Murray Bank in the amount of \$25,252 on January 5, 2017. The purpose of the note was to purchase a vehicle for the sheriff's office. The balance of this note was paid in full as of December 31, 2018.
- D. The Calloway County Sheriff's office entered into a secured note payable to Murray Bank in the amount of \$25,053 on February 2, 2018. The purpose of the note was to purchase a vehicle for the sheriff's office. The balance of this note was \$8,510 as of December 31, 2018.
- E. The Calloway County Sheriff's office entered into an unsecured note payable to Murray Bank in the amount of \$20,000 on February 15, 2018. The note was used to provide financing for operating expenditures of the sheriff's office. The balance of this note was paid in full as of December 31, 2018.
- F. The Calloway County Sheriff's office entered into a secured note payable to Murray Bank in the amount of \$30,704 on July 16, 2018. The purpose of the note was to purchase a vehicle for the sheriff's office. The balance of this note was paid in full as of December 31, 2018.
- G. The Calloway County Sheriff's office entered into a secured note payable to Murray Bank in the amount of \$31,897 on July 16, 2018. The purpose of the note was to purchase a vehicle for the sheriff's office. The balance of this note was \$21,189 as of December 31, 2018.

Note 6. 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 \$12 plus a minimal amount per copy. The sheriff was in compliance with the agreement as of December 31, 2018.

Note 7. Forfeiture Account

The Calloway County Sheriff maintains a separate account for court ordered forfeitures of money and property. The beginning balance of the account was \$74. During the calendar year receipts totaled \$13,758 and disbursements totaled \$8,097, leaving an ending balance of \$5,735 as of December 31, 2018.

Note 8. Evidence Holding Account

The Calloway County Sheriff maintains an evidence holding account. Receipts for this account are interest earned on deposits and all monies confiscated from theft or drug arrests. These funds are disbursed only by a court order. The beginning balance of the account was \$8,091. During the calendar year, receipts totaled \$1,384 and disbursements totaled \$5,180, leaving an ending balance of \$4,295 as of December 31, 2018.

Note 9. Donations Account

The Calloway County Sheriff maintains 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 \$0. During the calendar year receipts totaled \$4,600 and disbursements totaled \$3,073, leaving an ending balance of \$1,527 as of December 31, 2018.

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2018
(Continued)

Note 10. City of Hazel Agreement

The Calloway County Sheriff contracted with the City of Hazel to provide law enforcement services. The current contract runs from July 1, 2018 to June 30, 2019. The amount they received from this agreement during 2018 was \$5,000.

Note 11. Outstanding Checks Held In Escrow

The Calloway County Sheriff deposited outstanding checks into an escrow account. When statutorily required, the sheriff will turn over the escrowed funds to the Kentucky State Treasurer as unclaimed property. The sheriff's escrowed amounts were as follows:

2014	\$985 (transferred from former sheriff)
2015	\$713
2016	\$905
2017	\$5

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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 Kenneth Imes, Calloway County Judge/Executive
The Honorable Sam Steger, Jr., 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 Calloway County Sheriff for the year ended December 31, 2018, and the related notes to the financial statement and have issued our report thereon dated August 26, 2019. The 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 Calloway 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 Calloway County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 and another deficiency that we consider to be a significant deficiency.

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 2018-001, 2018-002, and 2018-004 to be material weaknesses.

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

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2018-003 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2018-002.

Views of Responsible Official and Planned Corrective Action

The 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 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,



Mike Harmon
Auditor of Public Accounts

August 26, 2019

SCHEDULE OF FINDINGS AND RESPONSES

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

For The Year Ended December 31, 2018

FINANCIAL STATEMENT FINDINGS:

2018-001 The Calloway County Sheriff Overspent His Approved Budget

This is a repeat finding and was included in the prior year audit report as finding 2017-002. During calendar year 2018, the Calloway County Sheriff overspent his budget by \$77,112. A budget amendment was obtained by the sheriff's office, but it did not adequately cover all of the expenses. This condition is the result of the sheriff's office's failure to record loan proceeds and the purchase of vehicles on the financial statement. The sheriff's failure to monitor the recording of receipts and expenditures caused the office to disburse more money than was approved by the fiscal court.

The state local finance officer requires the fiscal court to approve a calendar year budget for each fee office as a component of the county's budget preparation process by January 15 of each year. Additionally, strong internal controls include monitoring disbursements and comparing them to budgeted amounts.

We recommend the Calloway County Sheriff's office record all loan proceeds and the purchase of assets on the financial statement. Additionally, the sheriff should monitor the budget set by the fiscal court to ensure that he does not spend more than what is approved. When necessary, the sheriff should make appropriation transfers or obtain a budget amendment from the fiscal court before overspending any budget category.

Sheriff's Response: The Sheriff will make sure that the budget amendment is done in a timely manner and covers all expenditures adequately.

2018-002 The Calloway County Sheriff Overspent The Maximum Salary Limit Fixed By The Fiscal Court

This is a repeat finding and was included in the prior year audit report as finding number 2017-003. During calendar year 2018, the Calloway County Fiscal Court fixed the maximum amount the sheriff could spend on deputies' salaries and wages at \$1,258,000. An amendment was obtained by the sheriff and approved by the fiscal court to raise the maximum amount to \$1,295,000. However, the total amount expended on deputies' salaries and wages was \$1,395,846, which is \$100,846 more than the approved amount. The annual order setting maximum amount for deputies and assistants included the employer social security and retirement match by mistake. The sheriff did not notice this mistake at the time the order was set. As a result, the sheriff overspent the maximum salary limitation fixed by fiscal court. The sheriff was not in compliance with the annual order setting the maximum amount for deputies and assistants.

Strong internal controls over payroll, specifically the total amount spent on deputies' salaries, are essential in ensuring the sheriff does not spend more on deputies' salaries than what was approved by the fiscal court. KRS 64.530(3) states, "[t]he fiscal court shall fix annually the reasonable maximum amount, including fringe benefits, which the officer may expend for deputies and assistants, and allow the officer to determine the number to be hired and the individual compensation of each deputy and assistant." Once established, the sheriff should adhere to this order.

We recommend the Calloway County Sheriff monitor his payroll expenditures during the year and obtain any necessary amendments before year end.

CALLOWAY COUNTY
 SAM STEGER, JR., SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2018
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-002 The Calloway County Sheriff Overspent The Maximum Salary Limit Fixed By The Fiscal Court
 (Continued)

Sheriff's Response: Due to unforeseen overtime, and this year, retirement and social security matching being in the salary budget, the maximum salary was overspent. The Sheriff will make sure that withholdings do not affect the maximum salary cap and will make sure the appropriate amendment is made as he so sees fit.

2018-003 The Calloway County Sheriff's Office Lacks Adequate Segregation Of Duties

This is a repeat finding and was included in the prior year report as 2017-001. In calendar year 2018, the 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 sheriff has implemented compensating controls including dual signatures on all checks, cross-checking procedures, and reviewing quarterly reports; however, these procedures were not sufficient to reduce the risks associated with the lack of segregation of duties. 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. A lack of segregation of duties or strong oversight increases the risk of undetected errors.

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.

To adequately protect against the misappropriation of assets and inaccurate financial reporting, we recommend the sheriff 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.

Sheriff's Response: Due to the office staff size it is difficult to overcome this recommendation. The Sheriff will continue to do spot cash counts and sign off on bank statements.

2018-004 The Calloway County Sheriff Lacks Internal Controls Over Financial Reporting

The Calloway County Sheriff's fourth quarter financial report was misstated and required multiple audit adjustments. Insurance proceeds of \$17,122 and loan proceeds of \$77,154 were omitted from the receipts ledger, while loan payments of \$17,122 and vehicle purchases of \$77,154 were omitted from the disbursements ledger. This caused a total misstatement of \$94,276 in receipts and disbursements. The condition is the result of the sheriff's office's failure to record all loan proceeds and the purchase of vehicles on the financial statement. Due to the lack of a strong internal control system over the recording of receipts and disbursements, material audit adjustments were recommended to correct the sheriff's financial statement.

CALLOWAY COUNTY
SAM STEGER, JR., SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2018
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-004 The Calloway County Sheriff Lacks Internal Controls Over Financial Reporting (Continued)

Strong internal controls over recording receipts and disbursements are essential to ensure that all receipts and disbursements are properly accounted for on the financial statement. 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.

We recommend the sheriff strengthen internal controls over the recording of receipts and disbursements and financial reporting. Posting receipts and disbursements, including all loan proceeds and the purchase of assets, in appropriate categories will reduce the need for audit adjustments and help ensure the financial statement is accurately stated.

Sheriff's Response: The Sheriff will make sure that all loan proceeds and insurance adjustments are on the correct ledgers. This issue is in part because of the insurance reporting procedures on vehicles that are wrecked and insurance may have been reported to the Fiscal Court. The Sheriff will make sure it is documented correctly.