REPORT OF THE AUDIT OF THE FORMER FRANKLIN COUNTY SHERIFF

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

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MIKE HARMON
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The Honorable Huston Wells, Franklin County Judge/Executive
The Honorable Pat Melton, Former Franklin County Sheriff
The Honorable Chris Quire, Franklin County Sheriff
Members of the Franklin County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the former Sheriff of Franklin County, Kentucky, for the period January 1, 2018 through January 6, 2019, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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

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

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The Honorable Huston Wells, Franklin County Judge/Executive
The Honorable Pat Melton, Former Franklin County Sheriff
The Honorable Chris Quire, Franklin County Sheriff
Members of the Franklin County Fiscal Court

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

As described in Note 1 of the financial statement, the financial statement is prepared by the former Franklin County Sheriff on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the former Franklin County Sheriff, for the period January 1, 2018 through January 6, 2019, or changes in financial position or cash flows thereof for the period then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the former Franklin County Sheriff for the period January 1, 2018 through January 6, 2019, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2020, on our consideration of the former Franklin County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the former Franklin 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 Former Sheriff Did Not Manage Financial Activities Of His Office
2018-002 The Former Sheriff's Office Lacked Segregation Of Duties
2018-003 The Former Sheriff's Fourth Quarter Report Was Not Submitted Timely
2018-004 The Former Sheriff Did Not Have Adequate Controls Over Receipts
2018-005 The Former Sheriff Overspent The Approved Budget

Respectfully submitted,

Mike Harmon
Auditor of Public Accounts

October 26, 2020

FRANKLIN COUNTY
PAT MELTON, FORMER SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

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

Receipts		
Federal Grant:		
Traffic Safety Program		$ 38,272
State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)		118,796
State Fees For Services:		
Finance and Administration Cabinet	$ 121,765	
Sheriff Security Service	59,549	
Prisoner Transport	19,533	200,847
County School Board - Resource Officer Support		174,902
Fiscal Court		109,634
County Clerk - Delinquent Taxes		62,477
Commission On Taxes Collected		1,200,100
Fees Collected For Services:		
Auto Inspections	17,312	
Arrest Fees	1,055	
Accident and Police Reports	5,714	
Serving Papers	101,663	
Carry Concealed Deadly Weapon Permits	22,145	
Fingerprinting	230	148,119
Other:		
Add-On Fees	61,087	
Miscellaneous	16,524	
Prisoner Transport	1,766	79,377
Interest Earned		1,465
Borrowed Money:		
State Advancement		120,000
Total Receipts		2,253,989

FRANKLIN COUNTY
PAT MELTON, FORMER SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Period January 1, 2018 through January 6, 2019
(Continued)

Disbursements

Operating Disbursements and Capital Outlay:			
Personnel Services-			
Deputies' Salaries	$ 1,572,680		
Employee Benefits-			
Employer's Share Retirement	45,429		
School Resource Officer Benefits	26,538		
Contracted Services-			
Computer - Software/Hardware	6,961		
Equipment Maintenance/Lease	3,828		
Vehicle Maintenance and Repairs	51,545		
Materials and Supplies-			
Office Materials and Supplies	8,045		
Uniforms	13,575		
Auto Expense-			
Gasoline	124,931		
Other Charges-			
Conventions and Travel	1,537		
Dues	4,669		
Postage	11,674		
Bond	821		
Miscellaneous	21,329		
Cruiser Equipment	2,072		
Telephone	11,852		
Training	3,484		
Transcription Services	2,373		
Transport of Prisoners	14,369		
K9 Working Dogs	7,863		
Capital Outlay-			
Office Equipment	7,572		
Vehicles	23,997	$ 1,967,144	
Debt Service:			
State Advancement		120,000	
Total Disbursements			$ 2,087,144

FRANKLIN COUNTY
PAT MELTON, FORMER SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Period January 1, 2018 through January 6, 2019
(Continued)

Net Receipts	$	166,845
Less: Statutory Maximum		105,497
Excess Fees		61,348
Less: Training Incentive Benefit		4,137
Excess Fees Due County for 2018	$	57,211

FRANKLIN COUNTY
NOTES TO FINANCIAL STATEMENT

January 6, 2019

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

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

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

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, 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).

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

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

The former sheriff's contribution for the KLEFPF portion of retirement for calendar year 2017 was $51,548 and calendar year 2018 was $45,429.

Nonhazardous

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

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

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

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

Hazardous

Hazardous covered employees are required to contribute eight percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008, are required to contribute nine percent of their salary to be allocated as follows: eight 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.

FRANKLIN COUNTY
NOTES TO FINANCIAL STATEMENT
January 6, 2019
(Continued)

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

Hazardous (Continued)

Hazardous members contribute eight percent of their annual creditable compensation and one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A hazardous member's account is credited with a seven and one-half percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008, aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

The county's contribution rate for hazardous employees was 31.55 percent for the first half of the year and 35.34 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%

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.

Hazardous employees whose participation began on or after July 1, 2003, earn 15 dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, the employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

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

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

Other Post-Employment Benefits (OPEB) (Continued)

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

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

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

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

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

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

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

D. Cost of Living Adjustments - Tier 1

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

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

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

F. Death Benefit

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

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 former Franklin County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the sheriff's deposits may not be returned. The former Franklin 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 January 6, 2019, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Federal Grant

The former Franklin County Sheriff's office was awarded a federal overtime grant specifically for impaired driving enforcement, not to exceed $36,850. This grant passed through the Kentucky Transportation Cabinet Office of Highway Safety. The former sheriff requested and received reimbursements totaling $38,272 in calendar year 2018.

Note 5. Lease Agreement

The former Franklin County Sheriff's office entered into a lease agreement for a copier on October 1, 2016. The total lease amount is $11,214 and requires a monthly payment of $178 for 63 months. The beginning balance at January 1, 2018, was $8,544 and principal payments were $2,136 during 2018. The ending balance of the lease agreement was $6,408 as of January 6, 2019.

Note 6. Forfeiture Accounts

A. Confiscation and Federal Forfeiture Account

The former Franklin County Sheriff's office maintained an account for proceeds from confiscation, surrender, or sale of real and personal property involved in drug related convictions from the federal government for participating in investigations or prosecutions that resulted in forfeited federal drug money. Federal forfeiture funds are to be used for law enforcement activities, including training, equipment, operations, facilities, and drug education awareness, etc. These funds are not available for excess fees purposes. The balance in this account at January 1, 2018, was $702. There were $85 in receipts and $84 in disbursements during the year. The ending balance was $703 as of January 6, 2019.

B. State Forfeiture Account

The former sheriff's office maintained an account for proceeds received from the confiscation, surrender, or sale of real and personal property involved in state related convictions. State forfeiture funds are to be used for law enforcement activities and are not available for excess fee purposes. The balance in this account was $17,162 as of January 1, 2018. Receipts during the year were $54,841 and funds totaling $49,448 were expended, leaving a balance of $22,555 as January 6, 2019.

Note 7. Donation Account

The former sheriff's office maintained an account for donations. The balance was $2,373 at January 1, 2018. Funds totaling $5,000 were received and there were no funds disbursed during the year. The ending balance as of January 6, 2019, was $7,373.

Note 8. Operation Lifesaver Account

The former sheriff's office maintained an account for the Operation Lifesaver Program. The balance was $1,546 at January 1, 2018. There were no funds received or disbursed during the year. The ending balance as of January 6, 2019, was $1,546.

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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 Huston Wells, Franklin County Judge/Executive
The Honorable Pat Melton, Former Franklin County Sheriff
The Honorable Chris Quire, Franklin County Sheriff
Members of the Franklin County Fiscal Court

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

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the former Franklin County Sheriff for the period January 1, 2018 through January 6, 2019, and the related notes to the financial statement and have issued our report thereon dated October 26, 2020. The former Franklin County Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statement, we considered the former Franklin 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 former Franklin County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Franklin 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 a certain deficiency in internal control that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2018-001 to be a material weakness.

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Internal Control over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2018-002, 2018-003, 2018-004, and 2018-005 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the former Franklin 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 matter that is required to be reported under *Government Auditing Standards* as item 2018-001.

Purpose of this Report

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

Respectfully submitted,

Mike Harmon
Auditor of Public Accounts

October 26, 2020

SCHEDULE OF FINDINGS AND RESPONSES

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FRANKLIN COUNTY
PAT MELTON, FORMER SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

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

FINANCIAL STATEMENT FINDINGS:

2018-001 The Former Sheriff Did Not Manage Financial Activities Of His Office

The former Franklin County Sheriff did not manage financial activities of his office as evidenced in the issues noted concerning the fourth quarter report and the lack of pertinent records related to financial operating activities during calendar year 2018. The fourth quarter report's receipts were overstated by $6,077 and the report's disbursements were overstated by $47,116 in comparison to the receipts and disbursements ledgers respectively. The former sheriff did not maintain the following pertinent financial records related to calendar year 2018 operating activity:

- Invoices for fee account operating disbursements, check stubs, blank checks, and voided checks.
- February to December 2018 fee account bank statements and bank reconciliations; these bank statements were provided to the auditor upon request to the bank.
- January to December 2018 bank account statements and bank reconciliations for the asset forfeiture account, the donation account, the operation lifesaver account, and the confiscation account; these bank statements were provided to the auditor upon request to the bank.
- Invoices or supporting documentation for disbursements from the confiscation and forfeiture account, and the state forfeiture account.
- Court orders to support deposits to the forfeiture account.
- Supporting documentation for a $5,000 donation deposited to the donation account.
- Timesheets for employees for 11 months of the year (February to December 2018); however, the auditor verified with the county payroll officer that she maintained copies of timesheets for the former sheriff's employees so the auditor was able to access copies of all twelve months' timesheets,
- Supporting documentation for highway safety federal grant disbursements and copies of the grant agreements.
- Lease agreement for copier payments.

The former sheriff did not have controls in place to ensure that financial operating activities and transactions were accurately reported on the ledgers and fourth quarter report. The former sheriff did not have controls in place to secure and maintain supporting pertinent records related to the operations of his office. The lack of supporting documentation for transactions and inaccurate reporting on the fourth quarter report evidenced the former sheriff's inability to ensure that financial data was recorded, processed, and reported in an accurate and reliable manner to third parties i.e., the Department for Local Government and the Franklin County Fiscal Court. Also, these weaknesses in internal controls significantly increase the risk that funds were used inappropriately, and the risk of material misstatement caused by error or fraud.

Strong internal controls dictate that all pertinent financial records should be maintained to support operating disbursements, including invoices, contracts and agreements, bank statements and bank reconciliations, any voided checks, and blank checks. Although some financial records for the former sheriff's fee audit were obtained by auditors from other sources, it is the sheriff's responsibility to maintain all records to support the financial activity of his office. KRS 68.210 requires the state local finance officer to create a system of uniform accounts for all counties and county officials. The *County Budget Preparation and State Local Finance Officer Policy Manual* outlines requirements that bank reconciliations should be done. KRS 134.160(4) states, "[t]he sheriff shall obtain a receipt for all disbursements made by the sheriff." KRS 218A.420 requires proceeds from sales of forfeited property to be used for direct law enforcement purposes.

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-001 The Former Sheriff Did Not Manage Financial Activities Of His Office (Continued)

KRS 61.310(8)(a) states, "[a] sheriff may accept a donation of money or goods to be used for the public purposes of his or her office if the sheriff establishes a register for recording all donations that includes, at a minimum: 1. The name and address of the donor; 2. A general description of the donation; 3. The date of acceptance of the donation; 4. The monetary amount of the donation, or its estimated worth; and 5. Any purpose for which the donation is given. The register shall constitute a public record, be subject to the provisions of KRS 61.870 to 61.884, and be made available to the public for inspection in the sheriff's office during regular business hours."

KRS 337.320 requires the sheriff's office to keep a record of the amount paid each pay period to each employee and the hours worked each day and each week by each employee. These are to be kept on file for at least one year.

We recommend the sheriff's office ensure all pertinent financial records are maintained for all receipts, disbursements, and reconciliations to ensure compliance with state regulations. We also recommend the sheriff's office ensure the fourth quarter report is accurate, based on supporting ledger amounts and pertinent financial records underlying those ledger entries.

Former Sheriff's Response: No response provided.

2018-002 The Former Sheriff's Office Lacked Segregation Of Duties

The former sheriff's office lacked adequate segregation of duties over the accounting and reporting functions of the office. The bookkeeper, other office staff, and two deputies were responsible for receiving cash. One office staff person completed daily checkout sheets and prepared daily deposits. The former sheriff, or an office staff person who collects receipts, would take the deposit to the bank. The bookkeeper reviewed the daily checkout sheets and deposit, signed the daily checkout sheet and deposit ticket to evidence her review, and posted receipts to the ledger. The bookkeeper received invoices for disbursements, prepared checks, and posted the disbursements to the ledger. The former sheriff reviewed the invoices and signed the checks. The auditor could not determine if the invoices were reviewed by the former sheriff because there were no invoices available for operating expenditures. The bookkeeper prepared the bank reconciliations. The former sheriff indicated he reviewed the bank reconciliations; however, there were only a few bank statements and reconciliations available on which the auditor did not see evidence of the former sheriff's review.

The former sheriff did not have segregation of duties as part of his internal control procedures. A lack of segregation of duties or strong oversight increases the risk that undetected errors could occur. Proper segregation of duties over the accounting and reporting functions, such as preparation of the quarterly reports or implementing compensating controls, when necessary because of a limited number of staff, is essential for providing protection from errors occurring and not being detected. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. We recommend the sheriff's office segregate functions on receipts, disbursements, and reconciliations. If that is not done, we recommend the sheriff's office implement compensating controls and ensured they are evidenced on supporting documentation.

Former Sheriff's Response: No response provided.

FRANKLIN COUNTY
PAT MELTON, FORMER SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Period January 1, 2018 through January 6, 2019
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-003 The Former Sheriff's Fourth Quarter Report Was Not Submitted Timely

The former sheriff's fourth quarter report was not prepared and submitted within thirty days of the quarter end. The report ending December 31, 2018, was compiled December 31, 2019 by a CPA firm on behalf of the former sheriff. Quarterly reports were submitted for the first three quarters, but the fourth quarter report was not submitted until December 31, 2019. This is due to the former sheriff not including timely preparation of the year-end report as part of the internal controls for the office in 2018. Failure to submit these reports timely increases the risk of inaccurate reporting and prevents the Department for Local Government the opportunity to periodically review the sheriff's financial position.

Strong internal controls dictate that financial statements should be prepared timely and submitted to the fiscal court and Department for Local Government to ensure financial statements are relevant for decision-making purposes. KRS 68.210 requires the state local finance officer to create a system of uniform accounts for all counties and county officials. The *County Budget Preparation and State Local Finance Officer Policy Manual* outlines requirements for handling of public funds, including requiring the quarterly reports to be submitted no later than thirty days following the close of the quarters ending March 31, June 30, September 30, and December 31. We recommend the sheriff's office ensure quarterly reports are submitted within a timely manner for compliance with state law.

Former Sheriff's Response: No response provided.

2018-004 The Former Sheriff Did Not Have Adequate Controls Over Receipts

We tested two weeks of receipts. One week in March 2018, and the second week in September 2018. The following test exceptions were noted of the ten deposits tested:

- Two days were not batched daily. A receipt dated March 15th was included in the batch for March 14th.
- Eight deposits tested had cash and check totals on the deposit ticket that did not agree to the cash and check totals per the recapped receipt tickets for those deposits.
- Four deposits tested had the total of mail in (counter) receipts as the total on the daily collection sheet, even though there were additional receipts included in that deposit evidenced by the batched receipt tickets. Therefore, these daily collection sheet totals did not agree to the receipts ledger totals for each day's collections.

Internal controls regarding daily receipts were insufficient and not maintained, and there was a lack of oversight from management. A lack of internal controls over the receipts function increases the risk that errors could be committed and not detected. Without cash and check marked on each receipt, auditor is unable to determine whether deposits were made intact. Deposits not being deposited daily increases the risk of mistakes and misappropriation of receipts.

Strong internal controls would aid in presenting all pertinent information on receipts, and resolving any discrepancies between individual receipts and the daily summary checkout. KRS 68.210 requires the state local finance officer to create a system of uniform accounts for all counties and county officials. The *County Budget Preparation and State Local Finance Officer Policy Manual* requires intact deposits to be made daily. We recommend the sheriff's office implement internal controls sufficient to ensure that deposits are made intact and on a daily basis.

Former Sheriff's Response: No response provided.

FRANKLIN COUNTY
PAT MELTON, FORMER SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Period January 1, 2018 through January 6, 2019
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-005 The Former Sheriff Overspent The Approved Budget

This is a repeat finding and was included in the prior year audit report as finding 2017-002. The former Franklin County Sheriff overspent the amount fixed by the fiscal court for operating expenses. For calendar year 2018, the former sheriff's operating expenditures exceeded the maximum amount fixed by the Franklin County Fiscal Court by $70,485. This condition is a result of inaccurate financial records and a lack of management oversight. The former sheriff did not properly monitor his budget to actual amounts. Failure to monitor the budget demonstrates the sheriff is spending funds without fiscal court being aware of the additional expenditures that result in reduced excess fees disbursed to the county at year-end. It also increases the risk that the expenditures are made for purposes not necessary for the operations of the sheriff's office.

Strong internal controls dictate that disbursements should be monitored and compared to the budget on a regular basis to ensure budgets are not overspent. KRS 64.530(3) states in part "[t]he fiscal court may also fix the reasonable maximum amount that the officer may expend each year for expenses of his office." KRS 68.210 states in part, "[t]he administration of the county uniform budget system shall be under the supervision of the state local finance officer who may inspect and shall supervise the administration of accounts and financial operations and shall prescribe…a system of uniform accounts for all counties and county officials." 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 15th of each year.

We recommend the sheriff's office not make disbursements that exceed the approved budget. We further recommend the sheriff's office monitor the budget throughout the year and request budget amendments sufficient to cover actual expenses, if necessary, before year-end.

Former Sheriff's Response: No response provided.