

**REPORT OF THE AUDIT OF THE
INTERIM HENRY COUNTY
SHERIFF**

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



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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable John Logan Brent, Henry County Judge/Executive
The Honorable Deeanne West, Interim Henry County Sheriff
The Honorable Keith Perry, Henry County Sheriff
Members of the Henry 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 interim Sheriff of Henry County, Kentucky, for the period October 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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AN EQUAL OPPORTUNITY EMPLOYER M / F / D



The Honorable John Logan Brent, Henry County Judge/Executive
The Honorable Deeanne West, Interim Henry County Sheriff
The Honorable Keith Perry, Henry County Sheriff
Members of the Henry 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 interim Henry 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 interim Henry County Sheriff, for the period October 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 interim Henry County Sheriff for the period October 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 Matter

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole. The Schedule of Excess Liabilities Over Assets is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2021, on our consideration of the interim Henry 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 interim Henry County Sheriff's internal control over financial reporting and compliance.

The Honorable John Logan Brent, Henry County Judge/Executive
The Honorable Deeanne West, Interim Henry County Sheriff
The Honorable Keith Perry, Henry County Sheriff
Members of the Henry County Fiscal Court

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

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

- 2018-001 The Interim Sheriff Failed To Have A Written Agreement In Place To Ensure Deposits Were Sufficiently Collateralized
- 2018-002 The Interim Sheriff's Office Had A Deficit Of \$18,391
- 2018-003 The Interim Henry County Sheriff's Fourth Quarter Financial Statement Was Materially Inaccurate

Respectfully submitted,

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

Mike Harmon
Auditor of Public Accounts

January 15, 2021

HENRY COUNTY
DEEANNE WEST, INTERIM SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

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

Receipts

State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)	\$	6,853
State Fees For Services:		
Finance and Administration Cabinet	\$	12,681
Sheriff Security Service	<u>3,020</u>	15,701
Circuit Court Clerk:		
Fines and Fees Collected		588
Fiscal Court		3,600
County Clerk - Delinquent Taxes		861
Commission On Taxes Collected		297,338
Fees Collected For Services:		
Auto Inspections	830	
Accident/Police Reports	4,327	
Serving Papers	9,470	
Carry Concealed Deadly Weapon Permits	1,395	
Henry County School Resource Officer	9,650	
City of Pleasureville Contract	7,713	
City of New Castle Contract	2,250	
Traffic School	<u>167</u>	<u>35,802</u>
Total Receipts		360,743

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-	
Deputies' Salaries	\$ 147,809
Part-Time Salaries	73,904
Other Salaries	15,144
Overtime Gross Salaries	2,774
KLEFPF	6,853

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

HENRY COUNTY
 DEEANNE WEST, INTERIM SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Period October 1, 2018 Through January 6, 2019
 (Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay: (Continued)

Contracted Services-		
Advertising	\$	821
Vehicle Maintenance and Repairs		2,409
Materials and Supplies-		
Office Materials and Supplies		2,173
Uniforms		91
Auto Expense-		
Gasoline		5,753
Other Charges-		
Conventions and Travel		3,184
Serving Papers		1,770
Telephone		516
Miscellaneous Officer Equipment		175
Postage		3,709
Rent		1,200
Utilities		2,498
Cell Phones		2,335
Prisoner Transport Expenses		306
Technology Updates		1,256
Renewals and Repairs		160
Training		98
Miscellaneous		2,994
		<u>\$ 277,932</u>
Debt Service:		
State Advancement		<u>80,000</u>
Total Disbursements		<u>\$ 357,932</u>
Net Receipts		2,811
Less: Statutory Maximum		<u>20,168</u>
Excess Fees		(17,357)
Less: Training Incentive Benefit		<u>1,034</u>
Deficit Fund Balance at Completion of Audit*		<u><u>\$ (18,391)</u></u>

* On March 19, 2019, Henry County Fiscal Court unanimously approved to cover the deficit.

HENRY 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).

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

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

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

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.

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

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

Members in the plan contribute a set percentage of their salary each month to their own accounts. Hazardous members contribute eight percent of their annual creditable compensation and 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.

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

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

Other Post-Employment Benefits (OPEB) (Continued)

A. Health Insurance Coverage - Tier 1 (Continued)

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

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

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

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

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

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

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

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

D. Cost of Living Adjustments - Tier 1

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

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.

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

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

Other Post-Employment Benefits (OPEB) (Continued)

F. Death Benefit

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

KRS Annual Financial Report and Proportionate Share Audit Report

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

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

Note 3. Deposits

The interim Henry 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. These requirements were not met because the sheriff did not have a written agreement with the bank.

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 interim Henry County Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 66.480(1)(d) and KRS 41.240. On January 6, 2019, the sheriff's bank balance was exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$8,936

Note 4. Lease Agreement

The sheriff's office was committed to a lease agreement for two trucks. The agreement requires an annual payment of \$23,842 for 48 months to be completed on February 5, 2019. The total remaining balance of the agreement was \$23,842 as of January 6, 2019.

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

Note 5. Contract with The City of New Castle

The sheriff's office entered into an agreement with city of New Castle, Kentucky, on January 10, 2011, to provide a minimum of 15 hours of police patrol per week within the city limits of New Castle. The sheriff shall provide comprehensive reports of law enforcement activity to the New Castle City Commission at its regular monthly meetings. The sheriff shall also provide traffic control and security for all special events conducted within the city. The city of New Castle shall pay a sum of \$20,000 per annum to the sheriff's office to be paid quarterly. The sheriff's deputies performing work under this contract are paid directly by the sheriff's office. The city of New Castle, per the agreement, shall provide the use of one of its vehicles and all related equipment, provide the use of a cleaning bay at the New Castle Fire Department, and provide use of the office formerly used by the New Castle Police Department and its computer, subject to FBI computer lab inspection.

Note 6. Contract with The City of Pleasureville

The sheriff's office entered into an agreement with city of Pleasureville, Kentucky, on June 13, 2012, to provide a minimum of 15 hours of police patrol per week within the city limits of Pleasureville. The sheriff shall provide comprehensive reports of law enforcement activity to the Pleasureville City Commission at its regular monthly meetings. The sheriff shall also provide traffic control and security for all special events conducted within the city. The city of Pleasureville shall pay a sum of \$20,000 per annum to the sheriff's office to be paid quarterly. The sheriff's deputies performing work under this contract are paid directly by the sheriff's office.

Note 7. Other Accounts

A. Escrow Account

The sheriff's office had an escrow account used for the former sheriff's horse sales and auctions. The beginning balance on October 1, 2018 was \$1. There were no receipts or disbursements during the period October 1, 2018 through January 6, 2019. The ending balance as of January 6, 2019 was \$1.

B. Donations Account

The sheriff's office had an account used for the receipt of donations on equipment. The beginning balance on October 1, 2018 was \$987. There were no receipts or disbursements during the period October 1, 2018 through January 6, 2019. The ending balance as of January 6, 2019 was \$987.

C. Calendar Account

The sheriff's office had an account used for donations received from the sale of advertisements on the sheriff's calendars. Disbursements from the account are for public purposes. The beginning balance on October 1, 2018, was \$3,547. There were no receipts and there were disbursements of \$979. The ending balance was \$2,568 as of January 6, 2019.

D. State Forfeiture Account

The sheriff's office had an account used for the receipt of state funds forfeited as a result of drug related cases. These funds are to be used to purchase law enforcement equipment and conduct drug related investigations. The beginning balance on October 1, 2018 was \$3,777. There were no receipts and no disbursements during the period October 1, 2018 through January 6, 2019. The ending balance was \$3,777 as of January 6, 2019.

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

Note 7. Other Accounts (Continued)

E. Federal Forfeiture Account

The sheriff's office had an account used for the receipt of federal funds forfeited as a result of drug related cases. These funds are to be used to purchase law enforcement equipment and conduct drug related investigations. The beginning balance on October 1, 2018 was \$640. There were no receipts or disbursements during the period October 1, 2018 through January 6, 2019. The ending balance was \$640 as of January 6, 2019.

HENRY COUNTY
DEEANNE WEST, INTERIM SHERIFF
SCHEDULE OF EXCESS LIABILITIES OVER ASSETS - REGULATORY BASIS

January 6, 2019

Assets

Cash in Bank	\$ 6,263
Receivables	<u>143,866</u>
Total Assets	150,129

Liabilities

Outstanding Checks	\$ 172
Paid Obligations:	
State Treasurer-	
State Advance	\$ 80,000
Operating Disbursements and Capital Outlay:	
Payroll	50,661
Gasoline	912
Cell Phone	580
Technology	3,458
Office Supplies	6,705
Serving Papers	1,770
Vehicle Repairs	2,409
Miscellaneous	1,748
Rent	600
Utilities	1,086
Prisoner Transport	<u>28</u>
Total Paid Obligations	149,957
Unpaid Obligations:	
Payroll Reimbursement Owed To Fiscal Court	<u>18,391</u>
Total Liabilities	<u>168,520</u>
Total Fund Deficit as of January 6, 2019	<u>\$ (18,391)</u>

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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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AUDITOR OF PUBLIC ACCOUNTS

The Honorable John Logan Brent, Henry County Judge/Executive
The Honorable Deeanne West, Interim Henry County Sheriff
The Honorable Keith Perry, Henry County Sheriff
Members of the Henry 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 interim Henry County Sheriff for the period October 1, 2018 through January 6, 2019, and the related notes to the financial statement and have issued our report thereon dated January 15, 2021. The interim Henry 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 interim Henry 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 interim Henry County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the interim Henry County Sheriff's internal control.

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. *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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified certain deficiencies in internal control, which are described in the accompanying Schedule of Findings and Responses as items 2018-001 and 2018-002 that we consider to be significant deficiencies.



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 interim Henry 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*, and which is described in the accompanying Schedule of Findings and Responses as item 2018-003.

Views of Responsible Official and Planned Corrective Action

The interim Henry 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 interim Henry 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

January 15, 2021

SCHEDULE OF FINDINGS AND RESPONSES

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HENRY COUNTY
DEEANNE WEST, INTERIM SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

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

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES:

2018-001 The Interim Sheriff Failed To Have A Written Agreement In Place To Ensure Deposits Were Sufficiently Collateralized

The interim sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). The interim sheriff failed to have a written security agreement in place to pledge or provide sufficient collateral. On January 6, 2019, the interim sheriff's deposits of public funds were uninsured and unsecured in the amount of \$8,936.

The interim sheriff did not put the necessary procedures in place to ensure the protection of public funds from potential loss. As a result, the interim sheriff was not in compliance with KRS requirements on having a written security agreement in place to pledge or provide sufficient collateral. The interim sheriff's deposits would have been at risk on January 6, 2019, should the financial institution have failed.

Good internal controls dictate that the policies and procedures be put in place protect the public funds maintained by the office from potential loss and to ensure compliance with applicable laws and regulations. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC).

We recommend the sheriff's office implement proper controls to ensure the protection of public funds from potential loss by entering into a written agreement with the depository institution to secure the sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (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. We further recommend the sheriff's office require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Interim Sheriff's Response: Banks have been informed.

2018-002 The Interim Sheriff's Office Had A Deficit Of \$18,391

The interim sheriff had a deficit of \$18,391 in her official 2018 fee account. The deficit was due to the sheriff's office not being able to reimburse the fiscal court for the full amount owed for payroll expenses for calendar year 2018. The interim sheriff paid the payroll reimbursement for the prior sheriff during her term of October 1, 2018 through January 6, 2019. The fiscal court paid the sheriff's office payroll directly from the payroll revolving account and the sheriff's office would reimburse fiscal court when funds were available instead of making bi-weekly payroll payments. By not submitting bi-weekly payroll payments to the fiscal court, the sheriff's office failed to monitor allowable operating expenditures (payroll expenses) that resulted in expending more on allowable operating expenditures than income earned. Thus, funds were not available to settle all payables owed by the sheriff's office to the fiscal court for payroll expenses. Good internal controls dictate the sheriff's office should have monitored operating expenditures to ensure they did not exceed available revenues or have a deficit in the official fee account. We recommend the sheriff's office consult with the fiscal court and county attorney to determine how to eliminate this deficit. We also recommend the sheriff's office submit bi-weekly payroll payments to the treasurer instead of reimbursing payroll at year-end.

HENRY COUNTY
DEEANNE WEST, INTERIM SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Period October 1, 2018 through January 6, 2019
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2018-002 The Interim Sheriff's Office Had A Deficit Of \$18,391 (Continued)

Interim Sheriff's Response: Overspending by the previous sheriff and lack of budgeted receipts from fiscal court led to deficit.

STATE LAWS AND REGULATIONS:

2018-003 The Interim Henry County Sheriff's Fourth Quarter Financial Statement Was Materially Inaccurate

The interim Henry County Sheriff's Fourth Quarter Financial Statement, for the period October 1, 2018 through December 31, 2018, was materially inaccurate. The receipts and disbursements were both overstated by \$343,459. Adjustments were required so that the fourth quarter would match the sheriff's ledgers. This was due to an error when preparing the Fourth Quarter Financial Statement that was presented to fiscal court. The financial statement that was approved by fiscal court included the first, second, and third quarters of the year. These receipts and disbursements occurred under the prior sheriff and are reported separately. The fourth quarter receipts and disbursements were accurate, but because the financial statement included the first, second, and third quarters, the financial statement was materially misstated.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* requires the official to certify that the quarterly report is accurate to the best of their knowledge when they sign the quarterly report. Fee officials use 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. Each period stands alone in accounting for receipts and disbursements and should be accounted for accordingly in each audit period.

We recommend the Henry County Sheriff's office maintain accurate financial reports, and separate receipts and disbursements by audit period in the future.

Interim Sheriff's Response: Interim sheriff was informed by DLG that she could work from the previous sheriff's budget and was not told until February of 2019 that she could have worked from her own budget.