

**REPORT OF THE AUDIT OF THE  
KNOX COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2020**



**MIKE HARMON  
AUDITOR OF PUBLIC ACCOUNTS  
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**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Mike Mitchell, Knox County Judge/Executive  
The Honorable Mike Smith, Knox County Sheriff  
Members of the Knox 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 Knox County, Kentucky, for the year ended December 31, 2020, and the related notes to the financial statement.

**Management's Responsibility for the Financial Statement**

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

**Auditor's Responsibility**

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

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

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

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The Honorable Mike Mitchell, Knox County Judge/Executive  
The Honorable Mike Smith, Knox County Sheriff  
Members of the Knox 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 Knox 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 Knox County Sheriff, as of December 31, 2020, 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 Knox County Sheriff for the year ended December 31, 2020, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated July 1, 2021, on our consideration of the Knox 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 Knox County Sheriff’s internal control over financial reporting and compliance.

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

- 2020-001 The Sheriff Did Not Segregate Accounting Duties Or Document Compensating Controls
- 2020-002 The Sheriff Does Not Have Proper Controls Over Payroll

Respectfully submitted,



Mike Harmon  
Auditor of Public Accounts

July 1, 2021

KNOX COUNTY  
MIKE SMITH, SHERIFF  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2020

Receipts

Federal Grants:

High Intensity Drug Trafficking Area (HIDTA)	\$ 18,000		
Unlawful Narcotics Investigation, Treatment & Education, Inc. (UNITE)	55,001		\$ 73,001

Coronavirus Aid, Relief, and Economic Security Act, (CARES) Act 172,545

State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF) 48,666

State Fees For Services:

Finance and Administration Cabinet	60,606		
Sheriff Security Service	9,418		70,024

Circuit Court Clerk:

Fines and Fees Collected			1,851
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Fiscal Court 298,072

County Clerk - Delinquent Taxes 70,364

Commission On Taxes Collected 459,023

Fees Collected For Services:

Auto Inspections	30,725		
Accident and Police Reports	1,272		
Serving Papers	60,166		
Carry Concealed Deadly Weapon Permits	6,246		98,409

Other:

School Resource Officer Reimbursement	81,820		
Add-On Fees	41,688		
Miscellaneous	1,103		124,611

Interest Earned 2,047

Borrowed Money:

State Advancement			100,000
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Total Receipts 1,518,613

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

KNOX COUNTY  
MIKE SMITH, SHERIFF  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
For The Year Ended December 31, 2020  
(Continued)

Disbursements

Operating Disbursements:

Personnel Services-		
Deputies' Salaries	\$	507,657
Other Salaries		97,765
Employee Benefits-		
Employer's Share Social Security		55,039
Employer's Share Retirement		132,430
Employer's Unemployment Insurance		3,672
Employer Paid Health Insurance		140,872
Materials and Supplies-		
Office Materials and Supplies		14,816
Uniforms		13,821
Auto Expense-		
Gasoline		53,031
Maintenance and Repairs		26,604
Other Charges-		
Conventions and Travel		400
Dues		814
Postage		11,370
Bond		1,883
Miscellaneous		1,610
Sheriff's Settlement		1,800
Utilities		16,149
		<u>\$ 1,079,733</u>
Debt Service:		
State Advancement		<u>100,000</u>
Total Disbursements		<u>\$ 1,179,733</u>
Net Receipts		338,880
Less: Statutory Maximum		<u>103,500</u>
Excess Fees Due County for 2020		235,380
Payment to Fiscal Court - March 15, 2021		<u>230,299</u>
Balance Due Fiscal Court at Completion of Audit		<u>\$ 5,081</u>

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



KNOX COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2020

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

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

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

B. Basis of Accounting

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

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

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

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

C. Cash and Investments

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

KNOX COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2020  
 (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.

The sheriff's contribution for calendar year 2018 was \$117,612, calendar year 2019 was \$129,975, and calendar year 2020 was \$132,430.

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

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

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

The county's contribution rate for nonhazardous employees was 24.06 percent for the 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:

KNOX COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2020  
 (Continued)

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

Other Post-Employment Benefits (OPEB) (Continued)

A. Health Insurance Coverage - Tier 1 (Continued)

<b>Years of Service</b>	<b>% Paid by Insurance Fund</b>	<b>% Paid by Member through Payroll Deduction</b>
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.

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.

KNOX COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2020  
(Continued)

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

Other Post-Employment Benefits (OPEB) (Continued)

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

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

E. Death Benefit

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

KRS Annual Financial Report and Proportionate Share Audit Report

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

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 Knox County Sheriff maintained deposits of public funds with federally insured banking institutions as required by the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*. The DLG Manual strongly recommends perfected pledges of securities covering all public funds except direct federal obligations and funds protected by federal insurance. In order to be perfected in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the sheriff's deposits may not be returned. The Knox County Sheriff does not have a deposit policy for custodial credit risk, but rather follows the requirements of the DLG *County Budget Preparation and State Local Finance Officer Policy Manual*. As of December 31, 2020, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

KNOX COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2020  
 (Continued)

Note 4. Federal Grants

A. High Intensity Drug Trafficking Area (HIDTA)

The Knox County Sheriff's office was awarded a High Intensity Drug Trafficking Area (HIDTA) grant from the United States Office of National Drug Control Policy (ONDCP) for the period of January 1, 2020 through December 31, 2020. During 2020, grant funds in the amount of \$18,000 were received for reimbursement of overtime for law enforcement officers.

B. UNITE

The Knox County Sheriff's office received a UNITE grant from Unlawful Narcotics Investigation, Treatment, and Education, Inc. In 2020, the sheriff received \$55,001 as reimbursements for the amount paid to a law enforcement officer to serve as a UNITE intelligence analyst. The grant began on July 1, 2017, and will continue until terminated by either party.

Note 5. Cash Drawer

The Knox County Sheriff maintains \$800 for making change to customers. This money was supplied by the Knox County Fiscal Court at the beginning of this term in January 2015, and will be returned to the fiscal court at the end of the sheriff's term in office.

Note 6. Federal Forfeiture Account

The Knox County Sheriff's office maintained an official bank account for monies awarded by federal forfeitures and to be used for law enforcement purposes. The balance as of January 1, 2020, was \$26,713. During calendar year 2020, the sheriff received deposits totaling \$418,169, and the sheriff expended \$52,014. The balance as of December 31, 2020 was \$392,868.

Note 7. Drug Account

The Knox County Sheriff's office maintained an official bank account for monies awarded by court orders. The balance as of January 1, 2020 was \$3,720. During calendar year 2020, the sheriff received deposits totaling \$14,405, and the sheriff expended \$16,241. The balance as of December 31, 2019 was \$1,884.

Note 8. Fiduciary Account

A. Escrow Account

The sheriff deposited unrefundable duplicate payments and unexplained receipts in a non-interest bearing 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:

2016	\$355
2017	\$33

KNOX COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2020  
 (Continued)

Note 9. Donation Account

The Knox County Sheriff's office maintains a donation account for private and public donations to the sheriff's office. During the calendar year 2020, the sheriff's office received \$1,000 for meals for deputies, and had expenditures totaling \$1,000. The balance in the account was \$0 as of December 31, 2020.

Note 10. Short Term Debt

Direct Borrowing

The Knox County Sheriff's office borrowed a state advancement of funds in the amount of \$100,000 to defray the expenses of the office for 2020. As of December 31, 2020, this loan was paid in full.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
State Advancement	\$ 0	\$ 100,000	\$ 100,000	\$ 0
Total Short-term Debt	<u>\$ 0</u>	<u>\$ 100,000</u>	<u>\$ 100,000</u>	<u>\$ 0</u>

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 Mike Mitchell, Knox County Judge/Executive  
The Honorable Mike Smith, Knox County Sheriff  
Members of the Knox 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 Knox County Sheriff for the year ended December 31, 2020, and the related notes to the financial statement and have issued our report thereon dated July 1, 2021. The Knox 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 Knox County Sheriff's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Knox County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Knox 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 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 deficiency described in the accompanying Schedule of Findings and Responses as item 2020-001 to be a material weakness.

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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 2020-002 to be a significant deficiency.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Knox County Sheriff's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statement. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Views of Responsible Official and Planned Corrective Action**

The Knox 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 Knox 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

July 1, 2021

## SCHEDULE OF FINDINGS AND RESPONSES

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KNOX COUNTY  
MIKE SMITH, SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2020

INTERNAL CONTROL - MATERIAL WEAKNESS:

2020-001 The Sheriff Did Not Segregate Accounting Duties Or Document Compensating Controls

This is a repeat finding and was included in the prior year audit report as finding 2019-001. The sheriff's office did not segregate accounting duties. In addition, no documentation was provided as evidence that compensating controls were implemented. The sheriff's office manager collects payments from customers, prepares bank deposits, issues checks, and posts to the receipts and disbursements ledgers. The sheriff's part-time bookkeeper prepares bank reconciliations, prepares payroll, and occasionally collects payments from customers. Front line office personnel prepare their own deposits but the office manager takes them to the bank. Neither the office manager nor the part-time bookkeeper are authorized check signers but both are responsible for preparing monthly and quarterly reports. No evidence was found that the sheriff or an employee who did not prepare the report provided oversight over any of these activities. Additionally, the sheriff hired an outside Certified Public Accountant to review the quarterly reports for accuracy, but no evidence of the review was found.

The sheriff stated this condition is the result of a limited budget, which restricts the number of employees the sheriff can hire or delegate duties to. The lack of oversight could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies, such as the Department for Local Government.

Proper segregation of duties over various accounting functions such as opening mail, preparing deposits, recording receipts and disbursements, and preparing monthly reports, or the implementation of compensating controls is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the sheriff separate the duties involved in receiving cash, posting to ledgers, and preparing reports. If this is not feasible due to a limited budget, cross checking procedures could be implemented and documented by the individual performing the procedure. For example, the sheriff could instruct a person independent of receipts posting and bank reconciliation to compare bank deposit ticket to daily checkouts and show evidence of this review by initialing the deposit ticket and the daily checkout. Additionally, the sheriff or someone independent of report preparation could compare the monthly/quarterly reports to the supporting documentation.

*Sheriff's Response: Due to a limited budget, the sheriff's office is restricted on the number of employees that can be hired.*

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2020-002 The Sheriff Does Not Have Proper Controls Over Payroll

The Knox County Sheriff does not have sufficient controls over payroll disbursements. The following deficiencies were noted while testing one pay period:

- The sheriff did not pay an employee for 8 hours worked during the pay period.
- The sheriff improperly paid overtime to two employees that was not earned due to holiday during the pay period.
- The sheriff submitted a court service claim to the Finance and Administration Cabinet for hours not worked.
- One employee's vision insurance plan was not deducted from their wages.

KNOX COUNTY  
MIKE SMITH, SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended December 31, 2020  
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY: (Continued)

2020-002 The Sheriff Does Not Have Proper Controls Over Payroll (Continued)

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These deficiencies were caused by the lack of review and segregation of duties. Multiple employees were not properly compensated during the pay period tested. Additionally, the sheriff's office was improperly reimbursed by the Finance and Administration Cabinet for hours not worked. Discrimination in benefits existed in the sheriff's office as a result of an employee receiving free benefits that were not afforded to anyone else. Also, one employee was receiving vision insurance without paying their portion of the premium.

Segregation of duties along with properly designed and implemented internal control procedures allow employees to detect errors with payroll and ensure all time worked is calculated correctly and employees pay for extra insurance benefits not provided by the county.

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

The Fair Labor Standards Act states, "Unless exempt, employees covered by the Act must receive overtime pay for hours worked over 40 per workweek (any fixed and regularly recurring period of 168 hours - seven consecutive 24-hour periods) at a rate not less than one and one-half times the regular rate of pay. The FLSA does not require overtime pay for work on Saturdays, Sundays, holidays, or regular days of rest, unless overtime is worked on such days.

The official's administrative code, KCSO-4a D. states, "When it is essential for an employee to work on a declared holiday, he/she shall be compensated for actual hours worked at regular rate."

We recommend the sheriff ensure timesheets and reimbursement claims support hours worked and hours paid. Furthermore, the sheriff should follow all applicable statutes and the official's administrative code regarding overtime pay. We also recommend the sheriff ensures employees are paying their portion for insurance benefits not provided by the county.

*Sheriff's Response: Additional procedures have been implemented to ensure accuracy regarding these minor bookkeeping issues.*