

**REPORT OF THE AUDIT OF THE
LAUREL COUNTY
SHERIFF**

**For The Year Ended
December 31, 2017**



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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable David Westerfield, Laurel County Judge/Executive
The Honorable John Root, Laurel County Sheriff
Members of the Laurel 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 Laurel County, Kentucky, for the year ended December 31, 2017, 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 David Westerfield, Laurel County Judge/Executive
The Honorable John Root, Laurel County Sheriff
Members of the Laurel 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 Laurel County Sheriff on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky’s regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the Laurel County Sheriff, as of December 31, 2017, 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 Laurel County Sheriff for the year ended December 31, 2017, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 3, 2018, on our consideration of the Laurel 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 Laurel 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 comment:

2017-001 The Laurel County Sheriff Reported An Issue Pertaining To Timesheets To Auditors

Respectfully submitted,

Mike Harmon
Auditor of Public Accounts

July 3, 2018

LAUREL COUNTY
JOHN ROOT, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2017

Receipts

Federal Grants

High Intensity Drug Trafficking Area (HIDTA)	\$ 42,321	
USDA Forestry Service	11,530	
U.S. Army Corps of Engineers	3,400	
U.S. Marshals	11,240	
Organized Crime Drug Enforcement Task Forces (OCDETF)	5,914	
Supplemental Nutrition Assistance Program (SNAP)	1,489	
Highway Safety Grant	<u>40,284</u>	\$ 116,178

State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF) 125,331

State Fees For Services:

Finance and Administration Cabinet	170,440	
Sheriff Security Service	46,835	
Cabinet For Health And Family Services	<u>110</u>	217,385

Circuit Court Clerk:

Fines and Fees Collected 24,965

Fiscal Court:

Sheriff Support	854,035	
Juvenile Transports	13,823	
Court Security Officers	16,970	
Election Commissioner	1,000	
Reimbursements	<u>3,274</u>	889,102

County Clerk - Delinquent Taxes 66,208

Commission On Taxes Collected:

Property Tax Commissions	720,817	
Transient Tax Commissions	21,157	
Telecommunications Commission	<u>9,623</u>	751,597

Fees Collected For Services:

Auto Inspections	21,915	
Accident and Police Reports	7,705	
Serving Papers	75,820	
Carry Concealed Deadly Weapon Permits	<u>23,622</u>	129,062

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

LAUREL COUNTY
 JOHN ROOT, SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2017
 (Continued)

Receipts (Continued)

Other:

Add-On Fees	\$ 110,738	
Transport	6,170	
Restitution	3,110	
Miscellaneous	<u>7,268</u>	\$ 127,286

Interest Earned 1,891

Borrowed Money:

State Advancement		<u>400,000</u>
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Total Receipts 2,849,005

Disbursements

Operating Disbursements:

Personnel Services-	
Deputies' Salaries	\$ 1,222,575
Part-Time Salaries	173,598
Other Salaries	142,738
Overtime	114,336
Employee Benefits-	
Employer's Share Social Security	127,669
Employer's Share Unemployment Insurance	6,715
Employer's Share Hazardous Duty Retirement	21,876
Employer Paid Health Insurance	237,887
Contracted Services-	
Copier	2,411
Materials and Supplies-	
Office Materials and Supplies	19,035
Uniforms	15,967
Auto Expense-	
Gasoline	111,966
Maintenance and Repairs	71,060

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

LAUREL COUNTY
 JOHN ROOT, SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2017
 (Continued)

Disbursements (Continued)

Other Charges-		
Conventions and Travel	\$ 3,812	
Accountant	6,766	
Postage	22,395	
Telephone	11,785	
Rug Exchange	1,257	
Water	1,031	
Miscellaneous	<u>12,580</u>	\$ 2,327,459
Debt Service:		
State Advancement		<u>400,000</u>
Total Disbursements		<u>\$ 2,727,459</u>
Net Receipts		121,546
Less: Statutory Maximum		<u>103,318</u>
Excess Fees		18,228
Less: Training Incentive Benefit		<u>4,052</u>
Balance Due Fiscal Court at Completion of Audit		<u>\$ 14,176</u>

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

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2017

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

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

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

B. Basis of Accounting

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

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

- Interest receivable
- Collection on accounts due from others for 2017 services
- Reimbursements for 2017 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2017

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

C. Cash and Investments

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

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

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

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2017
(Continued)

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

The sheriff's contribution for Kentucky Law Enforcement Foundation Program Funds (KLEFPF) retirement for calendar year 2015 was \$26,841, calendar year 2016 was \$20,015, and calendar year 2017 was \$21,876.

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 members contribute five 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 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 18.68 percent for the first six months and 19.18 percent for the last six months.

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. 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.

LAUREL COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2017
 (Continued)

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

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 31.06 percent for the first six months and 31.55 percent for the last six months.

Health Insurance Coverage

CERS also provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% Paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

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.

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.

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2017
(Continued)

Note 3. Deposits

The Laurel 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 Laurel County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of December 31, 2017, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Drug Seizure Account

As of January 1, 2017, the Laurel County Sheriff's office had a balance of \$26,747 in the drug seizure account. During the calendar year, the account earned interest totaling \$53. No deposits or disbursements were made, leaving a balance of \$26,800 as of December 31, 2017. Since these monies are held by the sheriff's office pending court adjudication, they are not included as part of excess fees.

Note 5. Evidence Account

As of January 1, 2017, the Laurel County Sheriff's office had a balance of \$16,331 in the evidence account. During the calendar year, the account earned interest totaling \$33. No deposits or disbursements were made, leaving a balance of \$16,364 as of December 31, 2017. Since these monies are held by the sheriff's office pending court adjudication, they are not included as part of excess fees.

Note 6. Court Ordered Forfeiture

As of January 1, 2017, the Laurel County Sheriff's office had a balance of \$21,020 in the court ordered forfeitures account. During the calendar year, the sheriff deposited funds totaling \$30,241 and properly expended \$24,693, leaving a balance of \$26,568 as of December 31, 2017. The use of these monies is determined by court order granting forfeiture funds to the sheriff's office; therefore, they are not included as part of excess fees.

Note 7. Federal Seizure

As of January 1, 2017, the Laurel County Sheriff's office had a balance of \$47,985 in the federal seizure account. During the calendar year, the sheriff's office received \$171,538 from federal agencies for the Laurel County Sheriff office's share of assets seized as a result of joint investigations with other local, state, and federal agencies. The account earned interest totaling \$101. The sheriff's office expended \$168,146, leaving a balance of \$51,478 as of December 31, 2017. These funds are used to enhance law enforcement activities and not to supplant the sheriff's office normal operating budget; therefore, they are not included as a part of excess fees.

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2017
(Continued)

Note 8. Donation Account

The Laurel County Sheriff's office maintains a donation account for private and public donations to the sheriff's office. On January 1, 2017, the balance was \$4,396. During the calendar year 2017, the sheriff's office received \$2,425 for equipment and/or training and properly expended \$5,766. The account earned \$4 interest. The balance in the account was \$1,059 as of December 31, 2017.

Note 9. Transient Room Tax Account

In September 1979, the Laurel County Fiscal Court passed an ordinance establishing the London-Laurel County Tourist and Convention Commission and levying a 3 percent transient room tax. In the ordinance, the Laurel County Sheriff was designated as the collector of the tax. During calendar year 2017, the sheriff's office collected \$497,910 of transient room tax receipts. In accordance with the ordinance, the sheriff's office disbursed \$476,751 to the Laurel County Fiscal Court, who in turn remitted the tax to the London-Laurel County Tourist and Convention Commission. The sheriff's office retained \$21,159 as his collection fee and used these fees for the operation of the office.

Note 10. Federal Grants

- A. The Laurel County Sheriff's office was awarded a grant from the Appalachia High Intensity Drug Trafficking Area (HIDTA) for the period of January 1, 2017 through December 31, 2017. During calendar year 2017, grant funds in the amount of \$42,321 were received.
- B. The Laurel County Sheriff's office was awarded a Highway Safety grant from the Kentucky Transportation Cabinet's Office of Highway Safety for the period of October 1, 2016 through September 30, 2017. During calendar year 2017, grant funds in the amount of \$40,284 were received.
- C. The Laurel County Sheriff's office was awarded a grant from the USDA Forest Service for the period of January 1, 2017 through September 30, 2017. During calendar year 2017, grant funds in the amount of \$11,530 were received.
- D. The Laurel County Sheriff's office was awarded a grant from the U.S. Army Corps of Engineers for the period of May 27, 2017 through September 4, 2017. During calendar year 2017, grant funds in the amount of \$3,400 were received.
- E. The Laurel County Sheriff's office was awarded a grant from the U.S. Marshals Service for the period of October 1, 2016 through September 30, 2017. During calendar year 2017, grant funds in the amount of \$11,240 were received.
- F. The Laurel County Sheriff's office was awarded a Supplemental Nutrition Assistance Program (SNAP) grant from the Kentucky Cabinet for Health and Family Services. During calendar year 2017, grant funds in the amount of \$1,489 were received.
- G. The Laurel County Sheriff's office was awarded a grant from the Organized Crime Drug Enforcement Task Forces (OCDETF) for the period of October 1, 2016 through September 30, 2017. During calendar year 2017, grant funds in the amount of \$5,914 were received.

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2017
(Continued)

Note 11. Lease Agreement

The Laurel County Sheriff's office was committed to a lease agreement for a postage meter lease. The agreement requires a monthly payment of \$299 for 48 months to be completed on December 10, 2018. The total remaining balance of the agreement was \$3,585 as of December 31, 2017.

Note 12. Related Party Transaction

During calendar year 2017, three payments totaling \$2,741 were made to a locksmith company which is owned and operated by a deputy of the sheriff's office.

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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 David Westerfield, Laurel County Judge/Executive
The Honorable John Root, Laurel County Sheriff
Members of the Laurel 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 Laurel County Sheriff for the year ended December 31, 2017, and the related notes to the financial statement and have issued our report thereon dated July 3, 2018. The Laurel 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 Laurel 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 Laurel County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Laurel 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 a certain deficiency in internal control, which is described in the accompanying Schedule of Findings and Responses as item 2017-001 that we consider to be a significant deficiency.



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 Laurel 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 3, 2018

SCHEDULE OF FINDINGS AND RESPONSES

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LAUREL COUNTY
JOHN ROOT, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2017

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2017-001 The Laurel County Sheriff Reported An Issue Pertaining To Timesheets To Auditors

The Laurel County Sheriff disclosed an issue discovered by his office pertaining to timesheets not being accurate. During calendar year 2017, the Laurel County Sheriff's office received reimbursement from the state via a federal grant for overtime hours pertaining to Highway Safety and SNAP (Supplemental Nutrition Assistance Program) trafficking enforcement. Deputies are required to submit activity logs for additional hours worked to the supervisor overseeing the grant reimbursement process and submit timesheets to their direct supervisor. A total of 1,979 hours of highway safety activity were claimed on employees' timesheets; however, only 1,486 hours were documented by employees for a total variance of 493 hours. Additionally, 185 hours of SNAP trafficking enforcement hours were claimed on deputy timesheets and only 68 hours were documented for a total variance of 117 hours.

The Laurel County Sheriff informed auditors that timesheets were not agreed to activity reports for highway safety overtime and that one employee had falsely claimed hours on timesheets and could not provide supporting documentation. The sheriff indicated this was detected after an employee attended training and heard about possible payroll problems related to grants. This employee took steps to review payroll records of the sheriff's office after this training, which detected the problem. A lack of control over the overtime reimbursement process prior to the issue being detected caused the sheriff's office to pay for overtime without supporting documentation. Employee timesheets were approved and signed by a direct supervisor and sheriff; however, no supporting documentation for reimbursement of overtime was maintained with timesheets. Additionally, employees submitted overtime reimbursement forms without a timesheet to the supervisor responsible for obtaining grant reimbursement for the overtime worked.

Employees of the Laurel County Sheriff's office receive compensatory time for regular overtime worked and are only paid overtime if it qualifies as part of one the reimbursement programs. The lack of control over the overtime reimbursement process resulted in the sheriff's office paying for overtime and not being reimbursed. Once detected, the sheriff took action to address this situation and appropriately reported this weakness to the auditor. In addition, the sheriff implemented additional controls by requiring deputies when they work Highway Safety overtime to attach the Federal Overtime Request form and a copy of each citation written to their timesheet.

Good internal controls over payroll require supporting documentation for all hours worked and reconciliation of timesheets to overtime reports.

The Laurel County Sheriff's Personnel Policy states, "[c]ompensatory time is paid leave awarded to a full time employee in lieu of overtime pay as compensation of a work week of greater than 40 hours."

We recommend the Laurel County Sheriff continue to strengthen internal controls over the Highway Safety and SNAP Grant payroll reimbursement process by requiring the immediate supervisor to review overtime reimbursement worksheets when approving timesheets and the grant program supervisor to review timesheets when requesting reimbursement of overtime. We will refer this finding to the Laurel County Attorney.

Sheriff's Response: The sheriff did not provide a response.