

**REPORT OF THE AUDIT OF THE
LAWRENCE COUNTY
SHERIFF**

**For The Year Ended
December 31, 2016**



**MIKE HARMON
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable John Osborne, Lawrence County Judge/Executive
The Honorable Garrett Roberts, Lawrence County Sheriff
Members of the Lawrence 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 Lawrence County, Kentucky, for the year ended December 31, 2016, 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 the 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 the 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 John Osborne, Lawrence County Judge/Executive
 The Honorable Garrett Roberts, Lawrence County Sheriff
 Members of the Lawrence 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 Lawrence 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 Lawrence County Sheriff, as of December 31, 2016, 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 Lawrence County Sheriff for the year ended December 31, 2016, 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 May 29, 2018, on our consideration of the Lawrence 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 entity'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:

- 2016-001 The Sheriff's Office Lacks Adequate Segregation Of Duties
- 2016-002 The Lawrence County Sheriff's Quarterly Financial Report Was Not Properly Classified, Materially Accurate, Or Submitted To The Department For Local Government
- 2016-003 The Sheriff's Office Did Not Make Deposits Daily

Respectfully submitted,



Mike Harmon
 Auditor of Public Accounts

May 29, 2018

LAWRENCE COUNTY
GARRETT ROBERTS, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2016

Receipts

Federal Grant		\$ 2,829
State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)		20,474
State Fees For Services:		
Finance and Administration Cabinet	\$ 61,386	
Sheriff Security Service	<u>4,580</u>	65,966
Circuit Court Clerk:		
Fines and Fees Collected	2,113	
Court Ordered Payments	<u>6,509</u>	8,622
Fiscal Court		49,259
County Clerk - Delinquent Taxes		62,986
Commission On Taxes Collected		286,418
Fees Collected For Services:		
Auto Inspections	7,985	
Accident and Police Reports	665	
Serving Papers	20,150	
Carry Concealed Deadly Weapon Permits	<u>5,480</u>	34,280
Other:		
Add-On Fees	43,585	
Miscellaneous	8,248	
Photo/Backgrounds	1,185	
Sales & Use Telecommunication	<u>2,305</u>	55,323
Interest Earned		36
Borrowed Money:		
State Advancement		<u>21,000</u>
Total Receipts		607,193

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

LAWRENCE COUNTY
GARRETT ROBERTS, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2016
(Continued)

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-		
Deputies' Salaries	\$ 209,483	
Part-Time Salaries	17,199	
Other Salaries	20,800	
KLEFPF	19,041	
Employee Benefits-		
Employer's Share Social Security	23,622	
Contracted Services-		
Advertising	50	
Vehicle Maintenance and Repairs	16,413	
Materials and Supplies-		
Office Materials and Supplies	11,813	
Uniforms	2,679	
Auto Expense-		
Gasoline	15,630	
Other Charges-		
Conventions and Travel	925	
Dues	2,060	
Postage	54	
Miscellaneous	4,327	
Capital Outlay-		
Vehicles	<u>26,673</u>	\$ 370,769
Debt Service:		
State Advancement		<u>21,000</u>
Total Disbursements		<u>\$ 391,769</u>

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

LAWRENCE COUNTY
GARRETT ROBERTS, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2016
(Continued)

Net Receipts	\$ 215,424
Less: Statutory Maximum	<u>83,356</u>
Excess Fees	132,068
Less: Training Incentive Benefit	<u>3,969</u>
Excess Fees Due County for 2016	128,099
Payment to Fiscal Court - September 6, 2016	13,815
Payment to Fiscal Court - March 21, 2017	<u>16,750</u>
Balance Due Fiscal Court at Completion of Audit*	<u>\$ 97,534</u>

* - The sheriff presented 3 checks to the fiscal court for excess fees on February 23, 2018 for a total of \$56,614. As of the date of the audit report, \$40,920 is still owed to the fiscal court for excess fees.

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2016

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 2016 services
- Reimbursements for 2016 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2016

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.

LAWRENCE COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2016
 (Continued)

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

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 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 17.06 percent for the first six months and 18.68 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.

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2016
(Continued)

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

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.

Note 3. Deposits

The Lawrence 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 Lawrence 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, 2016, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Federal Grant (Highway Safety)

The Lawrence County Sheriff's office received a highway safety grant from the Commonwealth of Kentucky in the amount of \$2,829.

Note 5. Drug Forfeiture Account

The Lawrence County Sheriff maintains a drug forfeiture account. Funds in the account are the result of seized property from the confiscation, surrender, or sale of real and personal property involved in drug related convictions. These funds are to be used for law enforcements activities. The balance on January 1, 2016 was \$17,041. The sheriff had receipts of \$122 and earned interest of \$22, leaving a balance of \$17,185 as of December 31, 2016.

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 John Osborne, Lawrence County Judge/Executive
The Honorable Garrett Roberts, Lawrence County Sheriff
Members of the Lawrence 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 Lawrence County Sheriff for the year ended December 31, 2016, and the related notes to the financial statement and have issued our report thereon dated May 29, 2018. The Lawrence 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 Lawrence 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 Lawrence County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lawrence County Sheriff's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2016-001 and 2016-002 to be material weaknesses.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lawrence 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2016-002 and 2016-003.

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,

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

May 29, 2018

SCHEDULE OF FINDINGS AND RESPONSES

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LAWRENCE COUNTY
GARRETT ROBERTS, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2016

FINANCIAL STATEMENT FINDINGS:

2016-001 The Sheriff's Office Lacks Adequate Segregation Of Duties

This is a repeat finding and was included in the prior year audit report as finding 2015-001. The sheriff's office lacks adequate segregation of duties. The sheriff's bookkeeper collects payments from customers, records transactions in the ledgers, prepares deposits, and reconciles the bank account.

Inadequate segregation of duties allows for one person to have a significant role in processing and recording receipts and disbursements, which increases the risk of misappropriation of assets and inaccurate financial reporting will occur and be undetected.

Internal control duties should be segregated to decrease the risk of misappropriation of assets, undetected errors, and inaccurate financial reporting to external agencies. Compensating controls such as comparing the daily checkout sheet to the receipts ledger and the bank deposit can be implemented to decrease the risk present in the absence of proper segregation of duties, but they don't eliminate the lack of adequate segregation of duties.

We recommend the same person not perform multiple accounting functions, and if the duties cannot be segregated, then compensating controls such as strong oversight over the employee's work should be provided and documented.

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

2016-002 The Lawrence County Sheriff's Quarterly Financial Report Was Not Properly Classified, Materially Accurate, Or Submitted To The Department For Local Government

In order for the sheriff's fourth quarter financial report to be accurately stated, numerous material audit adjustments to disbursements were necessary, the aggregate of the adjustments were \$105,288. Also, the sheriff did not submit quarterly reports to the Department for Local Government (DLG).

The sheriff failed to ensure the fourth quarterly financial reports were complete and accurate. By not having an accurate financial statement, the sheriff's quarterly financial report did not accurately report the financial activities of the sheriff's office for the calendar year 2016.

KRS 134.192(11) states, in counties with population of less than 70,000, the sheriff's annual settlement shall include: "[a] complete statement of all funds received by his or her office for official services, showing separately the total income received by his or her office for services rendered, exclusive of his or her commissions for collecting taxes, and the total funds received as commissions for collecting state, county, and school taxes[.]" and "[a] complete statement of all expenditures of his or her office[.]"

The Uniform System of Accounts, adopted under KRS 68.210, requires the sheriff to prepare a quarterly report which includes all receipts and disbursements the sheriff collected and paid during the calendar year.

We recommend the sheriff ensure all receipts and disbursements on the ledgers be properly reported on the quarterly financial reports to ensure proper reporting to the Department for Local Government.

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

LAWRENCE COUNTY
GARRETT ROBERTS, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2016
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-003 The Sheriff's Office Did Not Make Deposits Daily

The sheriff did not always deposit receipts daily. Auditors tested one week of receipts and found there were six to nine days between date of receipt and date of deposit. The sheriff does not have procedures in place to ensure deposits are made daily. As a result, there is a risk of misstatements due to error, as well as misappropriation of receipts. The State Local Finance Officer, under the authority of KRS 68.210, has established minimum accounting requirements, which include depositing receipts intact on a daily basis and reconciling receipts to a daily check out sheet. We recommend the sheriff deposit receipts daily as required by the State Local Finance Officer.

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