

**REPORT OF THE AUDIT OF THE
METCALFE COUNTY
SHERIFF**

**For The Period
August 4, 2019 Through December 31, 2019**



**MIKE HARMON
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CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT 1

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS 3

NOTES TO FINANCIAL STATEMENT 6

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* 15

SCHEDULE OF FINDINGS AND RESPONSES 19

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Harold Stilts, Metcalfe County Judge/Executive
The Honorable Lonnie Hodges, Metcalfe County Sheriff
Members of the Metcalfe 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 Metcalfe County, Kentucky, for the period August 4, 2019 through December 31, 2019, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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

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

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The Honorable Harold Stilts, Metcalfe County Judge/Executive
The Honorable Lonnie Hodges, Metcalfe County Sheriff
Members of the Metcalfe 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 Metcalfe 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 Metcalfe County Sheriff, for the period August 4, 2019 through December 31, 2019, or changes in financial position or cash flows thereof for the period then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the Metcalfe County Sheriff for the period August 4, 2019 through December 31, 2019, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.


Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2020, on our consideration of the Metcalfe 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 Metcalfe 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:

- 2019-001 The Metcalfe County Sheriff’s Office Lacks Adequate Segregation Of Duties Over Financial Reporting, Reconciliations, And Payroll Direct Deposits

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

September 8, 2020

METCALFE COUNTY
LONNIE HODGES, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Period August 4, 2019 Through December 31, 2019

Receipts

State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)	\$	5,433
State Fees For Services:		
Finance and Administration Cabinet	\$ 31,459	
Sheriff Security Service	1,390	32,849
Circuit Court Clerk:		
Fines and Fees Collected		71
Fiscal Court		58,193
County Clerk - Delinquent Taxes		9,259
Commission On Taxes Collected		119,127
Fees Collected For Services:		
Auto Inspections	1,250	
Accident and Police Reports	490	
Serving Papers	8,763	
HB 577	1,360	
Carry Concealed Deadly Weapon Permits	1,065	12,928
Other:		
Miscellaneous		217
Interest Earned		67
Borrowed Money:		
State Advancement		13,205
Total Receipts		251,349

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

METCALFE COUNTY
 LONNIE HODGES, SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Period August 4, 2019 Through December 31, 2019
 (Continued)

Disbursements

Operating Disbursements:

Personnel Services-

Deputies' Gross Salaries	\$	24,990	
Part Time and One Deputy Gross Salaries		34,293	
Clerk Gross Salaries		22,602	
KLEFPF Gross Salaries		5,682	
Overpayment of City Occupational Tax		1,658	
Payroll Paid For Former Sheriff		2,217	

Employee Benefits-

Employer's Share Social Security		9,348	
Employer's Share Retirement - KLEFPF		1,296	

Contracted Services-

Advertising		136	
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Materials and Supplies-

Office Materials and Supplies		4,345	
Uniforms		3,850	

Auto Expense-

Gasoline		7,313	
Maintenance and Repairs		2,522	

Other Charges-

Dues		884	
Postage		2,059	
Miscellaneous		188	
HB 577		3,540	
Carry Concealed Deadly Weapon Permits		150	

		<u>150</u>	\$	127,073
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Debt Service:

State Advancement		<u>40,000</u>	
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Total Disbursements

\$ 167,073

METCALFE COUNTY
 LONNIE HODGES, SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Period August 4, 2019 Through December 31, 2019
 (Continued)

Net Receipts		\$	84,276
Less: Statutory Maximum			<u>33,571</u>
Excess Fees			50,705
Less: Training Incentive Benefit			<u>1,054</u>
Excess Fees Due County for 2019			49,651
Payments to Fiscal Court -			
March 9, 2020	\$	48,536	
August 10, 2020		<u>1,115</u>	<u>49,651</u>
Balance Due Fiscal Court at Completion of Audit			<u>\$ 0</u>

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

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2019

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

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

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

B. Basis of Accounting

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

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

- Interest receivable
- Collection on accounts due from others for 2019 services
- Reimbursements for 2019 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2019

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).

METCALFE COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2019
 (Continued)

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

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

The sheriff's contribution for calendar year 2017 was \$3,685, calendar year 2018 was \$3,906, and calendar year 2019 was \$2,238, \$942 and \$1,296 for each period, respectively.

Nonhazardous

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

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

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

The county's contribution rate for nonhazardous employees was 21.48 percent for the first half of the year and 24.06 percent for the second half of the year.

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS provides post-retirement health care coverage as follows:

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

METCALFE COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2019
 (Continued)

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

Other Post-Employment Benefits (OPEB) (Continued)

A. Health Insurance Coverage - Tier 1 (Continued)

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.

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.

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2019
(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 Metcalfe 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 Metcalfe 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, 2019, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

METCALFE COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2019
 (Continued)

Note 4. Short-Term Debt - State Advancement

The former sheriff's office borrowed \$26,795 for operating expenses from County Fees Systems Branch, Division of Local Government Services, Kentucky Finance and Administration Cabinet, for the period January 1, 2019 through August 3, 2019. This loan was outstanding as of August 3, 2019. Due to the death of the former sheriff, the state allowed the loan to be rolled forward to the incoming sheriff's office. Sheriff Lonnie Hodges repaid the amount due as of August 3, 2019, of \$26,795 and the amount he borrowed for the period August 4, 2019 through December 31, 2019, of \$13,205 for a total of \$40,000 from his 2019 fee account on January 21, 2020.

	Beginning Balance 8/4/2019	Additions	Reductions	Ending Balance 12/31/2019
State Advancement	\$ 26,795	\$ 13,205	\$ 40,000	\$ 0

Note 5. Drug Eradication Account

The Metcalfe County Sheriff's office maintains a drug eradication account, which is funded by proceeds from the confiscation, surrender, or sale of real and personal property involved in drug related convictions. These funds are to be used for law enforcement activities. The former Sheriff Ricky Brooks' office transferred the balance of \$3,984 as of August 3, 2019, to Sheriff Lonnie Hodges on August 7, 2019. During the period August 4, 2019 through December 31, 2019, this account had receipts of \$1 and disbursements of \$97, leaving a balance of \$3,888, as of December 31, 2019.

Note 6. Donation Account

The Metcalfe County Sheriff's office maintains a donation account, which is used to account for donations of money or goods to be used for public purposes of the sheriff's office. The former Sheriff Ricky Brooks' office transferred the balance of \$50 as of August 3, 2019 to Sheriff Lonnie Hodges on August 7, 2019. During the period August 4, 2019 through December 31, 2019, this account had receipts of \$1,000 and no disbursements, leaving a balance of \$1,050, as of December 31, 2019.

Note 7. Custodial Account - Pending Seizure Account

The Metcalfe County Sheriff's office maintains a pending seizure account, which is used to account for monies held by the sheriff's office pending court adjudication. This account is custodial in nature. This account was established on October 8, 2019. During the period August 4, 2019 through December 31, 2019, this account had receipts of \$5,559 and no disbursements, leaving a balance of \$5,559, as of December 31, 2019. Since monies in this account are held pending court adjudication, this account is fiduciary in nature.

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2019
(Continued)

Note 8. Subsequent Events

The former Sheriff Rondal Shirley retired on December 31, 2018. The Metcalfe County Judge/Executive appointed Ricky Brooks as the new sheriff on January 1, 2019. The former Sheriff Ricky Brooks passed away August 3, 2019. The Metcalfe County Judge/Executive appointed Lonnie Hodges as sheriff on August 7, 2019. Lonnie Hodges was elected sheriff during the general election on November 5, 2019, with his term beginning on November 15, 2019.

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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 Harold Stilts, Metcalfe County Judge/Executive
The Honorable Lonnie Hodges, Metcalfe County Sheriff
Members of the Metcalfe 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 Metcalfe County Sheriff for the period August 4, 2019 through December 31, 2019, and the related notes to the financial statement and have issued our report thereon dated September 8, 2020. The Metcalfe 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 Metcalfe 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 Metcalfe County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Metcalfe 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 2019-001 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 Metcalfe 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,

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

September 8, 2020

SCHEDULE OF FINDINGS AND RESPONSES

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METCALFE COUNTY
LONNIE HODGES, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Period August 4, 2019 Through December 31, 2019

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2019-001 The Metcalfe County Sheriff's Office Lacks Adequate Segregation Of Duties Over Financial Reporting, Reconciliations, And Payroll Direct Deposits

The Metcalfe County Sheriff's office lacks adequate segregation of duties over financial reporting, reconciliations, and payroll direct deposits. The sheriff's office manager/bookkeeper collects receipts, prepares deposits, prepares daily checkout sheets, prepares and signs checks, and prepares payroll. In addition, she posts to the receipts and disbursements ledgers, prepares financial statements and monthly reports, and reconciles the monthly bank statements. No reviews of the financial statement, receipts ledger, disbursements ledger, bank reconciliations, and payroll direct deposits were documented by the other office staff or the sheriff.

The lack of segregation of duties occurred because the sheriff failed to segregate incompatible duties. The sheriff stated he cannot hire additional employees to allow segregation of duties due to budget limitations. A lack of oversight resulted in the disbursements ledger not agreeing to the financial statement. Paychecks dated August 20, 2019, in the amount of \$13,970, were not recorded on disbursements ledger and five operating disbursements categories per the financial statement did not agree to the disbursements ledger. In addition, a lack of oversight could result in undetected misappropriation of assets or inaccurate financial reporting to external agencies such as the Department for Local Government.

Adequate segregation of duties over financial reporting, reconciliations, and payroll direct deposits would prevent the same person from having a significant role in multiple accounting functions, such as preparing deposits, preparing payroll, posting to the receipts and disbursements ledgers, preparing monthly and quarterly reports, and preparing monthly bank reconciliations. The sheriff can implement oversight when duties cannot be segregated.

We recommend the sheriff's office segregate duties over financial reporting, reconciliations, and payroll direct deposits. If segregation of duties is not feasible due to lack of staff, then strong oversight over those areas should occur and involve an employee not currently performing any of those functions.

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