

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

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



**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* 13

SCHEDULE OF FINDINGS AND RESPONSES 17

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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 year ended December 31, 2020, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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

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

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AN EQUAL OPPORTUNITY EMPLOYER M / F / D



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, as of December 31, 2020, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the Metcalfe County Sheriff for the year ended December 31, 2020, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2021, 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 comments:

- 2020-001 The Metcalfe County Sheriff’s Office Lacks Adequate Segregation Of Duties Over Financial Reporting, Reconciliations, Disbursements, And Payroll
- 2020-002 The Metcalfe County Sheriff’s Office Lacks Adequate Controls Over Payroll
- 2020-003 The Metcalfe County Sheriff Did Not Have A Pledge Agreement

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

October 14, 2021

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

For The Year Ended December 31, 2020

Receipts

State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)	\$	19,835	
State Fees For Services:			
Finance and Administration Cabinet	\$	73,717	
Sheriff Security Service		<u>5,399</u>	79,116
Circuit Court Clerk:			
Fines and Fees Collected			463
Fiscal Court:			
Program Support and Election Commission		90,870	
Reimbursement of Employer's Share Social Security		21,016	
Coronavirus Aid, Relief, and Economic Security (CARES) Act Reimbursement		<u>178,924</u>	290,810
County Clerk - Delinquent Taxes			17,934
Commission On Taxes Collected			215,875
Fees Collected For Services:			
Auto Inspections		3,124	
Accident and Police Reports		1,735	
Serving Papers		16,316	
HB 577		2,740	
Carry Concealed Deadly Weapon Permits		<u>4,410</u>	28,325
Other:			
Add-On Fees		7,041	
Miscellaneous		1,385	
Refund Overpayment of City Occupational Tax - 2019		<u>1,658</u>	10,084
Interest Earned			172
Borrowed Money:			
State Advancement			<u>40,000</u>
Total Receipts			702,614

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 Year Ended December 31, 2020
 (Continued)

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Gross Salaries	\$ 118,639
Part Time and One Deputy Gross Salaries	69,080
Clerk Gross Salaries	56,535
KLEFPF Gross Salaries	15,897

Employee Benefits-

Employer's Share Social Security	26,500
Employer's Share Retirement	3,825

Contracted Services-

Advertising	102
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Materials and Supplies-

Office Materials and Supplies	9,623
Uniforms	1,703

Auto Expense-

Gasoline	13,644
Maintenance and Repairs	7,616

Other Charges-

Postage	2,048
Employee Training	450
Miscellaneous	1,121
HB 577	2,740
Carry Concealed Deadly Weapon Permits	695
Change Fund	100

Capital Outlay-

Office Equipment	3,213	
Vehicles	49,170	\$ 382,701

Debt Service:

State Advancement	40,000
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Total Disbursements \$ 422,701

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 Year Ended December 31, 2020
(Continued)

Net Receipts	\$ 279,913
Less: Statutory Maximum	<u>86,250</u>
Excess Fees Due County for 2020	193,663
Payment to Fiscal Court - March 5, 2021	<u>194,261</u>
Balance Due From Fiscal Court at Completion of Audit*	<u>\$ (598)</u>

* - Negative balance is due to the overpayment of excess fees to the fiscal court in the amount of \$598. This money in addition to the ending cash balance of \$2 will be used to pay the unpaid obligations of wage garnishments of \$600.

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2020

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

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

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

B. Basis of Accounting

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

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

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

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

C. Cash and Investments

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

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.

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

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

The sheriff's contribution for calendar year 2018 was \$3,906, calendar year 2019 was \$2,238, and calendar year 2020 was \$3,825.

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 24.06 percent for the year.

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS provides post-retirement health care coverage as follows:

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

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%

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

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

Other Post-Employment Benefits (OPEB) (Continued)

A. Health Insurance Coverage - Tier 1 (Continued)

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.

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.

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

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

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 federally insured banking institutions as required by the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*. The DLG Manual strongly recommends perfected pledges of securities covering all public funds except direct federal obligations and funds protected by federal insurance. In order to be perfected in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the sheriff and the depository institution, signed by both parties that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were not met, because the sheriff did not have a written agreement with the bank.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the sheriff's deposits may not be returned. The Metcalfe County sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of the DLG's *County Budget Preparation and State Local Finance Officer Policy Manual*. On December 31, 2020, the sheriff's bank balance was exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$238,614

Note 4. Short-term Debt

A. Direct Borrowing

During calendar year 2020, the sheriff's office borrowed \$40,000 under the state advancement program to defray necessary official expenses and to apply to the payment of the salaries of the sheriff or the sheriff's deputies and assistants from County Fees Systems Branch, Division of Local Government Services, Kentucky Finance and Administration Cabinet (Cabinet) under KRS 64.140(1). Principal was due on or before January 15, 2021 at zero percent interest. In the event of default, the cabinet may obtain payment from the sheriff, his sureties, and the sheriff in his official capacity. The balance of the state advancement was paid in full from the 2020 fee account as of January 12, 2021.

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

Note 4. Short-term Debt (Continued)

B. Changes in Short-term Debt

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
State Advancement	\$	\$ 40,000	\$ 40,000	\$
Total Short-term Debt	<u>\$ 0</u>	<u>\$ 40,000</u>	<u>\$ 40,000</u>	<u>\$ 0</u>

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. As of January 1, 2020, the balance of the account was \$3,888. The sheriff had receipts of \$2,716, which included \$3 in interest income, and disbursements of \$62 in the current year. The ending balance at December 31, 2020 was \$6,542.

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. As of January 1, 2020, the balance of the account was \$1,050. The sheriff had receipts of \$100 and no disbursements in the current year. The ending balance at December 31, 2020 was \$1,150.

Note 7. Fiduciary Account - Pending Seizure Account

The Metcalfe County Sheriff's office maintains a pending seizure account, which is custodial in nature. These funds are held until a resolution in the form of a court order is received. The funds are then remitted in accordance with the court order. As of January 1, 2020, the balance of the account was \$5,559. The sheriff had receipts of \$3,474 and disbursements of \$3,192 in the current year. The ending balance at December 31, 2020 was \$5,841.

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 year ended December 31, 2020, and the related notes to the financial statement and have issued our report thereon dated October 14, 2021. 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the 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 certain deficiencies in internal control, which are described in the accompanying Schedule of Findings and Responses as items 2020-001, 2020-002, and 2020-003 that we consider to be significant deficiencies.



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

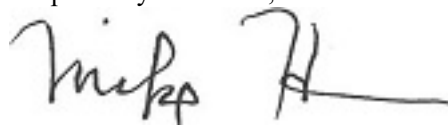
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 financial statement. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that is 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

October 14, 2021

SCHEDULE OF FINDINGS AND RESPONSES

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METCALFE COUNTY
LONNIE HODGES, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2020

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES:

2020-001 The Metcalfe County Sheriff's Office Lacks Adequate Segregation Of Duties Over Financial Reporting, Reconciliations, Disbursements, And Payroll

This is a repeat finding and was included in the prior year audit report as finding 2019-001. The Metcalfe County Sheriff's office lacks adequate segregation of duties over financial reporting, reconciliations, disbursements, and payroll. 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, and bank reconciliations were documented by the other office staff or the sheriff. The sheriff has instituted review processes over disbursements and payroll such as documented reviews of invoices, payroll check stubs, payroll direct deposits, timesheets by other office staff or the sheriff, and dual signatures on all checks with one signature being the sheriff; however, reviews of invoices, payroll check stubs, and payroll direct deposits are not regularly documented by 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 following:

- The disbursements ledger and annual settlement did not agree to the payroll records.
- The fourth quarter financial report did not foot and cross foot.
- The calculated excess fees per annual settlement of \$192,952 were \$1,309 less than the amount paid of \$194,261.
- Multiple problems with payroll as discussed in audit finding 2020-002.

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, disbursements, and payroll would prevent the same person from having a significant role in multiple accounting functions, such as preparing deposits, preparing payroll, preparing and signing checks, 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, disbursements, and payroll. 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. Any oversight should be documented.

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

METCALFE COUNTY
 LONNIE HODGES, SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2020
 (Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2020-002 The Metcalfe County Sheriff's Office Lacks Adequate Controls Over Payroll

The Metcalfe County Sheriff's office lacks adequate controls over payroll to ensure payroll is recorded and reported accurately. During calendar year 2020, controls over payroll failed to discover posting errors to payroll categories on the annual settlement and the disbursements ledger, garnishments withheld but not paid, errors in calculating net pay and employee withholdings, errors in reporting wages to retirement, and errors to sick and compensatory leave balances. Due to the lack of controls over payroll, the following control deficiencies and noncompliances concerning payroll occurred:

- Part-time and one deputy gross salary was overstated by \$6,001 on the annual settlement.
- Employer's share retirement - KLEFPF of \$3,825 was not reported on the fourth quarter financial report or annual settlement.
- Paychecks in the amount of \$19,003 for February 2020 were not recorded on disbursements ledger under correct salary categories.
- Four adjustments in amount of \$1,527 and 17 reclassifications in amount of \$9,162 were necessary to reconcile the disbursements ledger to the payroll journal reports.
- Garnishments for two pay periods totaling \$600 withheld from an employee's paychecks were not paid to the creditors. This amount represents four payments that were not made.
- An employee was overpaid \$143 one pay period due to a calculation error.
- Retirement withholdings (\$60) were miscalculated for pay period August 15, 2020 to August 28, 2020 for one full-time employee because the computer program did not withhold any retirement.
- Retirement withholdings (\$339) were miscalculated for pay period August 20, 2020 to September 11, 2020 for five full time employees because the computer program withheld a flat dollar amount instead of calculating retirement withholding using applicable percentage of five or six percent.
- FICA withholdings (\$254), city occupational tax withholdings (\$50), and county occupational tax withholdings (\$33) were miscalculated for the end of calendar year 2020 starting with pay period beginning August 29, 2020 for five full-time employees because they were not calculated on gross wages due to an error in the computer program.
- FICA withholdings (\$2,983), city occupational tax withholdings (\$585), and county occupational tax withholdings (\$390) were not properly withheld on sheriff's salary because they were not calculated on gross wages in pay periods he made contributions to deferred compensation.
- One part time employee tested worked an average of 101 hours per month during calendar year 2020 and his wages were not reported to fiscal court to be reported to County Employees Retirement System (CERS). Since he is considered retired reemployed, retirement would not be withheld from his paycheck but his wages should be reported to the fiscal court to be reported to CERS and employer's share retirement paid on his wages by the fiscal court.
- Two full-time employees did not earn correct amount of sick leave. Instead of earning 48 hours for the calendar year per sheriff's policy, they only earned four hours and 40 hours.
- Compensatory time was calculated wrong for one deputy for pay period tested. Deputy received credit for 12 hours of compensatory time for a holiday when the holiday was his regular day off. He should have received only eight hours of compensatory time for the holiday since he did not work per the sheriff's policy.
- Compensatory time used by three deputies for pay period tested was not deducted from compensatory time. Compensatory time used not deducted was eight hours, 16 hours and 18.50 hours.
- Employee's share of dental insurance withholdings of \$13 were not correctly withheld from the bookkeeper's paycheck for pay period tested.

METCALFE COUNTY
 LONNIE HODGES, SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2020
 (Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2020-002 The Metcalfe County Sheriff's Office Lacks Adequate Controls Over Payroll (Continued)

Rather than implement a strong internal control system to monitor the payroll process, the sheriff relied on individual employees to perform specific functions of payroll without sufficient oversight to ensure accuracy of work performed. In addition, the bookkeeper stated that the deductions for full-time employees got messed up after she downloaded updates to the payroll program resulting in retirement withholdings being sheltered from FICA and occupational taxes by mistake. The bookkeeper also stated that the sheriff's office was advised that deferred compensation was not subject to FICA or occupational taxes. By not ensuring that payroll amounts recorded on the quarterly financial reports reconcile to the payroll records, payroll amounts were reported incorrectly and withholdings were inaccurate. The lack of oversight could result in the undetected misappropriation of assets or inaccurate financial reporting to external agencies such as DLG and the fiscal court. In addition, weak internal controls allowed noncompliance with state statutes and the sheriff's personnel policy.

Strong internal controls over payroll and timekeeping are vital in ensuring that payroll amounts are recorded, reported, and withheld properly. Strong internal controls are vital in ensuring the amounts recorded and reported for payroll by the sheriff's office accurately reflect the financial activity of the sheriff's office. These controls should include an individual independent of the accounting function reviewing the financial reports and comparing amounts reported to the amounts on the payroll records to ensure withholdings are calculated correctly. In addition, the reviewer should ensure the sheriff is in compliance with federal requirements, state statutes, and his personnel policy.

KRS 78.510(21) and 78.610(1) requires employees who work an average of 100 hours or more per month to have a percentage of gross wages withheld for retirement. The percentage, five or six percent, is based on date of membership in Kentucky Public Pensions Authority (KPPA). While employees who are classified as retired reemployed are not required to have retirement withheld from their wages, their wages are required to be reported to KPPA and the employer is required to pay the employer contribution on those wages.

Internal Revenue Service (IRS) Publication 15 requires FICA to be withheld from wages before retirement withholdings and deferred compensation are deducted. Commonwealth of Kentucky entered into a Memorandum of Agreement with the IRS to require starting January 1, 2017, FICA to be withheld before employee contributions to retirement are deducted from wages. Additionally, City of Edmonton and Metcalfe County Fiscal Court occupational tax ordinances require occupational tax be withheld on gross wages.

The sheriff's policy and procedure manual states sick time "is accumulated for all employees with full-time status at a rate of 2 hours per pay period, with a maximum accumulation of 48 hour per calendar year." In addition, the sheriff's manual states compensatory time "may be redeemed by the employee at any time if reasonable advanced notice is given and scheduling allows. A compensatory time total shall be maintained by the Office Manager each pay period." The manual also states "employees with full-time status are awarded holidays as designated and approved by the Commonwealth of Kentucky. Full-time sworn employees who are usually required to work designated holidays will be compensated with compensatory time at a rate as follows: a. If the holiday falls on an employee's regular scheduled day off (RDO), the employee will be compensated for 8 hours of compensatory time. b. If the holiday falls on an employee's regular scheduled workday, the employee will be compensated for 12 hours of compensatory time."

METCALFE COUNTY
LONNIE HODGES, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2020
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2020-002 The Metcalfe County Sheriff's Office Lacks Adequate Controls Over Payroll (Continued)

We recommend the sheriff's office implement stronger internal controls over the payroll process to ensure payroll is posted correctly on the disbursements ledger and amounts reported on the quarterly financial report and annual settlement are accurate. We also recommend the sheriff's office pay garnishments of \$600 withheld from employee's paychecks to the proper creditors. We additionally recommend that payroll reports be reviewed to ensure correct amounts are paid for all withholdings, correct amounts are withheld for retirement, FICA, and occupational taxes, correct amounts are reported to fiscal court for retirement wages, compensatory balances and leave balances are properly maintained, and correct amounts are withheld for insurance. In addition, we recommend the sheriff's office file corrected payroll reports with KPPA, IRS, City of Edmonton, and Metcalfe County Fiscal Court for calendar year 2020 and collect necessary amounts from employees for withholdings.

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

2020-003 The Metcalfe County Sheriff Did Not Have A Pledge Agreement

The sheriff's bank account balances exceeded the \$250,000 FDIC coverage provided by his bank and the additional FDIC coverage provided under the insured cash sweep deposit placement agreement (ICS agreement). He did not have a pledge agreement. On December 31, 2020, the sheriff's bank balances were \$1,385,403. FDIC coverage through his bank and the ICS agreement was \$1,146,789, leaving \$238,614 unsecured.

The sheriff and bookkeeper were unaware the bank was no longer providing pledges for the bank accounts not covered by the ICS agreement.

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. \$238,614 of the sheriff's deposits were at risk with no agreement with the bank and no amount pledged.

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

We recommend a pledge agreement be obtained from the bank for the bank accounts not covered by the ICS agreement or additional bank accounts be included in the ICS agreement. If the bank is unable or unwilling to do this, then uncovered accounts should be moved to another bank that will meet the requirements.

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