

**REPORT OF THE AUDIT OF THE
BRECKINRIDGE COUNTY
SHERIFF**

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



**MIKE HARMON
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Maurice Lucas, Breckinridge County Judge/Executive
The Honorable Todd Pate, Breckinridge County Sheriff
Members of the Breckinridge 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 Breckinridge 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.



The Honorable Maurice Lucas, Breckinridge County Judge/Executive
The Honorable Todd Pate, Breckinridge County Sheriff
Members of the Breckinridge 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 Breckinridge 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 Breckinridge 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 Breckinridge 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 October 2, 2017, on our consideration of the Breckinridge 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 comment:

2016-001 The Sheriff’s Office Lacks Adequate Segregation Of Duties Over Disbursements And Reconciliations

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

October 2, 2017

BRECKINRIDGE COUNTY
TODD PATE, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2016

Receipts

Federal Grants	\$	11,572	
State Grants		25,000	
State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)		31,529	
State Fees For Services:			
Finance and Administration Cabinet	\$	95,037	
Sheriff Security Service		5,030	
Cabinet For Health And Family Services		820	
Sequestered Jurors		156	101,043
Circuit Court Clerk:			
Fines and Fees Collected			7,618
Fiscal Court			39,673
County Clerk - Delinquent Taxes			17,919
Commission On Taxes Collected			398,997
Fees Collected For Services:			
Auto Inspections		4,560	
Accident and Police Reports		1,648	
Serving Papers		26,956	
Carry Concealed Deadly Weapon Permits		12,570	45,734
Other:			
Add-On Fees		34,183	
Miscellaneous		8,330	
Drug Screens		30	
Other Prisoner Transports		1,211	43,754
Interest Earned			319
Borrowed Money:			
State Advancement			255,000
Total Receipts			978,158

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

BRECKINRIDGE COUNTY
TODD PATE, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2016
(Continued)

Disbursements

Operating Disbursements:

Personnel Services-

Deputies' Salaries	\$ 369,181
Court Security Gross Salaries	107,787
Drug Enforcement Gross Salaries	44,682

Employee Benefits-

Employer's Share Retirement (KLEFPF Match)	3,793
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Contracted Services-

Advertising	259
Computers	6,245
Vehicle Maintenance and Repairs	12,936

Materials and Supplies-

Office Materials and Supplies	6,695
Uniforms	11,639

Auto Expense-

Gasoline	31,283
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Other Charges-

Conventions and Travel	739
Dues	668
Postage	1,568
Telephone	10,127
Training	1,062
Carry Concealed Deadly Weapon Permits	55
Transport Fugitives	7,616
Miscellaneous	1,963
	<u>1,963</u>

\$ 618,298

Debt Service:

State Advancement	<u>255,000</u>
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Total Disbursements

\$ 873,298

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

BRECKINRIDGE COUNTY
TODD PATE, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2016
(Continued)

Net Receipts	\$ 104,860
Less: Statutory Maximum	<u>89,310</u>
Excess Fees	15,550
Less: Training Incentive Benefit	<u>3,969</u>
Excess Fees Due County for 2016	11,581
Payment to Fiscal Court - March 9, 2017	<u>316</u>
Balance Due Fiscal Court at Completion of Audit*	<u>\$ 11,265</u>

* - The sheriff presented a check to the fiscal court for excess fees on August 29, 2017.

BRECKINRIDGE 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.

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

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

The sheriff's contribution for calendar year 2014 was \$4,273, calendar year 2015 was \$4,279, and calendar year 2016 was \$3,793.

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 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%

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

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

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 Breckinridge 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 Breckinridge 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. Drug Forfeiture Accounts

The sheriff maintains two drug forfeiture accounts. One account is for forfeited property resulting from state and local drug convictions, and the other is for those forfeiture resulting from federal drug convictions.

A. Federal Drug Forfeiture Account

The federal drug forfeiture account had a beginning balance of \$5,309 on January 1, 2016. Funds in the amount of \$30 were received during the year and \$2,944 was expended, resulting in an ending balance of \$2,395 as of December 31, 2016.

B. State and Local Drug Forfeiture Account

The state and local drug forfeiture account had a beginning balance of \$71,339 on January 1, 2016. Funds in the amount of \$7,076 were received and \$6,995 was expended, resulting in an ending balance of \$71,420 as of December 31, 2016.

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

Note 5. Federal Grant

The Breckinridge County Sheriff's office entered into an agreement to provide increased law enforcement services on lands and waters administered by the United States Army Corps of Engineers. The period of the agreement was June 15, 2016 through April 30, 2017, with the option to be extended for three subsequent years. The total award for the period was \$18,965. During calendar year 2016, \$11,572 was received from the award.

Note 6. State Grant

In December 2009, the Breckinridge County Sheriff's office entered into an agreement with the Kentucky State Police for membership in a drug task force. The agreement renews every two years unless the agreement is terminated by the parties. The sheriff is reimbursed \$25,000 annually for dedicated personnel and equipment assigned to drug task force activities.

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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 Maurice Lucas, Breckinridge County Judge/Executive
The Honorable Todd Pate, Breckinridge County Sheriff
Members of the Breckinridge 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 Breckinridge County Sheriff for the year ended December 31, 2016, and the related notes to the financial statement and have issued our report thereon dated October 2, 2017. The Breckinridge 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 Breckinridge 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 Breckinridge County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Breckinridge County Sheriff's internal control.

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

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



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 Breckinridge 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*.

Views of Responsible Official and Planned Corrective Action

The Breckinridge County Sheriff's views and planned corrective action for the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. The Breckinridge County Sheriff's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

October 2, 2017

SCHEDULE OF FINDINGS AND RESPONSES

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BRECKINRIDGE COUNTY
TODD PATE, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2016

INTERNAL CONTROL - MATERIAL WEAKNESS:

2016-001 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Disbursements And Reconciliations

This is a repeat finding and was included in the prior year audit report as finding 2015-001. The Breckinridge County Sheriff's office does not have proper segregation of duties over disbursements and reconciliations. The sheriff's bookkeeper is responsible for preparing and signing checks, posting to the disbursements ledgers, and preparing monthly bank reconciliations. According to the sheriff, this lack of segregation of duties is due to a limited number of employees available to properly segregate these job duties. A lack of segregation of duties with no documented compensating controls could result in the undetected misappropriation of assets and inaccurate financial report to external agencies such as the Department for Local Government.

A segregation of duties over accounting functions or implementation of compensating controls, when needed because the number of staff is limited, is essential for providing protection to employees in the normal course of performing their duties and can also help prevent inaccurate financial reporting and misappropriation of assets. To adequately protect employees in the normal course of performing their duties and to help prevent inaccurate financial reporting and misappropriation of assets, we recommend the sheriff separate the duties over the disbursement and reconciliation functions listed above. If this is not possible due to limited staff, then strong oversight over those areas should occur and involve the sheriff or an employee not currently performing any of those functions. The individual providing this oversight should initial source documents as evidence of this review.

Sheriff's Response: The previous office manager who retired June 30, 2017 implemented additional segregation of duties during the first half of 2017, and the previous warrant clerk retired July 31, 2017. Additional segregation and documentation of duties have been implemented since then. Although there are few office employees to segregate duties, efforts are being taken to ensure a standard process of duties and that they are overseen to prevent any possible misappropriation of fund. Procedures are being implemented in segregation to help ensure no one person has complete control over checks, bank statements, and bank reconciliations for the Sheriff's office.