

**REPORT OF THE AUDIT OF THE  
LESLIE COUNTY  
SHERIFF**

**For The Period  
January 5, 2015 Through December 31, 2015**



**MIKE HARMON  
AUDITOR OF PUBLIC ACCOUNTS  
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**EXECUTIVE SUMMARY**  
**AUDIT OF THE**  
**LESLIE COUNTY SHERIFF**

**For The Period**  
**January 5, 2015 Through December 31, 2015**

The Auditor of Public Accounts has completed the Leslie County Sheriff's audit for the period January 5, 2015 through December 31, 2015. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the receipts, disbursements, and excess fees in conformity with the regulatory basis of accounting.

**Financial Condition:**

The sheriff had receipts totaling \$309,519 and disbursements totaling \$292,136 leaving excess fees of \$17,383 for the period January 5, 2015 through December 31, 2015.

**Lease Agreement:**

Total lease principal as of December 31, 2015, was \$6,388. Future payments of \$6,388 are needed over the next three years to pay all lease principal and interest.

**Report Comments:**

- 2015-001 The Sheriff's Office Lacks An Adequate Segregation Of Duties Over Receipts, Disbursements, And Bank Reconciliations
- 2015-002 Year-End Receivables And Liabilities Were Not Presented On The Sheriff's Fourth Quarter Report

**Deposits:**

The sheriff's deposits as of March 3, 2015 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$1,258,658

The sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the sheriff's deposits in accordance with the security agreement.



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**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Jimmy Sizemore, Leslie County Judge/Executive  
The Honorable Delano Huff, Leslie County Sheriff  
Members of the Leslie 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 Leslie County, Kentucky, for the period January 5, 2015 through December 31, 2015, 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 as described in Note 1, which is a basis of accounting other than accounting principles generally accepted in the United States of America. 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 Jimmy Sizemore, Leslie County Judge/Executive  
The Honorable Delano Huff, Leslie County Sheriff  
Members of the Leslie 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 Leslie 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 Leslie County Sheriff, as of December 31, 2015, 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 Leslie County Sheriff for the period January 5, 2015 through December 31, 2015, 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 29, 2016 on our consideration of the Leslie County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and 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.



The Honorable Jimmy Sizemore, Leslie County Judge/Executive  
The Honorable Delano Huff, Leslie County Sheriff  
Members of the Leslie County Fiscal Court

**Other Reporting Required by *Government Auditing Standards* (Continued)**

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2015-001 The Sheriff's Office Lacks An Adequate Segregation Of Duties Over Receipts, Disbursements, And Bank Reconciliations
- 2015-002 Year-End Receivables And Liabilities Were Not Presented On The Sheriff's Fourth Quarter Report

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 29, 2016

LESLIE COUNTY  
 DELANO HUFF, SHERIFF  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Period January 5, 2015 Through December 31, 2015

Receipts

Federal Grant - U.S. Army Corps of Engineers	\$	12,664
State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)		6,622
State Fees For Services:		
Finance and Administration Cabinet	\$	1,142
Sheriff's Fees		4,915
		6,057
Circuit Court Clerk:		
Fines and Fees Collected		1,283
Fiscal Court		35,902
County Clerk - Delinquent Taxes		20,171
Commission On Taxes Collected		152,161
Telecommunication Tax Commissions		3,074
Fees Collected For Services:		
Auto Inspections		1,214
Accident and Police Reports		570
Serving Papers		9,975
Carrying Concealed Deadly Weapon Permits		3,859
Administrative Office of the Courts		2,560
Mental Transports		1,200
Transports		118
		19,496
Other:		
Add-On Fees		22,065
Miscellaneous		24
		22,089
Borrowed Money:		
State Advancement		30,000
		30,000
Total Receipts		309,519

The accompanying notes are an integral part of this financial statement

LESLIE COUNTY  
 DELANO HUFF, SHERIFF  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
 For The Period January 5, 2015 Through December 31, 2015  
 (Continued)

Disbursements

Operating Disbursements:

Personnel Services-

Deputies' Salaries	\$	108,403	
Other Salaries		31,556	
KLEFPF		5,637	
Overtime		5,367	

Contracted Services-

Contract Labor		1,300	
Vehicle Maintenance and Repairs		7,710	
Data Expense		3,731	

Materials and Supplies-

Office Materials and Supplies		3,851	
Equipment		4,151	

Other Charges-

Administrative Office of the Courts		2,560	
Bank Charges		25	
Dues		847	
Jury Food		127	
Postage		6,160	
Training		1,756	
Miscellaneous		1,316	\$ 184,497

Debt Service:

State Advancement		30,000	
Lease Payments		798	30,798

Total Disbursements \$ 215,295

Net Receipts 94,224

Less: Statutory Maximum 76,841

Excess Fees Due County for 2015 17,383

Payment to Fiscal Court - July 15, 2016 4,232

Balance Due Fiscal Court at Completion of Audit \$ 13,151

The accompanying notes are an integral part of this financial statement

LESLIE COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2015

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 2015 services
- Reimbursements for 2015 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2015

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 the following, including but not limited to, 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).

LESLIE COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2015  
 (Continued)

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

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 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.

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 the plan. The county's contribution rate for nonhazardous employees was 17.67 percent for the first six months and 17.06 percent for the last six months.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2014, 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. Members contribute five percent (nonhazardous) of their annual creditable compensation and one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a four percent (nonhazardous) 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.

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:

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

LESLIE COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2015  
(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 Leslie 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 Leslie 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, 2015, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of March 3, 2015, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured      \$1,258,658

Note 4. Lease Agreement

The Leslie County Sheriff's office was committed to a lease agreement for a copier. The agreement requires a monthly payment of \$199 for 36 months to be completed on September 1, 2018. The total remaining balance of the agreement was \$6,388 as of December 31, 2015.

Note 5. Federal Grant

The Leslie County Sheriff's office entered into a cooperative agreement with the U.S. Army Corps of Engineers for law enforcement service at Buckhorn Lake for the period May 1, 2015 through September 30, 2015. The sheriff received payroll reimbursements totaling \$12,664 during the calendar year.

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*







**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Jimmy Sizemore, Leslie County Judge/Executive  
The Honorable Delano Huff, Leslie County Sheriff  
Members of the Leslie 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 Leslie County Sheriff for the period January 5, 2015 through December 31, 2015, and the related notes to the financial statement and have issued our report thereon dated September 29, 2016. The Leslie 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 Leslie 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 Leslie County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Leslie County Sheriff's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting 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 comments and recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2015-001 and 2015-002 to be material weaknesses.



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 Leslie 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 stroke extending to the right.

Mike Harmon  
Auditor of Public Accounts

September 29, 2016

COMMENTS AND RECOMMENDATIONS



LESLIE COUNTY  
DELANO HUFF, SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Period January 5, 2015 through December 31, 2015

INTERNAL CONTROL - MATERIAL WEAKNESSES:

2015-001    The Sheriff's Office Lacks An Adequate Segregation Of Duties Over Receipts, Disbursements, And Bank Reconciliations

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The sheriff's office lacks adequate segregation of duties over receipts, disbursements, and bank reconciliations. These control deficiencies existed because the bookkeeper has the responsibility of preparing daily receipts, daily checkout sheets and deposits, posting daily checkout sheets to the receipts ledger, and preparing and posting disbursements to the ledger. The bookkeeper also prepares deposits, posts to the receipts ledger, prepares and posts disbursements to the ledger, and prepares monthly bank reconciliations and quarterly reports. Although there was some documentation of compensating controls identified on available source documents, these were not strong enough to limit the severity of the lack of segregation of duties.

A proper segregation of duties over accounting functions is essential for preventing asset misappropriation and inaccurate financial reporting. In addition, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. Budget restrictions may have limited the number of staff the sheriff could hire. As a result, it may not have been feasible to segregate accounting duties to different employees.

In this situation, strong oversight over receipts, disbursements, and reconciliations should have been performed by an employee not currently performing any of those functions. The sheriff should segregate duties or implement effective compensating controls to offset this weakness. If the sheriff chooses to implement compensating controls, the sheriff should document his oversight on the appropriate source documents. The following are examples of other controls the sheriff could implement:

- The sheriff could periodically recount and deposit cash receipts. This could be documented by a signature or initials on the daily checkout sheet and the deposit ticket.
- The sheriff could review supporting documentation for all disbursements. This could be documented by a signature or initials on invoices.
- The sheriff could have required dual signatures on all checks, one belonging to the sheriff.
- The sheriff could receive bank statements unopened and reviewed the statements for any unusual items prior to giving them to the individual performing the bank reconciliations.
- The sheriff could review the bank reconciliations and compare it to the balance in the ledger. This could be documented by initialing the bank statement, bank reconciliation, and ledgers.

*Sheriff's Response: No response.*

2015-002    Year-End Receivables And Liabilities Were Not Presented On The Sheriff's Fourth Quarter Report

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Financial activity that occurred after the end of the calendar year 2015 was not recorded on the sheriff's fourth quarter report. The lack of adequate segregation of duties in the sheriff's office contributed to this misstatement. As a result, the sheriff's fourth quarter report was materially misstated and therefore did not give an accurate financial representation of the sheriff's year-end receipts and disbursements. Effective internal controls require that sheriff's reports are accurate. We recommend the sheriff ensure that reports contain all financial activity relevant to the year for which the report is issued.

*Sheriff's Response: No response.*

