

**REPORT OF THE AUDIT OF THE
MCCREARY COUNTY
SHERIFF**

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



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**

EXECUTIVE SUMMARY

AUDIT OF THE MCCREARY COUNTY SHERIFF

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

The Auditor of Public Accounts has completed the McCreary 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:

Excess fees increased by \$37 from the prior year, resulting in excess fees of \$5,197 as of December 31, 2015. Receipts decreased by \$52,557 from the prior year and disbursements decreased by \$52,594.

Report Comments:

- 2015-001 The Sheriff's Office Lacks Adequate Segregation Of Duties
- 2015-002 The Sheriff Did Not Maintain Accurate Receipts And Disbursements Ledgers Or Reconcile Them To Quarterly Financial Reports

Deposits:

The sheriff's deposits were insured and collateralized by bank securities.

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Douglas Stephens, McCreary County Judge/Executive
The Honorable Randy Waters, McCreary County Sheriff
Members of the McCreary 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 McCreary 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 Douglas Stephens, McCreary County Judge/Executive
The Honorable Randy Waters, McCreary County Sheriff
Members of the McCreary 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 McCreary 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 McCreary 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 McCreary 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 October 21, 2016 on our consideration of the McCreary 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 Douglas Stephens McCreary County Judge/Executive
The Honorable Randy Waters, McCreary County Sheriff
Members of the McCreary 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 Adequate Segregation Of Duties
- 2015-002 The Sheriff Did Not Maintain Accurate Receipts And Disbursements Ledgers Or Reconcile Them To Quarterly Financial Reports

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 21, 2016

MCCREARY COUNTY
 RANDY WATERS, 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. Department of Agriculture	\$		6,000
State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)			8,491
State Fees For Services:			
House Bill 452 Payments	\$	8,056	
Fee Claims		65,490	
Prisoner Transports		539	74,085
Circuit Court Clerk:			
Fines and Fees Collected		8,172	
Court Ordered Payments		659	8,831
Fiscal Court:			
Prisoner Transports		3,723	
Payroll Assistance		1,770	5,493
County Clerk - Delinquent Taxes			20,921
Commission On Taxes Collected			121,617
Fees Collected For Services:			
Auto Inspections		11,165	
Accident and Police Reports		1,317	
Serving Papers		15,400	
Carrying Concealed Deadly Weapon Permits		8,955	
Carrying Concealed Deadly Weapon Permit Photos		200	
Fingerprinting		495	37,532
Other:			
Add-On Fees		22,600	
Adanta		5,734	
Miscellaneous		3,176	31,510
Interest Earned			128

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

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

Receipts (Continued)

Borrowed Money:

State Advancement	<u>\$ 15,000</u>
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Total Receipts	329,608
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Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$ 9,607
Courthouse Security Salaries	56,237
Office Salaries	23,705

Employee Benefits-

Employer's Share Social Security	12,438
Employer's Share Retirement	20,176
Employer Paid Health Insurance	8,151
Workers Compensation Insurance	4,327
Unemployment Insurance	8,420

Contracted Services-

Computer Service	2,590
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Materials and Supplies-

Office Materials and Supplies	8,442
Uniforms	666

Auto Expense-

Gasoline	30,843
Maintenance and Repairs	8,262

Other Charges-

Conventions and Travel	2,074
Dues	417
Postage	104
Bond	232
Carrying Concealed Deadly Weapon Permits	2,965
Training	1,351
Miscellaneous	442

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

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

Disbursements (Continued)

Operating Disbursements and Capital Outlay: (Continued)

Capital Outlay-		
Vehicles	<u>\$ 30,136</u>	\$ 231,585
Debt Service:		
State Advancement		<u>15,000</u>
Total Disbursements		<u>\$ 246,585</u>
Net Receipts		83,023
Less: Statutory Maximum		<u>76,841</u>
Excess Fees		6,182
Less: Training Incentive Benefit		<u>985</u>
Excess Fees Due County for 2015		<u><u>\$ 5,197</u></u>

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

MCCREARY 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).

MCCREARY 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.

The sheriff's contribution for calendar year 2013 was \$37,008, calendar year 2014 was \$31,685, and calendar year 2015 was \$20,176.

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:

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%

MCCREARY 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 McCreary 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 McCreary 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.

Note 4. Federal Grant

The McCreary County Sheriff's office received reimbursement for wages from the United States Department of Agriculture for patrol services in the Daniel Boone National Forest. During the period April 1, 2015 through September 30, 2015, the sheriff was reimbursed \$6,000 for wages.

Note 5. State Asset Forfeiture Account

The McCreary County Sheriff's office opened a state asset forfeiture account in February 2015. These funds are to be used to support community policing activities, training, and law enforcement operations calculated to result further seizures and forfeitures. During the period January 5, 2015 through December 31, 2015 this account had receipts and disbursements in the amount of \$7,581 and \$7,164, respectively. The remaining balance as of December 31, 2015 was \$417.

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

Note 6. Donation Account

The McCreary County Sheriff's office opened a donation account in April 2015. These funds were donated to the McCreary County Sheriff's office by the public and are to be used for purchase of a police cruiser. During the period January 5, 2015 through December 31, 2015 this account received \$6,500. The balance as of December 31, 2015 was \$6,500.

Note 7. Related Party Transactions

During the period January 5, 2015 through December 31, 2015, the McCreary County Sheriff's office paid a total of \$1,967 to a local business that is owned by the brother of the sheriff's bookkeeper.

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 Douglas Stephens, McCreary County Judge/Executive
The Honorable Randy Waters, McCreary County Sheriff
Members of the McCreary 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 McCreary 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 October 21, 2016. The McCreary 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 McCreary 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 McCreary County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the McCreary 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 McCreary County Sheriff's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal line extending to the right.

Mike Harmon
Auditor of Public Accounts

October 21, 2016

COMMENTS AND RECOMMENDATIONS

MCCREARY COUNTY
RANDY WATERS, 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 Adequate Segregation Of Duties

The sheriff's office lacks adequate segregation of duties. The sheriff's bookkeeper collects payments from customers, prepares deposits, writes checks, posts transactions to the receipts ledger, posts checks to the disbursements ledger, and prepares monthly and quarterly reports. The sheriff or another employee did not document oversight of any of these activities.

Lack of oversight could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the Department for Local Government.

This condition is a result of a limited budget, which restricts the number of employees the sheriff can hire or delegate duties to.

The segregation of duties over various accounting functions such as opening mail, preparing deposits, recording receipts and disbursements, and preparing monthly reports, or the implementation of compensating controls is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

The sheriff should separate the duties involved in receiving cash, preparing deposits, writing checks, posting to ledgers, preparing monthly bank reconciliations, and comparing financial reports to ledgers. If this is not feasible due to a limited budget, cross checking procedures could be implemented and documented by the individual performing the procedure.

Sheriff's Response: No Response.

2015-002 The Sheriff Did Not Maintain Accurate Receipts And Disbursements Ledgers Or Reconcile Them To Quarterly Financial Reports

The sheriff's receipts and disbursements ledgers, and 4th quarter financial report were not accurate and required numerous audit adjustments and reclassifications.

Due to not properly reconciling the ledgers and quarterly reports, the sheriff's reports reflected inaccurate information.

Without an accurate receipts ledger the sheriff cannot ensure all receipts have been properly accounted for. If reports are not reconciled to the receipts and disbursements ledgers the sheriff cannot ensure proper amounts have been reported and paid to others. In addition, the risk increases that receipts could be misappropriated or that fraud or theft could occur.

We recommend the sheriff maintain accurate receipts and disbursements ledgers and reconcile all monthly and quarterly reports to them. This reconciliation can be documented by initialing and dating the reports.

Sheriff's Response: No Response.

