

**REPORT OF THE AUDIT OF THE
ROCKCASTLE COUNTY
SHERIFF**

**For The Year Ended
December 31, 2015**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT OF THE ROCKCASTLE COUNTY SHERIFF

**For The Year Ended
December 31, 2015**

The Auditor of Public Accounts has completed the Rockcastle County Sheriff's audit for the year ended 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 \$1,418 from the prior year, resulting in excess fees of \$14,614 as of December 31, 2015. Receipts increased by \$25,398 from the prior year and disbursements increased by \$23,980.

Debt Obligations:

Capital lease principal agreements totaled \$3,055 as of December 31, 2015. Future principal and interest payments of \$3,055 are needed to meet these obligations.

Report Comment:

2015-001 The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

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

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Doug Bishop, Rockcastle County Judge/Executive
The Honorable Michael Peters, Rockcastle County Sheriff
Members of the Rockcastle 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 Rockcastle County, Kentucky, for the year ended 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 Doug Bishop, Rockcastle County Judge/Executive
The Honorable Michael Peters, Rockcastle County Sheriff
Members of the Rockcastle 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 Rockcastle 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 Rockcastle 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 Rockcastle County Sheriff for the year ended 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 August 04, 2016 on our consideration of the Rockcastle 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 Doug Bishop, Rockcastle County Judge/Executive
The Honorable Michael Peters, Rockcastle County Sheriff
Members of the Rockcastle County Fiscal Court

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

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

2015-001 The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

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

Mike Harmon
Auditor of Public Accounts

August 04, 2016

ROCKCASTLE COUNTY
MICHAEL PETERS, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2015

Receipts

State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)	\$	7,280	
State Fees For Services:			
House Bill 452	\$	11,106	
Fee Claims		<u>12,875</u>	23,981
Circuit Court Clerk:			
Fines and Fees Collected		2,714	
Court Ordered Payments		<u>13,800</u>	16,514
Fiscal Court			162,742
County Clerk - Delinquent Taxes			11,727
Commission On Taxes Collected			150,071
Fees Collected For Services:			
Auto Inspections		2,923	
Accident and Police Reports		875	
Serving Papers		18,085	
Carrying Concealed Deadly Weapon Permits		<u>7,365</u>	29,248
Other:			
Miscellaneous		3,921	
Add-On Fee		<u>20,811</u>	24,732
Borrowed Money:			
State Advancement		85,000	
Bank Note		<u>13,000</u>	<u>98,000</u>
Total Receipts			524,295

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

ROCKCASTLE COUNTY
MICHAEL PETERS, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2015
(Continued)

Disbursements

Operating Disbursements:

Personnel Services-			
Deputies' Salaries	\$	133,492	
Other Salaries		123,826	
KLEFPF		6,200	
Employee Benefits-			
KLEFPF Retirement		1,080	
Contracted Services-			
Accounting Services		1,200	
Vehicle Maintenance and Repairs		2,518	
Materials and Supplies-			
Office Materials and Supplies		13,589	
Uniforms		2,528	
Auto Expense-			
Gasoline		29,880	
Other Charges-			
Conventions and Travel		3,524	
Phone		470	
Carrying Concealed Deadly Weapon Permits		600	
Postage		370	
Utilities		7,681	
		<u>7,681</u>	\$ 326,958

Debt Service:

State Advancement		85,000	
Notes		<u>13,000</u>	<u>98,000</u>

Total Disbursements			<u>\$ 424,958</u>
Net Receipts			99,337
Less: Statutory Maximum			<u>82,752</u>
Excess Fees			16,585
Less: Training Incentive Benefit			<u>1,971</u>
Balance Due Fiscal Court at Completion of Audit			<u>\$ 14,614</u>

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

ROCKCASTLE 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).

ROCKCASTLE 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. 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.

Hazardous covered employees are required to contribute eight percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute nine percent of their salary to be allocated as follows: eight percent will go to the member's account and one percent will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 34.31 percent for the first six months and 32.95 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) and eight percent (hazardous) 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) and seven and one-half percent (hazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

The sheriff's contributions for Kentucky Law Enforcement Foundation Program Fund (KLEFPF) for calendar year 2013 was \$871, calendar year 2014 was \$1,080, and calendar year 2015 was \$1,080.

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.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

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

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

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%

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.

Hazardous employees whose participation began on or after July 1, 2003, earn 15 dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. 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 Rockcastle 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 Rockcastle 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.

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

Note 4. Lease Agreement

The Rockcastle County Sheriff's office was committed to the following lease agreements as of December 31, 2015:

<u>Item</u> <u>Purchased</u>	<u>Monthly</u> <u>Payment</u>	<u>Term of</u> <u>Agreement</u>	<u>Ending</u> <u>Date</u>	<u>Principal</u> <u>Balance</u> <u>December 31,</u> <u>2015</u>
Copier	\$ 180	60 Months	6/1/17	\$ 3,055

Note 5. State Asset Forfeiture Account

During 2015, the sheriff's office received proceeds from the confiscation, surrender, or sale of real personal property involved in state related convictions. These funds are to be used for law enforcement activities and are not available for excess fee purposes. As of January 1, 2015, this account had a beginning balance of \$11,959. During 2015, funds totaling \$21,260 were received and \$8,606 were expended, leaving an ending balance of \$24,613 as of December 31, 2015.

Note 6. Federal Asset Forfeiture Account

During 2015, the sheriff's office received proceeds from the federal government for participating in investigations or prosecutions that resulted in forfeited federal drug money. These funds are to be used for law enforcement activities, including training, equipment, operations, facilities, and drug education awareness, etc. These funds are not available for excess fee purposes. As of January 1, 2015, this account had a beginning balance of \$35,915. During 2015, funds totaling \$5,651 were received and \$34,011 were expended, leaving an ending balance of \$7,555 as of December 31, 2015.

Note 7. Confiscated Funds Account

During 2015, the sheriff's office received proceeds from the confiscation, surrender, or sale of real and personal property involved in state drug related convictions. These funds are to be used for law enforcement activities and are not available for excess fee purposes. As of January 1, 2015, this account had a beginning balance of \$1,060. During 2015, funds totaling \$2,704 were received and \$6 was expended, leaving an ending balance of \$3,758 as of December 31, 2015.

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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*



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Doug Bishop, Rockcastle County Judge/Executive
The Honorable Michael Peters, Rockcastle County Sheriff
Members of the Rockcastle 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 Rockcastle County Sheriff for the year ended December 31, 2015, and the related notes to the financial statement and have issued our report thereon dated August 04, 2016. The Rockcastle 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 Rockcastle 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 Rockcastle County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Rockcastle 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 comment and recommendation, 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 comment and recommendation as item 2015-001 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 Rockcastle 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

August 04, 2016

COMMENT AND RECOMMENDATION

ROCKCASTLE COUNTY
MICHAEL PETERS, SHERIFF
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2015

INTERNAL CONTROL - MATERIAL WEAKNESS:

2015-001 The Sheriff's Office Lacks Adequate Segregation Of Duties

While reviewing the sheriff's internal control structure, we noted a lack of adequate segregation of duties over receipts, reconciliations, and disbursements. This weakness exists because two employees are primarily responsible for most operating functions of the office, including: opening incoming mail, issuing receipts, preparing bank deposits, preparing daily checkout sheets, maintaining and preparing checks, posting to the receipts and disbursements ledgers, preparing bank reconciliations, and preparing the financial reports. Inadequate segregation of duties could result in asset misappropriation and inaccurate financial reporting. Proper segregation of duties is essential to protect against asset misappropriation and inaccurate financial reporting, while also protecting employees in the normal course of performing their responsibilities. We recommend the sheriff segregate duties within his office. If it is not feasible for the sheriff to segregate duties because of the limited number of staff and budget restrictions, the sheriff should implement compensating controls to offset the effects of the lack of segregation of duties, including:

- The sheriff could recount cash and checks collected at the end of each day and compare it to the deposit ticket. The sheriff should initial the deposit ticket to document agreement.
- The sheriff could compare the receipts and disbursements ledgers to the bank reconciliation. The sheriff should initial the receipts and disbursements ledgers, along with the bank reconciliation to document agreement.
- The sheriff could compare all checks to the accompanying supporting documentation. The sheriff should initial the supporting documentation to document agreement.

Sheriff's Response: No Response.

