

**REPORT OF THE AUDIT OF THE
GALLATIN COUNTY
SHERIFF**

**For The Year Ended
December 31, 2014**



**MIKE HARMON
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EXECUTIVE SUMMARY
AUDIT OF THE
GALLATIN COUNTY SHERIFF

For The Year Ended
December 31, 2014

The Auditor of Public Accounts has completed the Gallatin County Sheriff's audit for the year ended December 31, 2014. 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 decreased by \$85,124 from the prior year, resulting in excess fees of \$63,343 as of December 31, 2014. Receipts decreased by \$55,701 from the prior year and disbursements increased by \$29,423.

Lease:

The Sheriff's office was committed to a lease agreement with Xerox for a copier. The agreement requires a monthly payment of \$129 for 60 months to be completed on October 30, 2017. The total remaining balance of the agreement was \$4,127 as of December 31, 2014.

Report Comments:

- 2014-001 The Sheriff's Office Has A Lack Of Segregation Of Duties Related To Receipts, Disbursements, And Bank Reconciliations
- 2014-002 The Sheriff Should Not Run Charitable Accounts Through His Office That Do Not Serve A Public Purpose Associated With A Regular Function Of The Sheriff's Office

Deposits:

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

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Ken McFarland, Gallatin County Judge/Executive
The Honorable Josh Neale, Gallatin County Sheriff
Members of the Gallatin 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 County Sheriff of Gallatin County, Kentucky, for the year ended December 31, 2014, 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. 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 opinions.



The Honorable Ken McFarland, Gallatin County Judge/Executive
The Honorable Josh Neale, Gallatin County Sheriff
Members of the Gallatin 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 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 County Sheriff, as of December 31, 2014, 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 County Sheriff for the year ended December 31, 2014, 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 20, 2015 on our consideration of the Gallatin 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 effectiveness of the Gallatin County Sheriff's 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 Ken McFarland, Gallatin County Judge/Executive
The Honorable Josh Neale, Gallatin County Sheriff
Members of the Gallatin 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:

- 2014-001 The Sheriff's Office Has A Lack Of Segregation Of Duties Related To Receipts, Disbursements, And Bank Reconciliations
- 2014-002 The Sheriff Should Not Run Charitable Accounts Through His Office That Do Not Serve A Public Purpose Associated With A Regular Function Of The Sheriff's Office

Respectfully submitted,

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

Mike Harmon
Auditor of Public Accounts

October 20, 2015

GALLATIN COUNTY
 JOSH NEALE, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2014

Receipts

State Grants		\$ 1,374
State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)		27,785
State Fees For Services:		
Finance and Administration Cabinet	\$ 52,942	
Sheriff Security Service	16,987	
Prisoner Transport	<u>176</u>	70,105
Fiscal Court		298,000
County Clerk - Delinquent Taxes		13,182
Commission On Taxes Collected		248,458
Fees Collected For Services:		
Auto Inspections	3,855	
Accident and Police Reports	2,702	
Serving Papers	20,986	
Carrying Concealed Deadly Weapon Permits	<u>3,240</u>	30,783
Other:		
Add-On Fees	20,756	
Telecommunication Tax	2,296	
School Resource Officer	22,500	
Glencoe Agreement	24,000	
Auction	2,220	
City of Warsaw-Software	1,188	
Miscellaneous	<u>1,465</u>	74,425
Interest Earned		<u>24</u>
Total Receipts		764,136

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

GALLATIN COUNTY
 JOSH NEALE, SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2014
 (Continued)

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-		
Deputies' Salaries	\$	409,255
Part-Time Salaries		33,447
Employee Benefits-		
Employer's Share Social Security		37,190
KLEFPF Retirement		4,703
Contracted Services-		
Advertising		456
Materials and Supplies-		
Office Materials and Supplies		4,513
Uniforms		6,312
Auto Expense-		
Gasoline		55,715
Maintenance and Repairs		24,523
Other Charges-		
Postage		2,222
Telephone		8,675
Law Enforcement		15,135
Blakes Tax Service		4,425
Miscellaneous		7,457
Capital Outlay-		
Office Equipment		2,091
Vehicles		4,500
		<hr/>
Total Disbursements	\$	<u>620,619</u>
Net Receipts		143,517
Less: Statutory Maximum		<u>76,264</u>
Excess Fees		67,253
Less: Training Incentive		<u>3,910</u>
Excess Fees		63,343
Less: Payment to Fiscal Court - February 12, 2015		<u>48,393</u>
Excess Fees Due County for 2014	\$	<u><u>14,950</u></u>

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

GALLATIN COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2014

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 final settlement with the fiscal court.

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 2014 services
- Reimbursements for 2014 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2014

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).

GALLATIN COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2014
 (Continued)

Note 2. Employee Retirement System

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 18.89 percent for the first six months and 17.67 percent for the last six months.

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%

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.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. 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.

GALLATIN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2014
(Continued)

Note 3. Deposits

The Gallatin 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(4), 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 Gallatin County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2014, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Lease

The Sheriff's office was committed to a lease agreement with Xerox for a copier. The agreement requires a monthly payment of \$129 for 60 months to be completed on October 30, 2017. The total remaining balance of the agreement was \$4,127 as of December 31, 2014.

Note 5. State Grant-Law Enforcement Service Fee Grant

The Sheriff's office was awarded a Law Enforcement Service Fee Grant in the amount of \$5,814 for the contract period of July 1, 2013 through June 30, 2014. The grant agreement requires the funds to be used for DUI enforcement. The Sheriff's office was reimbursed \$1,374 during the calendar year.

Note 6. Donations Account

The Gallatin County Sheriff's office maintains a donations account, which consists of funds obtained through fundraiser proceeds to be used with the annual Christmas shopping for needy children, or Shop with a Cop Program. The balance on January 1, 2014 was \$1,008. Receipts during the year totaled \$2,760 and disbursements totaled \$3,474, leaving a balance of \$294 as of December 31, 2014.

Note 7. Asset Forfeiture Account

The Gallatin County Sheriff's office maintains an asset forfeiture account for the receipts and disbursements of funds resulting from drug related seizures and forfeitures. These funds are used to purchase law enforcement equipment and to conduct drug related investigations. The beginning balance on January 1, 2014 was \$3,997. During calendar year 2014, there were receipts of \$3,520 and disbursements of \$1,024, leaving a balance of \$6,493 as of December 31, 2014.

GALLATIN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2014
(Continued)

Note 8. City of Glencoe Contract

The Sheriff's office entered into an agreement with the City of Glencoe, Kentucky, on May 1, 2011, to provide police patrol within the city limits of Glencoe. The city of Glencoe shall pay a sum of \$6,000 per quarter to the Sheriff's office for the random hours of patrol by each deputy. The Sheriff's deputies performing the work under this contract are paid directly by the Sheriff's office.

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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 Ken McFarland, Gallatin County Judge/Executive
The Honorable Josh Neale, Gallatin County Sheriff
Members of the Gallatin 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 Gallatin County Sheriff for the year ended December 31, 2014, and the related notes to the financial statement and have issued our report thereon dated October 20, 2015. The County Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Gallatin County Sheriff's internal control over financial reporting (internal control) to determine 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 Gallatin County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Gallatin County Sheriff's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section 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 are not identified. However, as described in the accompanying comments and recommendations, we identified a certain deficiency in internal control that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

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 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 comments and recommendations as item 2014-001 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)

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying comments and recommendations as item 2014-002 to be a significant deficiency.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Gallatin 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,



Mike Harmon
Auditor of Public Accounts

October 20, 2015

COMMENTS AND RECOMMENDATIONS

GALLATIN COUNTY
JOSH NEALE, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2014

INTERNAL CONTROLS-MATERIAL WEAKNESS:

2014-001 The Sheriff's Office Has A Lack Of Segregation Of Duties Related To Receipts, Disbursements, And Bank Reconciliations

The Sheriff's bookkeeper collects receipts, posts receipts to the ledger, takes deposits to the bank, prepares and signs checks, posts disbursements to the ledger and completes the bank reconciliations, which results in a lack of segregation of duties. There are no independent reviews done due to a lack of oversight over controls by the Sheriff. The Sheriff reviews invoices and initials them for the bookkeeper to prepare checks, but he does not compare the invoices to the checks before he signs them, resulting in an ineffective review, or approval of disbursements. The risk of misstatement due to error or fraud is high when there is lack of segregation of duties with no compensating controls. Proper segregation of duties protects employees in the normal course of performing their daily responsibilities and reduces the risk that financial reporting errors will go undetected. We recommend the Sheriff either segregate the controls over receipts, disbursements and bank reconciliations, or implement compensating control review procedures. Reviews should be evidenced with initials on the daily collection reports, deposit tickets, ledgers and bank reconciliations.

Sheriff's Response: None.

INTERNAL CONTROLS-SIGNIFICANT DEFICIENCY:

2014-002 The Sheriff Should Not Run Charitable Accounts Through His Office That Do Not Serve A Public Purpose Associated With A Regular Function Of The Sheriff's Office

The Sheriff deposits and expends donations for the Shop with a Cop program administered through the donations account managed in his office. Certain charitable accounts may run through a Sheriff's office and be considered an allowable activity of his office. These include charitable accounts for activities that serve a public purpose associated with a regular function of the Sheriff's office, such as drug awareness education through DARE and other drug education programs. To be considered an allowable charitable activity, the charity should be a statewide or national charitable organization, and the Sheriff should have a specific agreement or guidelines in place that describe the activities to be performed by the Sheriff or his or her deputies that are related to a regular function of the office, the method of collecting funds, and the restriction on the disbursement of funds. Because the Sheriff's Shop with a Cop program, administered through his donation account, does not meet these guidelines, it should not be conducted through the Sheriff's office, but should be operated completely external to the Sheriff's office and administered by a private or not for profit entity.

Sheriff's Response: None.

