

**REPORT OF THE AUDIT OF THE
PERRY COUNTY
SHERIFF**

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



**ADAM H. EDELEN
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 EXAMINATION OF THE
PERRY COUNTY SHERIFF**

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

The Auditor of Public Accounts has completed the Perry 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 \$1,802 from the prior year, resulting in excess fees of \$1,063 as of December 31, 2014. Receipts decreased by \$53,854 from the prior year and disbursements decreased by \$52,052.

Report Comment:

2014-001 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Cash Receipts

Deposits:

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

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Scott Alexander, Perry County Judge/Executive
The Honorable Les Burgett, Perry County Sheriff
Members of the Perry 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 Perry 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 Scott Alexander, Perry County Judge/Executive
The Honorable Les Burgett, Perry County Sheriff
Members of the Perry 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 Perry 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 Perry 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 Perry 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 Perry 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 Perry 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 Scott Alexander, Perry County Judge/Executive
The Honorable Les Burgett, Perry County Sheriff
Members of the Perry 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:

2014-001 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Cash Receipts

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

October 20, 2015

PERRY COUNTY
LES BURGETT, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2014

Receipts

Federal Grant	\$	15,982	
State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)			32,179
State Fees For Services:			
Finance and Administration Cabinet	\$	131,390	
Sheriff Security Service		6,405	
KRCC - Transports Payments		4,200	
Citation Conviction Revenue		622	
KCPC Department of Corrections		338	142,955
Circuit Court Clerk:			
Court Ordered Payments			71
County Clerk - Delinquent Taxes			73,510
Commission On Taxes Collected			576,698
Fees Collected For Services:			
Auto Inspections		13,868	
Accident and Police Reports		975	
Serving Papers		34,516	
Carrying Concealed Deadly Weapon Permits		6,900	
Jury Meals		484	56,743
Other:			
Add-On Fees		61,132	
Telecommunication Tax Revenue		9,565	
Election Commission		200	
Miscellaneous		3,226	74,123
Interest Earned			2,248
Borrowed Money:			
State Advancement			275,000
Total Receipts			1,249,509

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

PERRY COUNTY
 LES BURGETT, 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	\$	592,265
KLEFPF Salaries		27,502
Overtime		10,892
Employee Benefits-		
Employer's Share Social Security		49,082
Employer's Share Retirement		4,946
Unemployment Insurance		2,647
Contracted Services-		
Copier & Maintenance		520
Cell Phone		1,259
Materials and Supplies-		
Office Materials and Supplies		1,810
Uniforms		16,534
Evidence Supplies		977
Firearms and Ammunition		3,702
Document Storage		540
Auto Expense-		
Gasoline		74,923
Maintenance and Repairs		41,589
Other Charges-		
Computer Services		10,676
ARH Lab Fees		120
Phone		3,517
POPS Testing		1,590
Perry County Fiscal Court		6,740
Mobile Tax Unit Costs		3,031
Postage		5,221
Advertising		215
Jury Meals		463
Prisoner Meals		9
Training		1,948
Deputies Expense		2,182
Miscellaneous		995
Capital Outlay-		
Office Equipment		3,580
Vehicles		12,064
	\$	881,539

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

PERRY COUNTY
 LES BURGETT, SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2014
 (Continued)

Disbursements (Continued)

Debt Service:	
State Advancement	<u>\$ 275,000</u>
 Total Disbursements	 <u>\$ 1,156,539</u>
 Net Receipts	 92,970
Less: Statutory Maximum	<u>87,997</u>
 Excess Fees	 4,973
Less: Training Incentive Benefit	<u>3,910</u>
 Excess Fees Due County for 2014	 1,063
Payment to Fiscal Court - March 17, 2015	<u>1,063</u>
 Balance Due Fiscal Court at Completion of Audit	 <u><u>\$ 0</u></u>

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

PERRY 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).

PERRY 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 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 19.55 percent for the first six months and 18.89 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 (members 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.

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

Note 3. Deposits

The Perry 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 Perry 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. Federal Asset Forfeiture Account

The Perry County Sheriff maintains an official bank account for monies obtained from seizures and sales of property used in illegal drug activities. The purpose of this fund is to purchase necessary equipment for operating the Sheriff's office. The beginning balance as of January 1, 2014 was \$0. During 2014 the sheriff was credited back an erroneous fee which was charged in the previous calendar year of \$2. Due to this balance at the end of calendar year 2014 was \$2.

Note 5. State Asset Forfeiture Account

The Perry County Sheriff maintains an official bank account for monies obtained from seizures and sales of property used in illegal drug activities. The purpose of this fund is to purchase necessary equipment for operating the Sheriff's office. The beginning balance as of January 1, 2014 was \$2,654. During 2014 the Sheriff received interest of \$10 and expended funds totaling \$1,213 resulting in a balance of \$1,451 of forfeited funds in the account for calendar year 2014.

Note 6. Federal Grant - U.S. Army Corps of Engineers

The Perry County Sheriff's office received a grant from the U. S. Department of Defense passed through the U. S. Army Corps of Engineers for patrolling Buckhorn Lake in Perry County, Kentucky. The grant is based on reimbursements for providing law enforcement services and patrolling the lake from May 2014 through September 2014. The Sheriff received reimbursements of \$15,982 during 2014 for salary reimbursement.

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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



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Scott Alexander, Perry County Judge/Executive
The Honorable Les Burgett, Perry County Sheriff
Members of the Perry 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 Perry 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 Perry 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 Perry 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 opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Perry County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Perry 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 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)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Perry 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.

Sheriff's Response to Finding

The Perry County Sheriff's response to the finding identified in our audit is described in the accompanying comment and recommendation. The Sheriff's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Purpose of this Report

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

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

October 20, 2015

COMMENT AND RECOMMENDATION

PERRY COUNTY
LES BURGETT, SHERIFF
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2014

INTERNAL CONTROL - MATERIAL WEAKNESS:

2014-001 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Cash Receipts

The Sheriff's office lacks adequate segregation of duties over cash receipts. The Sheriff's bookkeeper is responsible for opening mail, collecting payments, posting to the receipts ledger, and helping prepare bank deposits.

A limited budget places restrictions on the number of employees the Sheriff can hire. When faced with a limited number of staff, strong compensating controls should be in place to offset the lack of adequate segregation of duties. The implementation of compensating controls is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their responsibilities.

To adequately protect against the misappropriation of assets and/or inaccurate financial reporting, the Sheriff should separate the duties of opening mail, collecting cash receipts, posting to the receipts ledger, and preparing bank deposits. If due to a limited number of staff this is not feasible, the Sheriff should implement the following compensating controls in order to offset this deficiency:

- The Sheriff should recount cash and agree to the deposit ticket. The Sheriff should document this by initialing the deposit ticket.
- The Sheriff should perform surprise cash counts.
- The Sheriff should require deputies to count each other cash drawers.

Sheriff's Response: The Sheriff's Office will do everything possible to maintain good internal controls, taking into consideration the limited amount of staffing.

