

**REPORT OF THE AUDIT OF THE
DAVISS COUNTY
SHERIFF**

**For The Year Ended
December 31, 2018**



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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Al Mattingly, Daviess County Judge/Executive
The Honorable Keith Cain, Daviess County Sheriff
Members of the Daviess County Fiscal Court

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying Statement of Receipts and Disbursements - Regulatory Basis of the Sheriff of Daviess County, Kentucky, and the Statement of Receipts, Disbursements, and Fund Balances of the Sheriff's Operating Fund and County Fund with the State Treasurer - Regulatory Basis for the year ended December 31, 2018, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements 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 and budget laws. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements 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 statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, 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 statements 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 statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



The Honorable Al Mattingly, Daviess County Judge/Executive
The Honorable Keith Cain, Daviess County Sheriff
Members of the Daviess County Fiscal Court

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the financial statements are prepared by the Daviess 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 statements 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 statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Daviess County Sheriff, as of December 31, 2018, 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 statements referred to above present fairly, in all material respects, the receipts and disbursements of the Daviess County Sheriff and the receipts, disbursements, and fund balances of the Daviess County Sheriff’s operating fund and county fund with the state treasurer for the year ended December 31, 2018, 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 21, 2019, on our consideration of the Daviess County Sheriff’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

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

2018-001 The Sheriff’s Fourth Quarter Financial Report Was Materially Misstated

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

August 21, 2019

DAVIESS COUNTY
KEITH CAIN, SHERIFF
STATEMENT OF RECEIPTS AND DISBURSEMENTS - REGULATORY BASIS

For The Year Ended December 31, 2018

Receipts

Federal Grant:		
Highway Safety Grant	\$	15,281
State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)		213,979
State Fees for Services:		
Finance and Administration Cabinet		370,243
Fiscal Court		3,288,596
County Clerk - Delinquent Taxes		44,774
Commission on Taxes		1,642,022
Fees Collected for Services:		
Auto Inspections	\$	50,410
Accident/Police Reports		12,494
Serving Papers		144,498
Carry Concealed Deadly Weapon Permits		51,440
Serving Papers - Fiscal Court Fee		18,050
		276,892
Other:		
Add-On Fees	129,364	
Miscellaneous	3,635	
TSA - Airport Security	8,160	
Contract Overtime-Other Government Entities	96,501	
County Attorney/Traffic School	5,035	
Board of Education - SRO	88,097	
Miscellaneous Grants	4,390	
Reimbursed Expenses	56,234	391,416
		391,416
Interest Earned		1,382
Total Receipts		6,244,585

The accompanying notes are an integral part of the financial statements.

DAVISS COUNTY
 KEITH CAIN, SHERIFF
 STATEMENT OF RECEIPTS AND DISBURSEMENTS - REGULATORY BASIS
 For The Year Ended December 31, 2018
 (Continued)

Disbursements

Payments to County:		
Fees Collected - Fiscal Court	\$	18,050
Other Disbursements:		
Juror Expenses		<u>795</u>
Total Disbursements		<u>\$ 18,845</u>
Net Receipts		6,225,740
Payments to State Treasurer:		
75% Operating Fund*	5,833,518	
25% County Fund	<u>392,222</u>	<u>6,225,740</u>
Balance Due at Completion of Audit		<u>\$ 0</u>

* Includes reimbursed expenses in the amount of \$56,234 for the audit period.
 See Note 1 of Notes to Financial Statements.

DAVIESS COUNTY
KEITH CAIN, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
FUND BALANCES OF THE SHERIFF'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS

For The Year Ended December 31, 2018

	75% Operating Fund	25% County Fund	Totals
Fund Balance - January 1, 2018	\$ (962,512)	\$ 302,580	\$ (659,932)
<u>Receipts</u>			
Fees Paid to State - Operating Funds (75%)	5,833,518		5,833,518
Fees Paid to State - County Funds (25%)		392,222	392,222
Total Funds Available	4,871,006	694,802	5,565,808
<u>Disbursements</u>			
Daviess County Fiscal Court		694,802	694,802
Personal Services-			
Official's Statutory Maximum	115,676		115,676
Official's Training Incentive	4,137		4,137
Deputies' Salaries	2,145,774		2,145,774
Overtime Gross	182,640		182,640
Employee Benefits-			
Employer's Share Social Security	187,409		187,409
Employer's Share Retirement	719,299		719,299
Employer's Share Health Insurance	802,772		802,772
Employer's Share Life Insurance	3,218		3,218
Workers' Compensation	139,181		139,181
Unemployment Insurance	1,183		1,183
Contracted Services-			
Computer Maintenance	18,003		18,003
Supplies and Materials-			
Office Supplies	9,031		9,031
Uniforms/Equipment	37,998		37,998

The accompanying notes are an integral part of the financial statements.

DAVISS COUNTY
 KEITH CAIN, SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
 FUND BALANCES OF THE SHERIFF'S OPERATING FUND
 AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS
 For The Year Ended December 31, 2018
 (Continued)

	75%	25%	
	Operating	County	
	Fund	Fund	Totals
	<u> </u>	<u> </u>	<u> </u>
Disbursements (Continued)			
Other Charges-			
K-9 Expenses	\$ 2,107	\$	\$ 2,107
Dues	4,314		4,314
Miscellaneous	12,308		12,308
Supplies	5,292		5,292
Telephone/Fax/Cellular	8,786		8,786
Radio/Siren Maintenance	33,141		33,141
Training	24,723		24,723
Transport	11,470		11,470
Tax Costs	4,325		4,325
Travel	5,674		5,674
Tasers	19,428		19,428
Auto Expenses-			
Gasoline	129,914		129,914
Maintenance and Repairs	59,206		59,206
Capital Outlay-			
Equipment	32,429		32,429
Vehicles	151,498		151,498
	<u> </u>	<u> </u>	<u> </u>
Total Disbursements	4,870,936	694,802	5,565,738
	<u> </u>	<u> </u>	<u> </u>
Fund Balance - December 31, 2018	\$ 70	\$ 0	\$ 70
	<u> </u>	<u> </u>	<u> </u>

The accompanying notes are an integral part of the financial statements.

DAVIESS COUNTY
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

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 due from the sheriff as determined by the audit.

KRS 64.350 establishes that a fee official in counties with a population over 70,000 has two funds with the state treasurer for the deposit of fees collected. Seventy-five percent (75%) of the fees collected are deposited in the sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected are deposited to the county fiscal court fund and paid to the fiscal courts, urban-county governments, or consolidated local governments of the respective counties quarterly no later than April 15, July 15, October 15, and January 15. These funds are closed at the end of each official term by paying the balances to the respective county government.

Also, some revenues of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are treated as revenue in the 75 percent fund.

The financial statements have been prepared on a regulatory basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. This basis 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:

- Interest receivable
- Collection on accounts due from others for 2018 services
- Reimbursements for 2018 activities
- Payments due other governmental entities for December tax and fee collections
- Payroll expenditures incurred but not paid
- Payments due vendors for goods or services provided in 2018

C. Cash and Investments

KRS 66.480 authorizes the sheriff's office to invest in 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).

DAVISS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018
(Continued)

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

The sheriff's office has elected to participate, pursuant to KRS 78.530, in the County Employees Retirement System (CERS), which is 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.

The sheriff's contribution for calendar year 2016 was \$628,729, calendar year 2017 was \$702,256, and calendar year 2018 was \$719,299.

Nonhazardous

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 be allocated as follows: five percent will go to the member's account and one percent will go to the KRS insurance fund.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, 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. Nonhazardous covered employees contribute five percent of their annual creditable compensation. Nonhazardous members also contribute 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 KRS Board of Directors 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 employer pay credit. The employer pay credit represents a portion of the employer contribution.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008, must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

The county's contribution rate for nonhazardous employees was 19.18 percent for the first six months and 21.48 percent for the last six months.

Hazardous

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008, are required to contribute 9 percent of their salary to be allocated as follows: 8 percent will go to the member's account and 1 percent will go to the KRS insurance fund.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, 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.

DAVISS COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2018
 (Continued)

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

Members in the plan contribute a set percentage of their salary each month to their own accounts. Hazardous members contribute eight percent of their annual creditable compensation and also contribute 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 hazardous member's account is credited with a 7.5 percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

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.

The county's contribution rate for hazardous employees was 31.55 percent for the first six months and 35.34 percent for the last six months.

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS 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. 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.

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, the 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.

DAVISS COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2018
 (Continued)

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

Other Post-Employment Benefits (OPEB) (Continued)

A. Health Insurance Coverage - Tier 1 (Continued)

Benefits are covered under KRS 161.714 with exception of COLA and retiree health benefits after July 2003.

B. Health Insurance Coverage - Tier 2 and Tier 3 - Nonhazardous

Once members reach a minimum vesting period of 15 years, 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 by 1.5 percent. This was established for Tier 2 members during the 2008 Special Legislative Session by House Bill 1. During the 2013 Legislative Session, Senate Bill 2 was enacted, creating Tier 3 benefits for members.

The monthly insurance benefit has been increased annually as a 1.5 percent cost of living adjustment (COLA) since July 2003 when the law changed. The annual increase is cumulative and continues to accrue after the member's retirement.

Tier 2 member benefits are covered by KRS 161.714 with exception of COLA and retiree health benefits after July 2003. Tier 3 members are not covered by the same provisions.

C. Health Insurance Coverage - Tier 2 and Tier 3 - Hazardous

Once members reach a minimum vesting period of 15 years, earn fifteen 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 by 1.5 percent. Upon the death of a hazardous employee, the employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This was established for Tier 2 members during the 2008 Special Legislative Session by House Bill 1. During the 2013 Legislative Session, Senate Bill 2 was enacted, creating Tier 3 benefits for members.

The monthly insurance benefit has been increased annually as a 1.5 percent COLA since July 2003 when the law changed. The annual increase is cumulative and continues to accrue after the member's retirement.

D. Cost of Living Adjustments - Tier 1

The 1996 General Assembly enacted an automatic cost of living adjustment (COLA) provision for all recipients of KRS benefits. During the 2008 Special Session, the General Assembly determined that each July beginning in 2009, retirees who have been receiving a retirement allowance for at least 12 months will receive an automatic COLA of 1.5 percent. The COLA is not a guaranteed benefit. If a retiree has been receiving a benefit for less than 12 months, and a COLA is provided, it will be prorated based on the number of months the recipient has been receiving a benefit.

E. Cost of Living Adjustments - Tier 2 and Tier 3

No COLA is given unless authorized by the legislature with specific criteria. To this point, no COLA has been authorized by the legislature for Tier 2 or Tier 3 members.

DAVIESS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018
(Continued)

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

Other Post-Employment Benefits (OPEB) (Continued)

F. Death Benefit

If a retired member is receiving a monthly benefit based on at least 48 months of service credit, KRS will pay a \$5,000 death benefit payment to the beneficiary designated by the member specifically for this benefit. Members with multiple accounts are entitled to only one death benefit.

KRS Annual Financial Report and Proportionate Share Audit Report

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.

KRS also issues proportionate share audit reports for both total pension liability and other post-employment benefits for CERS determined by actuarial valuation as well as each participating county's proportionate share. Both the Schedules of Employer Allocations and Pension Amounts by Employer and the Schedules of Employer Allocations and OPEB Amounts by Employer reports and the related actuarial tables are available online at <https://kyret.ky.gov>. The complete actuarial valuation report, including all actuarial assumptions and methods, is also available on the website or can be obtained as described in the paragraph above.

Note 3. Deposits

The Daviess 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 Daviess 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, 2018, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Self-Insured Health Insurance Fund

The Daviess County Sheriff participates in a partially self-funded health insurance plan. This partially self-funded insurance plan covers all employees of the sheriff's office. The sheriff's office pays for each employee's individual coverage. The sheriff contracted with ARC Administrators to administer the employee benefit plan for the year ended December 31, 2018. This partially self-funded insurance plan has two distinct components that the sheriff must pay. The first component is the fixed cost, which consists of administrative fees associated with operating the plan, and specific and aggregate reinsurance costs that cap the sheriff's claims exposure on an individual and aggregate basis. Incurred fixed costs for the year ended December 31, 2018, were \$300,771.

DAVIESS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018
(Continued)

Note 4. Self-Insured Health Insurance Fund (Continued)

The second component is the claims cost, all of which the sheriff is responsible to pay as they incur. Once an individual exceeds \$23,500 in claims or the sheriff's aggregate claims exceed the predetermined maximum, then the sheriff will receive reimbursements from the reinsurance carrier. Incurred claims for the year ended December 31, 2018, were \$491,929 and there were no reimbursements. The sheriff's contract had no terminal liability provision. The sheriff would be responsible to pay all run-out claims after termination. The health insurance fund had a balance of \$60,544 as of December 31, 2018.

Note 5. Deferred Compensation

All eligible employees of the Daviess County Sheriff's office may participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax shelter supplemental retirement plans for all state, public school and university employees, and employees of local political subdivisions that have elected to participate. These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plan is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing to the Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, Kentucky, 40601-8862, or by telephone at (502) 573-7925.

Note 6. Special Investigation Account

The Daviess County Sheriff's office maintains a special investigation account for monies received from court ordered forfeitures in connection with drug related arrests. The balance of the account as of January 1, 2018, was \$856. During 2018, receipts were \$55,210 and disbursements were \$35,656, resulting in a balance of \$20,410 as of December 31, 2018.

Note 7. Highway Safety Grant

The Daviess County Sheriff's office received a Highway Safety Grant in the amount of \$15,400. The main purpose of the grant is to reduce fatalities on Kentucky roadways, minimize injuries to individuals and property, and to educate the public in ways to do this. The Daviess County Sheriff's office was reimbursed \$15,281 from this grant for calendar year 2018.

Note 8. Escrow Account

The Daviess County Sheriff's office maintains an escrow account, which accounts for the activity of estates and executions. The Daviess County Sheriff is periodically required by the Daviess County Judicial System to act as the Public Administrator of decedents' estates. Additionally, the Administration Office Of Courts, Commonwealth of Kentucky periodically orders the Daviess County Sheriff to serve execution orders, which requires funds be collected from one party and paid to a second party. The balance of the account as of January 1, 2018, was \$14,138. During 2018, receipts were \$6,130 and disbursements were \$4,939, resulting in a balance of \$15,329 as of December 31, 2018.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Al Mattingly, Daviess County Judge/Executive
The Honorable Keith Cain, Daviess County Sheriff
Members of the Daviess County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements 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 and Disbursements - Regulatory Basis of the Sheriff of Daviess County, Kentucky, the Statement of Receipts, Disbursements, and Fund Balances of the Sheriff's Operating Fund and County Fund with the State Treasurer - Regulatory Basis for the year ended December 31, 2018, and the related notes to the financial statements, and have issued our report thereon dated August 21, 2019. The Daviess County Sheriff's financial statements are 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 statements, we considered the Daviess 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 statements, but not for the purpose of expressing an opinion on the effectiveness of the Daviess County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Daviess County Sheriff's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control 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 Schedule of Findings and Responses, 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 statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2018-001 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
Statements Performed In Accordance With *Government Auditing Standards*
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Daviess County Sheriff's financial statements are 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying Schedule of Findings and Responses as item 2018-001.

Views of Responsible Official and Planned Corrective Action

The Daviess County Sheriff's views and planned corrective action for the finding identified in our audit are included in the accompanying Schedule of Findings and Responses. The Daviess County Sheriff's response was not subjected to the auditing procedures applied in the audit of the financial statements, 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,



Mike Harmon
Auditor of Public Accounts

August 21, 2019

SCHEDULE OF FINDINGS AND RESPONSES

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DAVIESS COUNTY
KEITH CAIN, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2018

FINANCIAL STATEMENT FINDING:

2018-001 The Sheriff's Fourth Quarter Financial Report Was Materially Misstated

The sheriff's fourth quarter financial report was materially inaccurate when compared to the receipts and disbursements ledgers for calendar year 2018. The receipts and disbursements per the fourth quarter financial report were understated by \$2,147,789 and \$1,290,725, respectively. End of term receipts of \$2,147,789 were omitted from the fourth quarter financial report. Disbursements of \$1,531,483 for December 2017 were included, disbursements of \$674,419 for December 2018 were omitted, and lastly, end of term disbursements of \$2,147,789 were omitted.

The former chief financial officer had included disbursements from December 2017, since these were not paid until January 2018. He felt they were on a cash basis of accounting; therefore, not requiring this activity to be pulled back. Additionally, the current financial officer did not realize she needed to update the fourth quarter financial report to include all of the activity for December 2018 and the end of term activity.

The receipts and disbursements per the fourth quarter financial report were understated by \$2,147,789 and \$1,290,725, respectively. Inaccurate financial reporting allows opportunity for the sheriff to misrepresent his financial status to the fiscal court and other administrative bodies.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Pursuant to KRS 68.210, the state local finance officer has prescribed minimum accounting and reporting standards in the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* which requires accurate financial reporting as stated on the front page of the quarterly report. Additionally, adequate internal controls are essential to providing protection from asset misappropriation, and helping prevent inaccurate financial reporting.

We recommend the sheriff ensure that his fourth quarter financial report is accurate and that it agrees to his receipts and disbursements ledgers.

Sheriff's Response: New Financial Officer took the position on August 1, 2018. She was aware of the requirement for Quarterly Reports to be completed, but was unaware of the need for a Supplemental Quarterly Report to close out the term. As a result, income and expenditures unintentionally failed to be disclosed. Beginning with the closing Quarterly Report for 2019, the Financial Officer will include income and expenses incurred in December, and further file a Supplemental Quarterly Report at the end of the next term.