

**REPORT OF THE AUDIT OF THE  
ESTILL COUNTY  
SHERIFF**

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



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

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

The Auditor of Public Accounts has completed the Estill 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 decreased by \$21,774 from the prior year, resulting in excess fees of \$54,485 as of December 31, 2015. Receipts increased by \$3,319 from the prior year and disbursements increased by \$25,093.

**Report Comments:**

2015-001 The Sheriff Did Not Deposit Funds Daily  
2015-002 The Sheriff's Office Lacks Adequate Segregation Of Duties

**Deposits:**

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

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**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Wallace Taylor, Estill County Judge/Executive  
The Honorable Gary Freeman, Estill County Sheriff  
Members of the Estill 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 Estill 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 Wallace Taylor, Estill County Judge/Executive  
The Honorable Gary Freeman, Estill County Sheriff  
Members of the Estill 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 Estill 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 Estill 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 Estill 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 September 20, 2017, on our consideration of the Estill 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 Wallace Taylor, Estill County Judge/Executive  
The Honorable Gary Freeman, Estill County Sheriff  
Members of the Estill County Fiscal Court

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

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

- 2015-001 The Sheriff Did Not Deposit Funds Daily
- 2015-002 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

September 20, 2017

ESTILL COUNTY  
GARY FREEMAN, 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)	\$	7,277
State Fees For Services:		
Finance and Administration Cabinet	\$	11,453
Sheriff Security Service		<u>5,493</u>
		16,946
Circuit Court Clerk:		
Fines and Fees Collected		6,235
Fiscal Court		26,162
County Clerk - Delinquent Taxes		35,054
Commission On Taxes Collected		180,977
Fees Collected For Services:		
Auto Inspections	1,845	
Accident and Police Reports	650	
Serving Papers	15,220	
Carry Concealed Deadly Weapon Permits	<u>5,360</u>	23,075
Other:		
Add-On Fees	28,787	
Miscellaneous	<u>10,812</u>	39,599
Interest Earned		<u>13</u>
Total Receipts		335,338

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

ESTILL COUNTY  
 GARY FREEMAN, SHERIFF  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2015  
 (Continued)

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-	
Deputies' Salaries	\$ 46,824
Part-Time Salaries	4,946
Other Salaries	33,122
Overtime	4,161
Employee Benefits-	
Employer's Share Social Security	10,516
Employer's Share Retirement	14,072
Employer Paid Health Insurance	11,819
Contracted Services-	
Advertising	128
Vehicle Maintenance and Repairs	2,489
Computer Services	4,276
Materials and Supplies-	
Office Materials and Supplies	5,625
Uniforms	5,885
Auto Expense-	
Gasoline	8,566
Other Charges-	
Phone	4,576
Dues	455
Postage	196
Miscellaneous	2,160
Capital Outlay-	
Office Equipment	285
Vehicles	<u>38,000</u>
Total Disbursements	<u>\$ 198,101</u>
Net Receipts	137,237
Less: Statutory Maximum	<u>82,752</u>
Excess Fees Due County for 2015	54,485
Payment to Fiscal Court - February 22, 2016	<u>54,485</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.

ESTILL 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 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).

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

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

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute six percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 17.67 percent for the first six months and 17.06 percent for the last six months.

In accordance with Senate Bill 2, signed by the Governor on April 4, 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. 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 contribution for calendar year 2013 was \$15,079, calendar year 2014 was \$16,184, and calendar year 2015 was \$14,072.

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:

<b>Years of Service</b>	<b>% Paid by Insurance Fund</b>	<b>% Paid by Member through Payroll Deduction</b>
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

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

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

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

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 Estill 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 Estill County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of December 31, 2015, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Drug Forfeiture Account

The Estill County Sheriff maintains an account for the purpose of receiving assets forfeited to the Commonwealth of Kentucky as a result of legal proceedings. Disbursements from this account are to be for law enforcement activities. The balance in the account on January 1, 2015, was \$1,451. The sheriff received \$3,390 during the year and expended \$51. The drug forfeiture account balance was \$4,790 as of December 31, 2015.

Note 5. COPS Technology Grant

The Estill County Sheriff was awarded a Department of Justice Community Oriented Policing Services (COPS) Law Enforcement Technology Grant in 2009 in the amount of \$60,000. The purpose of this grant is to purchase and utilize technology to enhance and support law enforcement activities of the sheriff's department. The balance in the account on January 1, 2015, was \$6,300. The sheriff did not receive nor expend any funds during the year. The COPS technology grant account balance was \$6,300 as of December 31, 2015.

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

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**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Wallace Taylor, Estill County Judge/Executive  
The Honorable Gary Freeman, Estill County Sheriff  
Members of the Estill 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 Estill County Sheriff for the year ended December 31, 2015, and the related notes to the financial statement and have issued our report thereon dated September 20, 2017. The Estill 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 Estill 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 Estill County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Estill County Sheriff's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comments and recommendations, we identified certain a 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 comments and recommendations as item 2015-002 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)

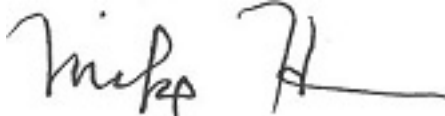
### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Estill 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying comments and recommendations as item 2015-001.

### **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,

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Mike Harmon  
Auditor of Public Accounts

September 20, 2017

COMMENTS AND RECOMMENDATIONS

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ESTILL COUNTY  
GARY FREEMAN, SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2015

STATE LAWS AND REGULATIONS:

2015-001 The Sheriff Did Not Deposit Funds Daily

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The sheriff did not make daily deposits. All fees collected in January 2015 were deposited on February 4, 2015. The sheriff was performing daily check-out procedures when funds were collected; however, these funds were not deposited timely. The sheriff maintains daily collections in the office safe. According to the bookkeeper, bank deposits are made periodically or when a large amount of collections are on hand. Maintaining funds in the office increases the risk that fraud, errors, or misappropriations will occur. As mandated by KRS 68.210, the State Local Finance Officer prescribes minimum standards for fee officials, including performing daily check-out procedures and making daily deposits intact into a federally insured banking institution. We recommend the sheriff make bank deposits daily.

*Sheriff's Response: The official did not provide a response.*

INTERNAL CONTROL - MATERIAL WEAKNESS:

2015-002 The Sheriff's Office Lacks Adequate Segregation Of Duties

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The sheriff's office lacks adequate segregation of duties. According to the sheriff, due to a small staff, the responsibilities of recording, depositing, and reconciling cash are delegated to the same individual. Since only one person performs these functions, there is no assurance that financial transactions are accurate, complete, and free of error or misstatement. It increases the risk of undetected fraud or errors. The functions of receiving, recording, depositing, and reconciling cash should be separated whenever possible in order to decrease the risk of undetected errors, misstatements, or fraud. If duties cannot be adequately segregated, the sheriff could implement and document compensating controls to reduce the risk of inadequate segregation of duties. Examples of compensating controls include: the sheriff comparing daily checkout sheet to receipts ledger and bank deposit, reviewing bank reconciliations for accuracy, performing surprise cash counts, reviewing invoices prior to payment, and reviewing all financial reports. The sheriff could document his review process by initialing reports and supporting documentation. We recommend the sheriff segregate the duties of receiving, recording, depositing, and reconciling cash or implement and document compensating controls to offset this control issue.

*Sheriff's Response: The official did not provide a response.*