

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

**For The Year Ended
December 31, 2017**



**MIKE HARMON
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Ryan Morris, 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 Sheriff of Gallatin County, Kentucky, for the year ended December 31, 2017, 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 this 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 and budget laws. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a 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.

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The Honorable Ryan Morris, 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 Gallatin 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 Gallatin County Sheriff, as of December 31, 2017, 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 Gallatin County Sheriff for the year ended December 31, 2017, 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 July 19, 2019, 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, 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 Gallatin County Sheriff'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 comments:

- 2017-001 The Sheriff Manages A Charitable Account Through His Office That Did Not Serve A Public Purpose Associated With A Regular Function Of The Sheriff's Office
- 2017-002 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts, Disbursements, And Bank Reconciliations

Respectfully submitted,



Mike Harmon
 Auditor of Public Accounts

July 19, 2019

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

For The Year Ended December 31, 2017

Receipts

State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)	\$	30,839
State Fees For Services:		
Finance and Administration Cabinet	\$	42,165
Sheriff Security Service		12,681
Cabinet For Health And Family Services		154
		55,000
Circuit Court Clerk:		
Court Ordered Payments		26
Fiscal Court		267,000
County Clerk - Delinquent Taxes		14,350
Commission On Taxes Collected		255,567
Fees Collected For Services:		
Auto Inspections		2,100
Accident and Police Reports		6,015
Serving Papers		22,475
Commissions on Telecommunication Taxes		2,257
Carry Concealed Deadly Weapon Permits		3,020
		35,867
Other:		
Add-On Fees		17,194
Glencoe and Sparta Agreements		8,062
School Resource Officer		45,000
		70,256
Interest Earned		31
Total Receipts		728,936

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, 2017
 (Continued)

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-		
Deputies' Salaries	\$	352,792
Part-Time Salaries		26,092
Employee Benefits-		
Employer's Share Social Security		34,820
Contracted Services-		
Advertising		394
Materials and Supplies-		
Office Materials and Supplies		3,406
Uniforms		8,172
Auto Expense-		
Gasoline		29,140
Maintenance and Repairs		20,868
Other Charges-		
Law Enforcement Officer		15,544
Postage		1,972
Telephone		9,937
Miscellaneous		3,776
Capital Outlay-		
Office Equipment		4,520
Total Disbursements	\$	<u>511,433</u>
Net Receipts		217,503
Less: Statutory Maximum		<u>79,008</u>
Excess Fees		138,495
Less: Training Incentive Benefit		<u>4,052</u>
Excess Fees Due County for 2017		134,443
Payment to Fiscal Court - February 2, 2018		<u>134,443</u>
Balance Due Fiscal Court at Completion of Audit	\$	<u>0</u>

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

GALLATIN COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2017

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 2017 services
- Reimbursements for 2017 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2017

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).

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

The county official and employees have 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.

GALLATIN COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2017
 (Continued)

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

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 members contribute five percent 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 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 18.68 percent for the first six months and 19.18 percent for the last six months.

Health Insurance Coverage

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. 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.

GALLATIN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2017
(Continued)

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

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 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, 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 66.480(1)(d) and KRS 41.240. As of December 31, 2017, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Lease Agreement

The sheriff's office was committed to a lease agreement for two copiers. The lease agreement requires a monthly payment of \$209 for 63 months to be completed on November 30, 2021. The total remaining balance of the agreement was \$7,311, as of as of December 31, 2017.

Note 5. Donations Account

The Gallatin County Sheriff's office maintains a donations account consisting of proceeds from fundraisers and other donations to be used for an annual Christmas shopping trip for needy children (Shop With A Cop Program). The balance on January 1, 2017, was \$3,198. Receipts during the year totaled \$20,296 and disbursements totaled \$19,043, leaving a balance of \$4,451, as of December 31, 2017.

Note 6. Asset Forfeiture Account

The Gallatin County Sheriff's office maintains an asset forfeiture account for the receipt and disbursement 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 fund balance in the account was \$167. Receipts during the year totaled \$4,350 and disbursements totaled \$3,056, leaving a balance of \$1,461, as of December 31, 2017.

GALLATIN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2017
(Continued)

Note 7. City of Glencoe Contract

The sheriff's office entered into an agreement with the City of Glencoe, Kentucky to provide police patrol within the city limits of Glencoe. Under the agreement, the City of Glencoe agrees to pay \$100 per month to the Gallatin County Sheriff's office with any monies received from HB 413 to be paid quarterly. The sheriff's deputies performing the work under this contract are paid directly by the sheriff's office. The City of Glencoe paid \$1,200 in monthly payments and \$2,842 in quarterly payments to the sheriff's office for the calendar year ended December 31, 2017.

Note 8. City of Sparta Contract

The sheriff's office entered into an agreement with the City of Sparta, Kentucky, on September 14, 2015, to provide police patrol within the city limits of Sparta. Under the agreement, the City of Sparta agreed to pay a sum of \$2,000 annually 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.

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 Ryan Morris, 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, 2017, and the related notes to the financial statement and have issued our report thereon dated July 19, 2019. The Gallatin 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 Gallatin 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 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 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 statement 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 2017-002 to be a material weakness.

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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*
(Continued)

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 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 2017-001.

Views of Responsible Official and Planned Corrective Action

The Gallatin County Sheriff's views and planned corrective action for the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Gallatin Sheriff's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

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

Respectfully submitted,

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

Mike Harmon
Auditor of Public Accounts

July 19, 2019

SCHEDULE OF FINDINGS AND RESPONSES

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GALLATIN COUNTY
JOSH NEALE, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2017

STATE LAWS AND REGULATIONS:

2017-001 The Sheriff Ran A Charitable Account Through His Office That Did Not Serve A Public Purpose Associated With A Regular Function Of The Sheriff's Office

This is a repeat finding and was included in the prior year audit report as finding 2016-002. The sheriff deposits and expends donations for the Shop With A Cop program administered through the donations account managed in his office. The sheriff did not know the requirement that donation accounts have to further a public purpose of the sheriff's office and that the Shop With a Cop program did not qualify. Due to the nature of the program being handled by the sheriff's office, the lack of proper financial oversight could lead to greater opportunity for the misappropriation of funds.

Per KRS 61.310, sheriffs may accept donations to be used for the public purposes of the office. This program does not further a public purpose of the sheriff's office. We recommend the sheriff participate in the Shop With A Cop program on personal time, or the program be operated completely externally and separate from the sheriff's office by a private or not for profit entity. In addition, we recommend the sheriff not manage charitable accounts through his office that do not serve a public purpose associated with a regular function of the sheriff's office.

Sheriff's Response: I am working on a separate account for this account.

INTERNAL CONTROL - MATERIAL WEAKNESS:

2017-002 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts, Disbursements, And Bank Reconciliations

This is a repeat finding and was included in the prior year audit report as finding 2016-001. The sheriff's office lacks adequate segregation of duties over the accounting and reporting functions of 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. 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 result is a lack of segregation of duties over receipts, disbursements, and bank reconciliations. This condition is a result of a limited budget, which restricts the number of employees the sheriff can hire or delegate duties to.

A lack of segregation of duties could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the Department for Local Government. The segregation of duties over various accounting functions such as opening mail, preparing deposits, recording receipts and disbursements, and preparing monthly reports, or the implementation of compensating controls is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the sheriff separate the duties involved in receiving cash, preparing deposits, writing checks, posting to ledgers, preparing monthly bank reconciliations and comparing financial reports to ledgers. If this is not feasible due to a limited budget, cross checking procedures could be implemented and documented by the individual performing the procedure. Reviews should be evidenced with initials on the daily collection reports, deposit tickets, ledgers, and bank reconciliations.

Sheriff's Response: Deposits are now being done by clerk in office. The bookkeeper goes over deposits and will initial daily checkout sheets.