

**REPORT OF THE AUDIT OF THE
KENTON COUNTY
SHERIFF**

**For The Year Ended
December 31, 2016**



**MIKE HARMON
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Kris Knochelmann, Kenton County Judge/Executive
The Honorable Charles Korzenborn, Kenton County Sheriff
Members of the Kenton 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 Kenton 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, 2016, 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.

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AN EQUAL OPPORTUNITY EMPLOYER M / F / D



The Honorable Kris Knochelmann, Kenton County Judge/Executive
The Honorable Charles Korzenborn, Kenton County Sheriff
Members of the Kenton 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 Kenton 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 each fund of the Kenton County Sheriff, as of December 31, 2016, or changes in financial position or cash flows thereof or 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 Kenton County Sheriff and the receipts, disbursements, and fund balances of the sheriff’s operating fund and county fund with the state treasurer for the year ended December 31, 2016, 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 27, 2018, on our consideration of the Kenton 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.

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

September 27, 2018

KENTON COUNTY
 CHARLES KORZENBORN, SHERIFF
STATEMENT OF RECEIPTS AND DISBURSEMENTS - REGULATORY BASIS

For The Year Ended December 31, 2016

Receipts

Federal Reimbursement For Services	\$	22,666	
State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)			116,744
State Fees for Services:			
Prisoners Transports	\$	110,910	
Sheriff Security Service		383,555	
Summons - Witnesses/Jurors		993	495,458
Circuit Court Clerk:			
Fines/Fees Collected			66,400
Fiscal Court			530
County Clerk - Delinquent Taxes			174,633
Commission on Taxes			3,741,340
Fees Collected for Services:			
Auto Inspections		67,750	
Accident /Police Reports		50	
Serving Papers		341,971	
Carry Concealed Deadly Weapon Permits		57,220	466,991
Other:			
Add-On Fees		194,058	
Miscellaneous		21,902	
Expense Reimbursements		39,591	
School Resource Officer Reimbursements		165,270	
Bad Check Expense		1,500	422,321
Total Receipts			5,507,083

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

KENTON COUNTY
CHARLES KORZENBORN, SHERIFF
STATEMENT OF RECEIPTS AND DISBURSEMENTS - REGULATORY BASIS
For The Year Ended December 31, 2016
(Continued)

Payments to State Treasurer:			
75% Operating Fund *	\$	4,744,321	
25% County Fund		<u>762,762</u>	<u>\$ 5,507,083</u>
Balance Due at Completion of Audit			<u><u>\$ 0</u></u>

* Includes reimbursed expenses in the amount of \$2,437,906 for the audit period.
See Note 1 of Notes to Financial Statements.

KENTON COUNTY
 CHARLES KORZENBORN, 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, 2016

	75% Operating Fund	25% County Fund	Totals
Fund Balance - January 1, 2016	\$ 60,846	\$ 0	\$ 60,846
<u>Receipts</u>			
Fees Paid to State - Operating Funds (75%)	4,744,321		4,744,321
Fees Paid to State - County Funds (25%)		762,762	762,762
Total Funds Available	<u>4,805,167</u>	<u>762,762</u>	<u>5,567,929</u>
<u>Disbursements</u>			
Kenton County Fiscal Court		762,762	762,762
Personal Services-			
Official's Statutory Maximum	113,126		113,126
Official's Training Incentive	3,969		3,969
Deputies' Salaries	2,607,847		2,607,847
Overtime Gross	80,335		80,335
Employee Benefits-			
Employer's Share Social Security	199,828		199,828
Employer's Share Retirement	581,934		581,934
Employer's Share Health Insurance	361,141		361,141
Employer's Share Life Insurance	519		519
Workers' Compensation	14,829		14,829
Unemployment Insurance	12,173		12,173
Contracted Services-			
Advertising	443		443
Maintenance Agreements	18,884		18,884

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

KENTON COUNTY
 CHARLES KORZENBORN, 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, 2016
 (Continued)

	75%	25%	
	Operating	County	
	Fund	Fund	Totals
	<u> </u>	<u> </u>	<u> </u>
<u>Disbursements (Continued)</u>			
Supplies and Materials-			
Office Supplies	\$ 28,527	\$	\$ 28,527
Uniforms/Equipment	55,459		55,459
Data Processing	1,661		1,661
Other Charges-			
Software	56,064		56,064
Parking	16,740		16,740
Physical/Drug Test	2,737		2,737
Dues	9,949		9,949
Insurance - Property	73,691		73,691
Miscellaneous	72,614		72,614
Postage	5,714		5,714
Subscriptions/Publications	5,784		5,784
Legal Fees	80,445		80,445
Telephone/Cellular	22,573		22,573
Training	30,458		30,458
Bank Fees	15,344		15,344
Auto Expenses-			
Gasoline	62,928		62,928
Maintenance and Repairs	40,469		40,469
Capital Outlay-			
Vehicles	131,884		131,884
	<u> </u>	<u> </u>	<u> </u>
Total Disbursements	4,708,069	762,762	5,470,831
	<u> </u>	<u> </u>	<u> </u>
Fund Balance - December 31, 2016	\$ 97,098	\$ 0	\$ 97,098
	<u> </u>	<u> </u>	<u> </u>

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

KENTON COUNTY
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

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 demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. 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 2016 services
- Reimbursements for 2016 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 2016

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).

KENTON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016
(Continued)

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.

The sheriff's contribution for calendar year 2014 was \$608,539, calendar year 2015 was \$579,783, and calendar year 2016 was \$581,934.

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 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 nonhazardous 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 17.06 percent for the first six months and 18.68 percent for the last six months.

Hazardous

Hazardous covered employees are required to contribute eight percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008, are required to contribute nine percent of their salary to be allocated as follows: eight 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.

KENTON COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2016
 (Continued)

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

Hazardous (Continued)

Members in the plan contribute a set percentage of their salary each month to their own account. Hazardous members contribute eight 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 hazardous member's account is credited with a seven and one half 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 32.95 percent for the first six months and 31.06 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.

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.

KENTON COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2016
 (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.

KRS also issues a proportionate share audit report that includes the total pension liability for CERS determined by actuarial valuation as well as each participating county's proportionate share. The Schedules of Employer Allocations and Pension Amounts by Employer report 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 Kenton 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 Kenton 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, 2016, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the sheriff's deposits in accordance with the security agreement.

- Uninsured and Unsecured \$1,804,983

Note 4. Federal Asset Drug Forfeiture Account

The office of the sheriff received funds from federal agencies for funds recovered in drug related investigations. The account had a beginning balance of \$105,499, receipts of \$5,428, and disbursements of \$12,728. The ending balance as of December 31, 2016, was \$98,199.

Note 5. Non-Federal Asset Drug Forfeiture Account

The office of the sheriff received funds from the local and state agencies for funds recovered in drug related investigations. The account had a beginning balance of \$9,851, receipts of 8,984, and disbursements of \$1,743. The ending balance as of December 31, 2016, was \$17,092.

KENTON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016
(Continued)

Note 6. Discretionary Account

The office of the sheriff maintains a discretionary account which is permitted by KRS 64.345(2). These funds are to cover expenses related to special training and travel related to homeland security emergencies, academy graduations, retirements, state and national sheriff's conventions, and extraordinary office expenses in amounts authorized by the approving authority. There was a balance of \$182 as of January 1, 2016. Receipts totaled \$7,000 and disbursements totaled \$5,985, leaving a balance of \$1,197 as of December 31, 2016

Note 7. Donation Account

The office of the sheriff maintains an account for the receipt of donations. These funds may be used for the operations of the sheriff's office pursuant to KRS 61.310. The account had a balance of \$1,026, had receipts of \$5,558 and disbursements of \$6,577. The balance as of December 31, 2016 was \$7. All funds received were expended for their intended purpose.

Note 8. Reimbursement Agreement

The office of the sheriff entered into a task force agreement with the U.S. Department of Justice, Drug Enforcement Administration. Funds received in conjunction with this agreement are to be used to fund the overtime for a full-time deputy assigned to the U.S. Marshall Service. Funds received under this agreement totaled \$22,666 for the year ended December 31, 2016.

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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 Kris Knochelmann, Kenton County Judge/Executive
The Honorable Charles Korzenborn, Kenton County Sheriff
Members of the Kenton 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 Kenton 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, 2016, and the related notes to the financial statements, and have issued our report thereon dated September 27, 2018. The Kenton 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 Kenton County Sheriff's internal control over financial reporting (internal control) to determine audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Kenton County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Kenton County Sheriff's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



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 Kenton 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Respectfully submitted,

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

September 27, 2018