

**REPORT OF THE AUDIT OF THE
MCCRACKEN COUNTY
SHERIFF**

**For The Period
July 1, 2018 Through December 31, 2018**



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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Craig Z. Clymer, McCracken County Judge/Executive
The Honorable Matt Carter, McCracken County Sheriff
Members of the McCracken 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 McCracken County, Kentucky, for the period July 1, 2018 through December 31, 2018, 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.



The Honorable Craig Z. Clymer, McCracken County Judge/Executive
The Honorable Matt Carter, McCracken County Sheriff
Members of the McCracken 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 McCracken 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 the McCracken County Sheriff, for the period July 1, 2018 through 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 statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the McCracken County Sheriff for the period July 1, 2018 through 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 14, 2019, on our consideration of the McCracken 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 McCracken 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 comment:

2018-001 The McCracken County Sheriff’s Fourth Quarter Financial Statement Was Materially Inaccurate

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

August 14, 2019

MCCRACKEN COUNTY
MATT CARTER, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Period July 1, 2018 Through December 31, 2018

Receipts

| | | |
|---|----------|-----------|
| State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF) | \$ | 104,624 |
| State Fees For Services: | | |
| Finance and Administration Cabinet | | 127,666 |
| Circuit Court Clerk: | | |
| Fines and Fees Collected | \$ 8,426 | |
| Court Ordered Payments | 254 | 8,680 |
| Fiscal Court | | 49,646 |
| County Clerk - Delinquent Taxes | | 53,493 |
| Commission On Taxes Collected | | 921,391 |
| Fees Collected For Services: | | |
| Auto Inspections | 18,110 | |
| Accident and Police Reports | 1,216 | |
| Serving Papers | 52,484 | |
| Carry Concealed Deadly Weapon Permits | 11,160 | |
| Arrest Fees | 785 | |
| Fingerprinting and Photos | 3,180 | |
| Mental Health Transports | 8,870 | 95,805 |
| Other: | | |
| Add-On Fees | 106 | |
| Miscellaneous | 9 | 115 |
| Interest Earned | | 409 |
| Total Receipts | | 1,361,829 |

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

MCCRACKEN COUNTY
MATT CARTER, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Period July 1, 2018 Through December 31, 2018
(Continued)

Disbursements

Operating Disbursements:

Other Charges-

| | | | |
|----------------------|----|---------------|-----------|
| Refunds | \$ | 221 | |
| Bank Service Charges | | 70 | |
| Prisoner Transport | | <u>20,024</u> | \$ 20,315 |

| | | | |
|---|--|--|--------------------|
| Total Disbursements | | | <u>\$ 20,315</u> |
| Net Receipts | | | 1,341,514 |
| Less: Statutory Maximum | | | <u>49,646</u> |
| Excess Fees Due County for 2018 | | | 1,291,868 |
| Payments to Fiscal Court - Monthly | | | <u>1,291,868</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.

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT

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, 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 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 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2018 services
- Reimbursements for 2018 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2018

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).

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2018
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Fee Pooling

The McCracken County Sheriff's office is required by the fiscal court to participate in a fee pooling system. Fee officials who are required to participate in fee pooling deposit all funds collected into their official operating account. The fee official is responsible for paying all amounts collected for others. Residual funds are then paid to the county treasurer on a monthly basis. Invoices are submitted to the county treasurer to document operating expenses. The fiscal court pays all operating expenses for the fee official.

Note 2. Employee Retirement System and Other Post-Employment

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.

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 21.48 percent for the period July 1, 2018 through December 31, 2018.

MCCRACKEN COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2018
 (Continued)

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

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. 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 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 35.34 percent for the period July 1, 2018 through December 31, 2018.

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.

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT
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)

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.

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.

MCCRACKEN COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2018
 (Continued)

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

Other Post-Employment Benefits (OPEB) (Continued)

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.

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 McCracken 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 McCracken 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.

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2018
(Continued)

Note 4. Drug Forfeiture Account

The McCracken County Sheriff maintained a drug forfeiture account. The account is funded by court ordered forfeitures of money or funds received from the sale of forfeited assets, interest received on deposits of forfeiture funds, as well as certain ordered contributions. The funds are to be used for various law-enforcement operation, equipment, and education. As of July 1, 2018, the drug forfeiture account had a balance of \$156,365. During the period, receipts from forfeitures, contributions, and interest totaled \$21,032, and disbursements of \$51,730 were made for law-enforcement equipment and support. A balance of \$125,667 remained in the drug forfeiture account at December 31, 2018.

Note 5. Federal Drug Account

The McCracken County Sheriff maintains a federal drug account for its federal equitable sharing program. The account is funded by federally forfeited cash, property proceeds, and any interest earned thereon are equitably shared with participating law enforcement agencies. The funds shall be used for law enforcement purposes in accordance with the statutes and guidelines that govern “equitable sharing”. As of July 1, 2018, the fund had a balance of \$54,608. During the period, receipts totaled \$15,089 and disbursements of \$3,904 were made for law-enforcement equipment and support. The account had a balance of \$65,793 as of December 31, 2018.

Note 6. Special Deputy Fund

The McCracken County Sheriff opened a special deputy account at the end of calendar year 2008. This account is funded by donations made to the McCracken County Sheriff’s office. The funds are to be used for purchasing various equipment that is needed. As of July 1, 2018, the account had a balance of \$7,436. During the period, receipts totaled \$1,000, and no disbursements were made. A balance of \$8,436 remained in the special deputy account at December 31, 2018.

Note 7. Evidence Holding Account

The McCracken County Sheriff maintained an evidence holding account. Receipts for this account are monies that are confiscated from theft or drug arrests. These funds are distributed out by court order. As of July 1, 2018, the fund had a balance of \$46,918. During the period, receipts totaled \$198,306, and \$39,694 was disbursed by court order. A balance of \$205,530 remained in the evidence holding account at December 31, 2018.

Note 8. Project Lifesaver Account

The McCracken County Sheriff’s office opened a project lifesaver account in calendar year 2012. This program is to provide timely response to save lives and reduce potential injury to adults and children who wander due to Alzheimer’s, autism, and other related cognitive conditions. This account was funded by the monthly fees from participating customers associated with the program and monies from fiscal court. The remaining project funds will be used for the maintenance and upkeep of project equipment. As of July 1, 2018, the fund had a balance of \$2,898. During the period, receipts totaled \$564, and no disbursements were made. A balance of \$3,462 remained in the project lifesaver account at December 31, 2018.

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2018
(Continued)

Note 9. Donation Account

The McCracken County Sheriff's office opened a donation account in January 2017. This account is funded by donations made to the McCracken County Sheriff's office. As of July 1, 2018, the fund had a balance of \$86. During the period, receipts totaled \$9,000, and disbursements totaled \$7,348. A balance of \$1,738 remained in the donation account at December 31, 2018.

Note 10. On Behalf Payments

The McCracken County Sheriff's office is required by the fiscal court to participate in a fee pooling system. Since the sheriff is fee pooling, the fiscal court pays the sheriff's statutory maximum as reflected on the sheriff's financial statement. For the period July 1, 2018 through December 31, 2018, the fiscal court's contributions recognized by the sheriff included the amounts that were based on the statutory maximum as required by KRS 64.5275. The McCracken County Sheriff recognized receipts from the fiscal court and disbursements for the statutory maximum of \$49,646 for the period July 1, 2018 through December 31, 2018.

Note 11. Outstanding Checks Held In Escrow

The McCracken County Sheriff's office deposited outstanding checks into an escrow account. When statutorily required, the sheriff will turn over the escrowed funds to the Kentucky State Treasurer as unclaimed property. The sheriff's escrowed amounts were as follows:

2015 \$715

KRS 393.090 states that if the funds have not been claimed after three years, they are presumed abandoned. Abandoned funds are required to be sent to the Kentucky State Treasurer pursuant to KRS 393.110 and its accompanying regulations. The sheriff sent a written report to the Kentucky State Treasury and submitted \$3,272 to the Kentucky State Treasurer in accordance with KRS 393.110.

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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*

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Craig Z. Clymer, McCracken County Judge/Executive
The Honorable Matt Carter, McCracken County Sheriff
Members of the McCracken 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 McCracken County Sheriff for the period July 1, 2018 through December 31, 2018, and the related notes to the financial statement and have issued our report thereon dated August 14, 2019. The McCracken 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 McCracken 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 McCracken County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the McCracken 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 2018-001 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 McCracken County Sheriff's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

Views of Responsible Official and Planned Corrective Action

The McCracken County Sheriff's views and planned corrective action for the finding identified in our audit are described in the accompanying Schedule of Findings and Responses. The McCracken Sheriff's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Purpose of this Report

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

Respectfully submitted,

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

August 14, 2019

SCHEDULE OF FINDINGS AND RESPONSES

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MCCRACKEN COUNTY
MATT CARTER, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Period July 1, 2018 Through December 31, 2018

INTERNAL CONTROL - MATERIAL WEAKNESS:

2018-001 The McCracken County Sheriff's Fourth Quarter Financial Statement Was Materially Inaccurate

The McCracken County Sheriff's Fourth Quarter Financial Statement, for the period July 1, 2018 through December 31, 2018, was materially inaccurate. The receipts were overstated by \$686,699 and disbursements were overstated by \$637,044. Adjustments were required so that the Fourth Quarter Financial Statement would match the sheriff's ledgers.

This was due to an error when preparing the Fourth Quarter Financial Statement that was presented to fiscal court. The financial statement that was approved by fiscal court included the first and second quarters of the year. These receipts and disbursements occurred under the prior sheriff and are reported separately. The third and fourth quarter receipts and disbursements were accurate, but because the financial statement included the first and second quarters, the financial statement was materially misstated.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* requires accurate financial reporting. Fee officials use 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. Each period stands alone in accounting for receipts and disbursements and should be accounted for accordingly in each audit period.

We recommend the McCracken County Sheriff's office maintain accurate financial reports, and separate receipts and disbursements by audit period in the future.

Sheriff's Response: Our purpose in preparing the 4th Quarter Financial Statement, as with any end-of-year financial statements prepared by a company or agency, was to report our office's annual revenue and how those proceeds were disbursed so that the end user, primarily the McCracken County Fiscal Court, would have an accurate and transparent representation of our office's financial position for their planning and oversight needs. It was the farthest thing from our thoughts that by preparing a financial statement to be complete for the whole year that we would be deemed non-compliant with any regulations or have a materially misstated report as if we were trying to mislead anyone interested in our office financial position. It is especially disappointing to our office to find that a financial statement that the auditor's office confirms was numerically accurate would have been compliant if it had only contained less information than it did.

The financial statement set forth by the Kentucky Department for Local Government for use by county clerks and sheriffs in the Commonwealth is referred to the 4th Quarter Financial Statement. The report is divided into each quarter of the year, and it is submitted to the State Local Finance Officer at the end of each quarter. At the end of the year, the completed report displays all receipts and disbursements of the office, divided into columns for each quarter in which they were received and disbursed, with a final column showing the total of all revenues and expenditures for the full year.

As mentioned in the auditor's comment, the financial statement we presented to fiscal court was accurate in all amounts, but was deemed misstated because it included the full year of receipts and disbursements. To be accurate based on the auditor's standpoint, our office should have only presented a financial statement displaying the receipts and disbursements of the last two quarters of 2018 after I became sheriff when former sheriff Jon Hayden retired at June 30, 2018. However, KRS 64.830 dictates that "an outgoing county official...shall...deliver to his successor all books, papers, records and other property held by virtue of his office." It is therefore not unreasonable for one to interpret from this that the records delivered to me which detailed the amounts received and disbursed during the first half of the year during Sheriff Hayden's time in office could not

MCCRACKEN COUNTY
MATT CARTER, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2018
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESS: (Continued)

2018-001 The McCracken County Sheriff's Fourth Quarter Financial Statement Was Materially Inaccurate
(Continued)

Sheriff's Response: (Continued)

be used to complete a financial statement that is to be prepared on a calendar year basis. To the extent of our limited findings, The Department for Local Government's County Budget Preparation and State Local Finance Officer Policy Manual noted in the auditor's comment only states that . . . "KRS 424.220 requires public officers who receive or disburse public funds to prepare an itemized, sworn statement of all funds collected, received, held, or disbursed during the fiscal year." We could not find anything that specifically alerted us to the idea that we could not include the full year's amounts even though I was only responsible for a portion of those amounts. We also found minimal guidance in our research of various state statutes and policy manuals to direct us in preparing our financial statement in the situation that an outgoing official leaves office in mid-year when the reporting cycle is incomplete.

It is with humble apologies that we have received the audit finding that our 4th Quarter Financial Statement was material misstated. We find it much easier to accept, though, knowing that the numbers we reported were correct and the report was only deemed misstated because we included too much information. It was only after the auditor adjusted our financial statement to remove the first-half of the year's receipts and disbursements that it became misstated but also much less useful to our governing body, the fiscal court. We do understand some of the foundation of the auditor's comment being based on the fact I was not responsible for the first- half of the year's receipts and disbursements and therefore should not include them on "my" financial statement, but I prefer to think of our office as a cumulative team of great men and women that works year-round and doesn't just revolve around me. Being as the financial statement was easily broken down into quarters of the year, anyone reviewing it could have easily seen the amounts I was personally responsible for as opposed to what existed to the date I took office. At any rate, I hope the public and our governing bodies can see that, even when it is determined to be in error, my ultimate goal as sheriff is to always be as accurate and transparent as possible with any information involving our office.

Auditor's Reply: The Auditor of Public Accounts was engaged by the McCracken County Sheriff, Matt Carter, to complete an audit of his financial statement for the period July 1, 2018 through December 31, 2018. The period of January 1, 2018 through June, 30, 2018 was completed under a separate audit of the former sheriff. In addition, per KRS 64.830 and KRS 134.192(11) the two audit periods should have had separate settlements.