

**REPORT OF THE AUDIT OF THE
MCLEAN COUNTY
SHERIFF**

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



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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Kelly Thurman, McLean County Judge/Executive
The Honorable Kenneth Frizzell, McLean County Sheriff
Members of the McLean 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 McLean County, Kentucky, for the year ended December 31, 2016, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting 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 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 Kelly Thurman, McLean County Judge/Executive
The Honorable Kenneth Frizzell, McLean County Sheriff
Members of the McLean 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 McLean 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 McLean County Sheriff, as of December 31, 2016, 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 McLean County Sheriff 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 November 3, 2017, on our consideration of the McLean County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance.

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

- 2016-001 The Sheriff Has Weak Controls Over Receipt Collections
- 2016-002 The Sheriff Did Not Submit The Fourth Quarter Report Timely

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

November 3, 2017

MCLEAN COUNTY
KENNETH FRIZZELL, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2016

Receipts

State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)		\$ 34,588
State Fees For Services:		
Finance and Administration Cabinet	\$ 4,726	
Sheriff Security Service	64,144	
Cabinet For Health And Family Services	528	69,398
Circuit Court Clerk:		
Sheriff Security Service	52	
Fines and Fees Collected	2,966	
Court Ordered Payments	3,295	6,313
Fiscal Court		300
County Clerk - Delinquent Taxes		3,780
Commission On Taxes Collected		167,222
Fees Collected For Services:		
Auto Inspections	3,505	
Accident and Police Reports	1,555	
Serving Papers	16,899	
Carry Concealed Deadly Weapon Permits	7,365	29,324
Other:		
Add-On Fees	17,019	
Interlocal Agreements	43,994	
Miscellaneous	7,239	68,252
Interest Earned		64
Borrowed Money:		
State Advancement		63,750
Total Receipts		442,991

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

MCLEAN COUNTY
 KENNETH FRIZZELL, SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2016
 (Continued)

Disbursements

Operating Disbursements:

Personnel Services-

Deputies' Salaries	\$	57,646	
Kentucky Law Enforcement Foundation Program Fund (KLEFPF)		34,588	
Interlocal Agreements		43,994	

Contracted Services-

Advertising		940	
Summons/Transport Fugitives		1,100	

Materials and Supplies-

Office Materials and Supplies		8,676	
Uniforms		38,320	
Deputies/Travel Expenses		5,359	

Auto Expense-

Maintenance and Repairs		286	
Towing		3,720	

Other Charges-

Court Security		60,300	
Dues		1,565	
Postage		3,059	
Telephone		3,771	\$ 263,324

Debt Service:

State Advancement		63,750	
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Total Disbursements			<u>\$ 327,074</u>
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Net Receipts			115,917
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Less: Statutory Maximum			<u>73,432</u>
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Excess Fees			42,485
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Less: Training Incentive Benefit			<u>1,984</u>
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Excess Fees Due County for 2016			40,501
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Payments to Fiscal Court - March 21, 2017			<u>40,501</u>
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Balance Due Fiscal Court at Completion of Audit			<u><u>\$ 0</u></u>
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The accompanying notes are an integral part of this financial statement.

MCLEAN COUNTY
NOTES TO FINANCIAL STATEMENT

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, 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 2016 services
- Reimbursements for 2016 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2016

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.

MCLEAN COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2016
 (Continued)

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

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 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.

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.

MCLEAN COUNTY
NOTES TO FINANCIAL STATEMENT
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.

Note 3. Deposits

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

Note 4. Narcotics Account

The McLean County Sheriff's offices maintained an account for drug related receipts and disbursements. The beginning balance of this account was \$44,766. During 2016, funds in the amount of \$30,846 were received and \$13,972 were disbursed, leaving an ending balance of \$61,640 as of 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
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Kelly Thurman, McLean County Judge/Executive
The Honorable Kenneth Frizzell, McLean County Sheriff
Members of the McLean 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 McLean County Sheriff for the year ended December 31, 2016, and the related notes to the financial statement and have issued our report thereon dated November 3, 2017. The McLean 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 McLean 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 statement, but not for the purpose of expressing an opinion on the effectiveness of the McLean County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the McLean 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 2016-001 to be a material weakness.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards*
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the McLean 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2016-001 and 2016-002.

Views of Responsible Official and Planned Corrective Action

The McLean 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 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,



Mike Harmon
Auditor of Public Accounts

November 3, 2017

SCHEDULE OF FINDINGS AND RESPONSES

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MCLEAN COUNTY
KENNETH FRIZZELL, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2016

FINANCIAL STATEMENT FINDINGS:

2016-001 The Sheriff Has Weak Controls Over Receipt Collections

The McLean County Sheriff has weak controls over receipt collections. Auditors noted the following deficiencies during testing:

- The numerical sequence of receipts was not accounted for.
- A state payment was not properly recorded on the receipts ledger.
- One daily checkout sheet did not have cash and check amounts documented.
- Receipt forms were not batched daily. A receipt dated October 28, 2016, was included in the November 7, 2016, deposit and receipts dated November 6, 2016, November 7, 2016, and November 8, 2016, were included in the November 9, 2016, deposit.

These errors occurred due to a lack of oversight and review. By not having good controls over receipt collections, the sheriff's office has created the opportunity for undetected misappropriation of assets and inaccurate financial reporting.

Good internal controls dictate that all receipts are properly accounted for, including recording all receipts, accounting for numerical sequence of receipts, batching receipts daily and reconciling cash and check amounts from the checkout sheet to the deposit ticket, in order to reduce the risk for the misappropriation of assets and inaccurate financial reporting. Also, KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. This uniform system of accounts, as outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual* includes batching receipts daily and making daily deposits intact into a federal insured banking institution.

We recommend the McLean County Sheriff strengthen controls over receipt collections and ensure all receipts are properly accounted for.

Sheriff's Response: The deputies receipt books have been collected and receipt numbers are documented so verification can be accounted for when receipts are turned in. The deputies have been instructed to leave a note with the receipt that it was collected after hours and will not be deposited until the next working day.

Auditor's Reply: These controls were not instituted until after the end of calendar year 2016.

2016-002 The Sheriff Did Not Submit The Fourth Quarter Report Timely

The McLean County Sheriff did not submit the fourth quarter report to the State Local Finance Officer by January 30. The fourth quarter report was not submitted until March 22, 2017. The quarterly report was submitted to the State Local Finance Officer once it was complete and excess fees were turned over to fiscal court. By not submitting the fourth quarter report by January 30, the sheriff is not in compliance with KRS 68.210.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. This uniform system of accounts, as outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual* includes submitting quarterly reports to the State Local Finance Officer by the 30th day following the close of each quarter.

MCLEAN COUNTY
KENNETH FRIZZELL, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2016

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-002 The Sheriff Did Not Submit The Fourth Quarter Report Timely (Continued)

We recommend the sheriff submit his quarterly reports to the State Local Finance Officer by the 30th day following the close of each quarter.

Sheriff's Response: I did not submit this until all monies that were for 2016 were received and we were waiting until Fiscal Court had a meeting after we received our monies. We now realize we can send in our fourth quarter by the required date and adjust our 4th quarter numbers when all monies are received.