

**REPORT OF THE AUDIT OF THE
OHIO COUNTY
SHERIFF**

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



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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable David Johnston, Ohio County Judge/Executive
The Honorable Tracy Beatty, Ohio County Sheriff
Members of the Ohio 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 Ohio County, Kentucky, for the year ended December 31, 2017, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Audit Guide for County Fee Officials* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 The Honorable Tracy Beatty, Ohio County Sheriff
 Members of the Ohio 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 Ohio 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 Ohio County Sheriff, as of December 31, 2017, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the Ohio County Sheriff for the year ended December 31, 2017, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 16, 2018, on our consideration of the Ohio 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 Ohio County Sheriff's internal control over financial reporting and compliance.

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

- 2017-001 The Sheriff's Office Lacks Segregation Of Duties Over Receipts, Reconciliations, Preparation Of The Financial Statements, And Supporting Financial Records
- 2017-002 The Ohio County Sheriff Did Not Make Daily Deposits Or Account For All Receipts

Respectfully submitted,



Mike Harmon
 Auditor of Public Accounts

July 16, 2018

OHIO COUNTY
TRACY BEATTY, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2017

Receipts

State Fees For Services:		
Sheriff Security Service	\$ 13,835	
Cabinet For Health And Family Services	<u>81,740</u>	\$ 95,575
Circuit Court Clerk:		
Fines and Fees Collected	<u>6,188</u>	6,188
Fiscal Court		91,163
County Clerk - Delinquent Taxes		16,478
Commission On Taxes Collected		289,321
Fees Collected For Services:		
Auto Inspections	7,050	
Accident and Police Reports	1,362	
Serving Papers	34,523	
Carry Concealed Deadly Weapon Permits	<u>7,105</u>	50,040
Other:		
Add-On Fees	27,909	
Miscellaneous	<u>497</u>	28,406
Interest Earned		<u>28</u>
Total Receipts		577,199

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

OHIO COUNTY
 TRACY BEATTY, SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2017
 (Continued)

Disbursements

Operating Disbursements:

Other Charges-

Miscellaneous	\$	9
Refunds		100
Feeding Jury		<u>403</u>

Total Disbursements		<u>\$ 512</u>
Net Receipts		576,687
Less: Statutory Maximum		<u>88,124</u>
Excess Fees		488,563
Less: Training Incentive Benefit		<u>3,039</u>
Excess Fees Due County for 2017		485,524
Payments to Fiscal Court - Monthly		484,760
Payment to Fiscal Court - July 16, 2018		<u>764</u>
Balance Due Fiscal Court at Completion of Audit		<u>\$ 0</u>

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

OHIO COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2017

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the sheriff as determined by the audit. KRS 134.192 requires the sheriff to settle excess fees with the fiscal court at the time he files his annual settlement with the fiscal court on or before September 1 of each year. KRS 64.830 requires an outgoing sheriff to settle excess fees with the fiscal court of his county by March 15 immediately following the expiration of his term of office.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Under this regulatory basis of accounting, receipts and disbursements are generally recognized when cash is received or disbursed, with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2017 services
- Reimbursements for 2017 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2017

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the county treasurer in the subsequent year.

C. Cash and Investments

KRS 66.480 authorizes the sheriff's office to invest in obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

D. Fee Pooling

The Ohio 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.

OHIO COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2017
 (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.

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 members contribute five percent of their annual creditable compensation and one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a four percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008, must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

The county's contribution rate for nonhazardous employees was 18.68 percent for the first six months and 19.18 percent for the last six months.

Health Insurance Coverage

CERS also provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

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

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

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

Health Insurance Coverage (Continued)

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

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 Ohio 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 Ohio County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of December 31, 2017, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Drug Forfeiture Account

The Ohio County Sheriff's office maintains an account for drug related receipts and disbursements. The balance on the account at January 1, 2017, was \$41,905. During the calendar year 2017, funds in the amount of \$65,435 were received and \$54,904 were disbursed leaving an ending balance of \$52,436 as of December 31, 2017.

Note 5. Equipment Fund

The Ohio County Sheriff's office has established an equipment fund from the proceeds of sales of surplus property and litter abatement funding. The fund is used to buy and maintain equipment for the sheriff's office. The balance in the equipment fund at January 1, 2017, was \$2,105. During the calendar year 2017, there were no funds received and \$1,976 disbursed leaving an ending balance of \$129 as of December 31, 2017.

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

Note 6. On Behalf Payments

The Ohio 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 and training incentive as reflected on the sheriff's financial statement. For the year ended December 31, 2017, 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 Ohio County Sheriff recognized receipts from the fiscal court and disbursements for the statutory maximum of \$88,124 and training incentive of \$3,039 for the year ended December 31, 2017.

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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The Honorable Tracy Beatty, Ohio County Sheriff
Members of the Ohio 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 Ohio County Sheriff for the year ended December 31, 2017, and the related notes to the financial statement and have issued our report thereon dated July 16, 2018. The Ohio 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 Ohio 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 Ohio County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Ohio County Sheriff's internal control.

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, as described in the accompanying Schedule of Findings and Responses, we identified deficiencies in internal control that we consider to be material weaknesses.

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 statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2017-001 and 2017-002 to be material weaknesses.

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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 Ohio 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 2017-001 and 2017-002.

Views of Responsible Official and Planned Corrective Action

The Ohio 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 Ohio County 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

July 16, 2018

SCHEDULE OF FINDINGS AND RESPONSES

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OHIO COUNTY
TRACY BEATTY, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2017

FINANCIAL STATEMENT FINDINGS:

2017-001 The Sheriff's Office Lacks Segregation Of Duties Over Receipts, Reconciliations, Preparation Of The Financial Statements, And Supporting Financial Records

The sheriff's office has a lack of segregation of duties over ledger postings and financial statement preparation with no compensating internal controls. The sheriff's former bookkeeper posted daily receipts to ledgers and prepared bank reconciliations. The former bookkeeper also prepared financial statements, but there was no review of her work to verify accuracy. According to the sheriff, the former bookkeeper was not diligent about keeping accurate records or correcting mistakes. The lack of segregation of duties occurred because the sheriff failed to segregate related duties between multiple employees. One individual collects receipts, closes out the cash drawer, prepares daily checkout sheets, prepares deposited tickets, and monthly bank reconciliations. During calendar year 2017, the sheriff had instituted review procedures to cross check the former bookkeeper's work, but the controls did not catch errors. The lack of internal controls resulted in inaccurate financial statements. The financial statements were missing five days of receipts that the bookkeeper failed to post to the receipts ledger. The fourth quarter financial statement did not agree to the receipts ledger, nor do the totals on the financial statement agree when re-added. Additionally, inaccurate records increase the risk of misappropriation of assets. Good internal controls require the segregation of incompatible duties or the implementation of compensating controls over those duties. KRS 43.075(3) describes the accurate accounting records that is prescribed by the uniform system of accounts. A uniform system of accounts is required by KRS 68.210.

We recommend that the sheriff or his designee carefully review all financial statements and underlying financial records to determine accuracy and compliance with KRS 43.075(3) and KRS 68.210.

Sheriff's Response: The Ohio County Sheriff's Office works on a small budget which limits our staff size. Sheriff Beatty has implemented internal controls which includes cross training and reviewing all financial statements and reports by at least two staff members. All bank statements, monthly reports and checks are reviewed by Sheriff Beatty and one other tax clerk before sending out monthly disbursements. The Sheriff has installed a camera system in the tax office for monitoring transactions involving money between the public and the employees during the Sheriff's office collection process.

2017-002 The Ohio County Sheriff Did Not Make Daily Deposits Or Account For All Receipts

The Ohio County Sheriff's Office did not make daily deposits or account for all receipts. For November 6, 2017, the auditor noted checks were missing from the deposit and deposited separately on November 7, 2017. The auditor also noted one receipt not accounted for on the sheriff's records. According to the sheriff, the former bookkeeper was not diligent about making sure deposits were accurate or complete. By not properly accounting for all receipts or making daily deposits, the sheriff's office could create the opportunity for the misappropriation of assets to occur and go unnoticed. 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 performing daily check-out procedures and making daily deposits intact into a federal insured banking institution. Good internal controls also dictate that all receipts be accounted for to prevent the opportunity for the misappropriation of assets to occur and go unnoticed.

We recommend the sheriff's office make daily deposits in accordance with KRS 68.210 and account for all receipts on the sheriff's records.

OHIO COUNTY
TRACY BEATTY, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2017
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-002 The Ohio County Sheriff Did Not Make Daily Deposits Or Account For All Receipts (Continued)

Sheriff's Response: The former bookkeeper did not make daily deposits or account for all receipts. The Ohio County Sheriff's Office now makes daily deposits. Daily deposits are reviewed by a second tax clerk to insure all checks, cash and receipts are accounted for.