

**REPORT OF THE AUDIT OF THE
FLOYD COUNTY
SHERIFF**

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



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Benjamin L. Hale, Floyd County Judge/Executive
The Honorable John P. Hunt, Floyd County Sheriff
Members of the Floyd 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 Floyd 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 Benjamin L. Hale, Floyd County Judge/Executive
The Honorable John P. Hunt, Floyd County Sheriff
Members of the Floyd 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 Floyd 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 Floyd 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 Floyd 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 March 22, 2018, on our consideration of the Floyd 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 finding:

2016-001 The Sheriff Did Not Properly Process Health Insurance Withholding Transactions

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

March 22, 2018

FLOYD COUNTY
JOHN P. HUNT, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2016

Receipts

Federal - Lake Patrol		\$ 24,998
State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)		32,659
State Fees For Services:		
Finance and Administration Cabinet	\$ 129,896	
Sheriff Security Service	<u>11,060</u>	140,956
Circuit Court Clerk - Fines and Fees Collected		19,357
Fiscal Court		97,958
County Clerk - Delinquent Taxes		122,344
Commission On Taxes Collected		488,263
Fees Collected For Services:		
Auto Inspections	11,659	
Accident/Police Reports	1,943	
Serving Papers	50,462	
Carry Concealed Deadly Weapon Permits	15,618	
School Deputy	<u>76,810</u>	156,492
Other:		
Add-On Fees	64,268	
Safe Haven - Court Ordered Services	34,634	
Inmate Transportation	13,073	
Domestic Violence	28,310	
Health Insurance Reimbursement	10,366	
Courthouse Maintenance Fee	1,720	
Miscellaneous	<u>10,362</u>	162,733
Interest Earned		395
Borrowed Money:		
State Advancement		<u>132,000</u>
Total Receipts		1,378,155

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

FLOYD COUNTY
 JOHN P. HUNT, SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2016
 (Continued)

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Gross Salaries	\$ 444,879	
Other Gross Salaries	106,689	
KLEFPF Salaries	28,215	

Employee Benefits-

Employer's Share Social Security	52,898	
Employer's Share Retirement	98,311	
Employer's Unemployment Insurance	3,915	
Employer Paid Health Insurance	118,999	

Contracted Services-

Management Consulting	22,150	
Contract Labor	18,971	
Dispatch Services	20,000	
Transportation of Inmates	2,570	
Drug Testing	286	

Materials and Supplies-

Office Materials and Supplies	10,007	
Uniforms	26,423	
Police Equipment	11,136	

Auto Expense-

Gasoline	67,983	
Maintenance and Repairs	39,487	

Other Charges-

Conventions and Travel	6,590	
Postage	12,343	
Telephone	12,835	
Fiscal Court Fees	2,470	
Miscellaneous	4,680	

Capital Outlay-

Vehicles	18,000	\$ 1,129,837
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Debt Service:

State Advancement	132,000	
Vehicle Lease	19,500	151,500

Total Disbursements

\$ 1,281,337

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

FLOYD COUNTY
JOHN P. HUNT, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2016
(Continued)

Net Receipts	\$ 96,818
Less: Statutory Maximum	<u>92,287</u>
Excess Fees	4,531
Less: Training Incentive Benefit	<u>2,976</u>
Excess Fees Due County for 2016	1,555
Payment to Fiscal Court - March 9, 2017	<u>1,400</u>
Balance Due Fiscal Court at Completion of Audit*	<u>\$ 155</u>

* - The sheriff presented a check to the fiscal court for excess fees on January 23, 2018.

FLOYD 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.

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

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

The sheriff's contribution for calendar year 2014 was \$108,929, calendar year 2015 was \$69,452, and calendar year 2016 was \$98,311.

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%

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2016
(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 Floyd 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 Floyd 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. Lease Agreement

The Floyd County Sheriff's office was committed to a lease agreement for a Chevrolet Tahoe. The agreement requires an annual payment of \$19,500 for three years to be completed on December 30, 2016. The agreement was paid in full as of December 31, 2016.

Note 5. Drug Abuse Resistance Education Program Account

The Floyd County Sheriff maintains an account for Drug Abuse Resistance Education (DARE) program money. This money is to be used for drug education. The beginning balance in this account was \$3,208. During 2016, the sheriff's office received \$1 in interest. During the year, \$525 was expended for allowable purposes, leaving a balance of \$2,684 as of December 31, 2016.

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

Note 6. Drug Forfeiture Account

The Floyd County Sheriff maintains a drug forfeiture account. This account is funded by proceeds from the confiscation, surrender, or sale of real personal property involved in a drug-related convictions. The beginning balance in this account was \$1,406. During 2016, the sheriff's office received \$8,780 in receipts and interest. During the year, \$9,036 was expended for allowable purposes, leaving a balance of \$1,150 as of December 31, 2016.

Note 7. Health Reimbursement Account/Flexible Spending Account

The Floyd County Sheriff established a health reimbursement account and flexible spending account on July 1, 2016, to provide employees an additional health benefit. Employees who participate in the sheriff's office health plan receive \$1,000 and employees who do not participate receive \$2,000 in a health reimbursement account. Employees also have the option to have payroll withholdings from their earnings deposited into a flexible spending account. The sheriff has contracted with a third-party administrator to administer the plan. The balance of the plan as of December 31, 2016 was \$1,293.

Note 8. Donation Account

The Floyd County Sheriff established a donation account during the 2016 calendar year. This account is funded by donations from companies and individuals in the county. During 2016, the sheriff's office received \$11,269 in donations. During the year, \$5,303 was expended for allowable purposes, leaving a balance of \$5,966 as of December 31, 2016.

Note 9. Unrefundable Duplicate Payments And Unexplained Receipts

The sheriff deposited unrefundable duplicate payments and unexplained receipts in an interest-bearing account. The sheriff maintains one escrow account for payments:

2015 - \$319

KRS 393.090 states that after three years, if the funds have not been claimed, they are presumed abandoned. Abandoned funds are required to be sent to the Kentucky State Treasurer pursuant to KRS 393.110.

Note 10. Federal - Lake Patrol

The Floyd County Sheriff's office entered into an agreement with the U.S. Army Corps of Engineers to provide patrol services at Dewey Lake. The cost of the patrols for 2016 was \$24,998.

Note 11. Related Party Transactions

The sheriff expended \$20,876 with a business for employee/human resource management services, consultation, and strategy for ongoing operations, and management of social media program. The sheriff's brother owns the business that provided the services.

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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 Benjamin L. Hale, Floyd County Judge/Executive
The Honorable John P. Hunt, Floyd County Sheriff
Members of the Floyd 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 Floyd County Sheriff for the year ended December 31, 2016, and the related notes to the financial statement and have issued our report thereon dated March 22, 2018. The Floyd 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 Floyd 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 Floyd County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Floyd County Sheriff's internal control.

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

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



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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Floyd County Sheriff's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2016-001.

Views of Responsible Official and Planned Corrective Action

The Floyd County Sheriff's views and planned corrective action for the finding identified in our audit are included in the accompanying Schedule of Findings and Responses. The Floyd County 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

March 22, 2018

SCHEDULE OF FINDINGS AND RESPONSES

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FLOYD COUNTY
JOHN P. HUNT, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2016

STATE LAWS AND REGULATIONS:

2016-001 The Sheriff Did Not Properly Process Health Insurance Withholding Transactions

The sheriff did not properly process health insurance withholding transactions. During the year, the bookkeeper would issue a check to the payroll clearing account for the amount of the gross payroll. The amount to be withheld from employees for health insurance would be transferred from the payroll clearing account and deposited back into the fee account. This amount would then be posted to an account titled health insurance reimbursement. When the invoice for health insurance was received, the bookkeeper would add the sheriff's portion and the employees' portion that was transferred back from the payroll clearing account to pay the amount due for health insurance. The sheriff's procedures for processing health insurance withholding transactions are not properly designed. This process overstates the receipts ledger.

KRS 68.210 grants the Kentucky State Local Finance Officer the authority to prescribe the accounting records to be maintained by the sheriff's office. KRS 68.210 requires the sheriff to maintain ledgers that are accurate, complete, and properly classified. Only original transactions should be posted to the ledgers. Transfers should only occur to correct errors and should not be recorded as receipts. To properly process employee health insurance withholding transactions, the following procedures are recommended: First, pay to the payroll clearing account the amount of the gross salaries. Second, pay the sheriff's portion of the health insurance premium due to the payroll clearing account. Finally, pay the total health insurance premium due from the payroll clearing account.

We recommend the sheriff comply with KRS 68.210 and follow the procedures outlined above to properly process employee health insurance withholding transactions.

Sheriff's Response: During the 2015 audit this was discovered and corrected at that time.