

**REPORT OF THE AUDIT OF THE
HARDIN COUNTY
SHERIFF**

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



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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Harry L. Berry, Hardin County Judge/Executive
The Honorable John Ward, Hardin County Sheriff
Members of the Hardin County Fiscal Court

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying Statement of Receipts and Disbursements - Regulatory Basis of the Sheriff of Hardin County, Kentucky, and the Statement of Receipts, Disbursements, and Fund Balances of the Sheriff's Operating Fund and County Fund with the State Treasurer - Regulatory Basis for the year ended December 31, 2017, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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The Honorable Harry L. Berry, Hardin County Judge/Executive
The Honorable John Ward, Hardin County Sheriff
Members of the Hardin County Fiscal Court

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the financial statements are prepared by the Hardin County Sheriff on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the Hardin 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 statements referred to above present fairly, in all material respects, the receipts and disbursements of the Hardin County Sheriff and the receipts, disbursements, and fund balances of the Hardin County Sheriff's operating fund and county fund with the state treasurer 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 November 8, 2018, on our consideration of the Hardin 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 comment:

2017-001 The Hardin County Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Bank Reconciliations

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

November 8, 2018

HARDIN COUNTY
JOHN WARD, SHERIFF
STATEMENT OF RECEIPTS AND DISBURSEMENTS - REGULATORY BASIS

For The Year Ended December 31, 2017

Receipts

Federal Grants:

High Intensity Drug Trafficking Area (HIDTA)	\$	4,515	
Highway Safety Grant		4,501	\$ 9,016

Kentucky Law Enforcement Foundation Program Fund (KLEFPF)		160,388	
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State Fees for Services:

Finance and Administration Cabinet		280,288	
Sheriff Security Service		73,745	
Patient Transport - KCPC		1,713	
Conveying Prisoners		785	356,531

Circuit Court Clerk:

Fines/Fees Collected			11,355
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Fiscal Court

25% Fee Reimbursement		395,052	
Salary Supplement		1,375,000	
Board of Elections		2,000	
Salary Reimbursement		12,003	
Drug Court		31,933	1,815,988

County Clerk - Delinquent Taxes			101,005
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Hardin County Board of Education:

School Resource Officers			26,000
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Hardin County Attorney

Security		38,750	
Traffic School		4,571	43,321

Commission on Taxes			1,451,951
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The accompanying notes are an integral part of the financial statements.

HARDIN COUNTY
 JOHN WARD, SHERIFF
 STATEMENT OF RECEIPTS AND DISBURSEMENTS - REGULATORY BASIS
 For The Year Ended December 31, 2017
 (Continued)

Receipts (Continued)

Fees Collected for Services:

Auto Inspections	\$ 51,555	
Accident/Police Reports	2,616	
Serving Papers	257,802	
Fingerprints	2,150	
Carry Concealed Deadly Weapon Permits	48,240	\$ 362,363

Other:

Add-On Fees	163,671	
Juror Meals	1,299	
Extraditions	41,286	
Health Insurance Reimbursements	8,857	
Prisoner Transport	7,643	
Miscellaneous	5,516	228,272

Interest Earned 14,486

Total Receipts 4,580,676

Disbursements

Other Disbursements:

Extraditions	41,286	
Juror Expenses	1,299	

Total Disbursements 42,585

Net Receipts 4,538,091

Payments to State Treasurer:

75% Operating Fund *	4,130,681	
25% County Fund	402,595	4,533,276

Balance Due at Completion of Audit \$ 4,815

* Includes reimbursed expenses in the amount of \$3,014,957 for the audit period.
 See Note 1 of Notes to Financial Statements.

HARDIN COUNTY
JOHN WARD, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
FUND BALANCES OF THE SHERIFF'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS

For The Year Ended December 31, 2017

	75% Operating Fund	25% County Fund	Totals
Fund Balance - January 1, 2017	\$ (436,054)	\$ 0	\$ (436,054)
<u>Receipts</u>			
Fees Paid to State - Operating Funds (75%)	4,130,681		4,130,681
Fees Paid to State - County Funds (25%)		402,595	402,595
Total Funds Available	<u>3,694,627</u>	<u>402,595</u>	<u>4,097,222</u>
<u>Disbursements</u>			
Hardin County Fiscal Court		402,595	402,595
Personal Services-			
Official's Statutory Maximum	110,408		110,408
Official's Training Incentive	3,039		3,039
Deputies' Salaries	1,979,798		1,979,798
Employee Benefits-			
Employer's Share Social Security	156,261		156,261
Employer's Share Retirement	576,085		576,085
Employer's Share Health Insurance	334,985		334,985
Employer's Share Life Insurance	578		578
Workers' Compensation	10,068		10,068
Contracted Services-			
Advertising	1,342		1,342
Computer Services	9,846		9,846
Supplies and Materials-			
Office Supplies	21,749		21,749
Uniforms	13,918		13,918
Law Enforcement	2,357		2,357

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

HARDIN COUNTY
 JOHN WARD, SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
 FUND BALANCES OF THE SHERIFF'S OPERATING FUND
 AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS
 For The Year Ended December 31, 2017
 (Continued)

	75%	25%	
	Operating	County	Totals
	<u>Fund</u>	<u>Fund</u>	
Disbursements (Continued)			
Other Charges-			
Memberships, Dues, and Bonds	\$ 1,870	\$	\$ 1,870
Insurance - Property	118,464		118,464
Firing Range	3,914		3,914
Internet Service- MDT's	2,765		2,765
Postage	13,314		13,314
Uniform Laundry and Dry Cleaning	5,456		5,456
Telephone	7,838		7,838
Training	10,381		10,381
Video Arraignment	3,120		3,120
Auto Expenses-			
Gasoline	79,024		79,024
Radio Service and Maintenance	22,701		22,701
Vehicle Maintenance	79,157		79,157
Capital Outlay-			
Computer Equipment	10,839		10,839
Lease Payments	40,618		40,618
Vehicles	<u>78,943</u>		<u>78,943</u>
Total Disbursements	<u>3,698,838</u>	<u>402,595</u>	<u>4,101,433</u>
Fund Balance - December 31, 2017	<u>\$ (4,211)</u>	<u>\$ 0</u>	<u>\$ (4,211)</u>

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

HARDIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS

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 due from the sheriff as determined by the audit.

KRS 64.350 establishes that a fee official in counties with a population over 70,000 has two funds with the state treasurer for the deposit of fees collected. Seventy-five percent (75%) of the fees collected are deposited in the sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected are deposited to the county fiscal court fund and paid to the fiscal courts, urban-county governments, or consolidated local governments of the respective counties quarterly no later than April 15, July 15, October 15, and January 15. These funds are closed at the end of each official term by paying the balances to the respective county government.

Also, some revenues of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are treated as revenue in the 75 percent fund.

The financial statements have been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, receipts and disbursements are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31:

- Interest receivable
- Collection on accounts due from others for 2017 services
- Reimbursements for 2017 activities
- Payments due other governmental entities for December tax and fee collections
- Payroll expenditures incurred but not paid
- Payments due vendors for goods or services provided in 2017

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).

HARDIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
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.

The sheriff's contribution for calendar year 2015 was \$523,800 calendar year 2016 was \$485,775 and calendar year 2017 was \$576,085.

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 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 nonhazardous member's account is credited with a four percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

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

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

Hazardous

Hazardous covered employees are required to contribute eight percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008, are required to contribute nine percent of their salary to be allocated as follows: eight percent will go to the member's account and one percent will go to the KRS insurance fund.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan.

HARDIN COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2017
 (Continued)

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

Hazardous (Continued)

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

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008, aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

The county's contribution rate for hazardous employees was 31.06 percent for the first six months and 31.55 percent for the last six months.

Health Insurance Coverage

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

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

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

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Hazardous employees whose participation began on or after July 1, 2003, earn 15 dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, the employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

HARDIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017
(Continued)

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

KRS issues a publicly available annual financial report that includes financial statements and required supplementary information on CERS. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

KRS also issues a proportionate share audit report that includes the total pension liability for CERS determined by actuarial valuation as well as each participating county's proportionate share. The Schedules of Employer Allocations and Pension Amounts by Employer report and the related actuarial tables are available online at <https://kyret.ky.gov>. The complete actuarial valuation report, including all actuarial assumptions and methods, is also available on the website or can be obtained as described in the paragraph above.

Note 3. Deposits

The Hardin 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 Hardin 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. Federal Grant

A. High Intensity Drug Trafficking Area

The Hardin County Sheriff's office was awarded a grant from the Appalachia High Intensity Drug Trafficking Area (HIDTA) for the period of January 1, 2017 through December 31, 2017. During calendar year 2017, grant funds in the amount of \$4,515 were received.

B. Highway Safety Grant

The sheriff received a federal grant passed through from the Kentucky Transportation Cabinet's Office of Highway Safety. Funds totaling \$4,501 were received during the year. The grant year is based on the federal fiscal year of October 1, 2016 through September 30, 2017.

HARDIN COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2017
 (Continued)

Note 5. Discretionary Account

The sheriff established a discretionary account as provided by KRS 64.345 by transferring \$2,500 from the 75% account. This fund is to cover additional expenses related to homeland security emergencies, academy graduations, retirements, state and national sheriff's conventions, and extraordinary office expenses in amounts authorized by the approving authority. This account had a beginning balance of \$1,602 and disbursements of \$280 during the year. The ending balance as of December 31, 2017 was \$1,322.

Note 6. Drug Forfeiture Account

The sheriff has a drug forfeiture account, which is used for receiving forfeited drug money. This money is used to purchase law enforcement equipment, for drug investigations, and other drug related activities. This account had a beginning balance of \$4,388, receipts of \$482, and disbursements of \$4,049. The ending balance as of December 31, 2017, was \$821.

Note 7. DARE Account

The sheriff maintains a Drug Awareness Resistance Education (DARE) account. This account had a beginning balance of \$1,094 and disbursements of \$321. The ending balance as of December 31, 2017, was \$773.

Note 8. Special Account

The sheriff deposited funds totaling \$18,765 from weapons buy back in a special account. The sheriff's office complied with the provisions of KRS 64.41 and purchased new firearms as allowed totaling \$18,600. In addition, the fund was charged \$18 in bank service fees. The fund balance was \$147 as of December 31, 2017.

Note 9. Escrow Account

The sheriff has an escrow account to account for accident report fees collected by third party. Direct deposits are made to the escrow account from the third party. This account had a beginning balance of \$3 with receipts and disbursements of \$130. The ending balance as of December 31, 2017, totaled \$3.

Note 10. Extradition Account

The sheriff has an extradition account to account for transport of prisoners. Funds received from the state are deposited to the extradition account and then disbursed to the provider of the transport service. This account had a beginning balance of \$137 with receipts and disbursement of \$43,986. Of the amount disbursed, \$2,700 was paid to the fee account. The ending balance as of December 31, 2017 totaled \$137.

Note 11. Lease Agreements

Commitments to the following lease agreements as of December 31, 2017, were:

<u>Item Purchased</u>	<u>Annual Payment</u>	<u>Term of Agreement</u>	<u>Ending Date</u>	<u>Principal Balance December 31, 2017</u>
Chevrolet Tahoes (3)	\$ 17,370	61 months	March 2020	\$ 50,416
Chevrolet Tahoe (1)	5,742	62 months	October 2020	16,410
Chevrolet Impalas (4)	17,506	61 months	November 2020	49,865

HARDIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017
(Continued)

Note 12. 75% Operating Fund - Deficit Balance

The Hardin County Sheriff's 75% operating fund had a deficit balance of \$4,211 as of December 31, 2017. KRS 64.345(4) states, in part, "[i]f seventy-five percent (75%) of the amount paid into the State Treasury in any month by any of such officers is not sufficient to pay the salaries and expenses of his office for that month, the deficit may be made up out of the amount paid in any succeeding month; but in no event shall the amount allowed by the Finance and Administration Cabinet to any officer for salaries and expenses exceed seventy-five percent (75%) of the amount paid to the Finance and Administration Cabinet by the officer during his official term." The 75% operating fund must be settled at the end of the sheriff's term, which ends December 31, 2018.

Note 13. Contingencies

The Hardin County Sheriff is involved in multiple lawsuits that arose from the normal course of doing business. While individually they may not be significant, in the aggregate they could negatively impact the sheriff's financial position. Due to the uncertainty of the litigation, a reasonable estimate of the financial impact on the county cannot be made at this time.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Harry L. Berry, Hardin County Judge/Executive
The Honorable John Ward, Hardin County Sheriff
Members of the Hardin County Fiscal Court

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

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts and Disbursements - Regulatory Basis of the Sheriff of Hardin County, Kentucky, the Statement of Receipts, Disbursements, and Fund Balances of the Sheriff's Operating Fund and County Fund with the State Treasurer - Regulatory Basis for the year ended December 31, 2017, and the related notes to the financial statements, and have issued our report thereon dated November 8, 2018. The Hardin County Sheriff's financial statements are prepared on a regulatory basis of accounting, which demonstrates compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hardin 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 statements, but not for the purpose of expressing an opinion on the effectiveness of the Hardin County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hardin 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Internal Control Over Financial Reporting (Continued)

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We identified a certain deficiency in internal control, which is described in the accompanying Schedule of Findings and Responses as item 2017-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hardin County Sheriff's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Views of Responsible Official and Planned Corrective Action

The Hardin 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 Hardin County Sheriff's response was not subjected to the auditing procedures applied in the audit of the financial statements 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,



Mike Harmon
Auditor of Public Accounts

November 8, 2018

SCHEDULE OF FINDINGS AND RESPONSES

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HARDIN COUNTY
JOHN WARD, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2017

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2017-001 The Hardin County Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Bank Reconciliations

The Hardin County Sheriff's office lacks adequate segregation of duties over receipts and bank reconciliations. The sheriff's bookkeeper collects payments from customers, issues receipts, posts transactions to the receipts ledger, performs the monthly bank reconciliations, and prepares quarterly reports. Daily checkout sheets are prepared by a deputy clerk who also collects payments from customers and prepares the deposit tickets. The sheriff or another employee did not document oversight of any of these activities. The sheriff indicated that this condition is a result of a limited budget, which restricts the number of employees the sheriff can hire or delegate duties to. Lack of oversight could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as Department for Local Government.

The segregation of duties over various accounting functions such as opening mail, preparing deposits, recording receipts and disbursements, and preparing monthly reports, or the implementation of compensating controls is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the sheriff separate the duties involved in receiving cash, preparing deposits, writing checks, posting to ledgers, preparing monthly bank reconciliations, and comparing financial reports to ledgers. If due to a limited budget this is not feasible, cross checking procedures could be implemented and documented by the individual performing the procedure.

Sheriff's Response: Cross checking procedures will be implemented and documented.