

**REPORT OF THE AUDIT OF THE
MEADE COUNTY
SHERIFF**

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



**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**

CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT 1

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS 3

NOTES TO FINANCIAL STATEMENT 6

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* 13

SCHEDULE OF FINDINGS AND RESPONSES 17

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Gerry Lynn, Meade County Judge/Executive
The Honorable William Kerrick, Meade County Sheriff
Members of the Meade 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 Meade 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.

209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817

TELEPHONE 502.564.5841
FACSIMILE 502.564.2912
WWW.AUDITOR.KY.GOV

AN EQUAL OPPORTUNITY EMPLOYER M / F / D



The Honorable Gerry Lynn, Meade County Judge/Executive
The Honorable William Kerrick, Meade County Sheriff
Members of the Meade 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 Meade 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 Meade 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 Meade 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 June 26, 2018, on our consideration of the Meade 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 Meade 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 Did Not Comply With Bid Procedures For Purchases in Excess of \$20,000
- 2017-002 The Meade County Sheriff Loaned Funds From The Drug Forfeiture Account To The Fee Account

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

June 26, 2018

MEADE COUNTY
WILLIAM KERRICK, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2017

Receipts

Federal Grants		\$ 7,588
State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)		41,340
State Fees For Services:		
Finance and Administration Cabinet	\$ 85,837	
Sheriff Security Service	8,370	
Cabinet For Health And Family Services	<u>448</u>	94,655
Circuit Court Clerk:		
Fines and Fees Collected		11,503
Fiscal Court		73,511
County Clerk - Delinquent Taxes		24,944
Commission On Taxes Collected		615,936
Fees Collected For Services:		
Auto Inspections	26,075	
Accident and Police Reports	5,451	
Serving Papers	50,975	
County Ordinance Fee	12,440	
Transport Prisoners	2,020	
Carry Concealed Deadly Weapon Permits	<u>12,620</u>	109,581
Other:		
Add-On Fees	52,416	
Meade County DARE Reimbursement	22,000	
Sheriff's Sale	8,700	
Miscellaneous	<u>73</u>	83,189
Interest Earned		1,873
Borrowed Money:		
State Advancement		<u>300,000</u>
Total Receipts		1,364,120

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

MEADE COUNTY
WILLIAM KERRICK, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2017
(Continued)

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-		
Deputies' Salaries	\$	523,320
Part-Time Salaries		43,613
Employee Benefits-		
Employer's Share Social Security		48,743
Employer's Share Retirement		8,724
Employer Paid Health Insurance		72,898
Contracted Services-		
Advertising		52
Administrative Services		24,000
Computer Tax Services		17,390
Materials and Supplies-		
Office Materials and Supplies		9,250
Radio and Telephone		3,681
Police Equipment and Supplies		24,901
Uniforms		9,896
Auto Expense-		
Gasoline		37,658
Maintenance and Repairs		12,757
Other Charges-		
Conventions and Travel		822
Dues		759
Ordinance Fee		12,410
Extradition Expense		13,895
Bond		800
Sheriff's Sale Expense		518
Capital Outlay-		
Office Equipment		9,846
Vehicles		90,220
		<u>90,220</u>
	\$	966,153

Debt Service:

State Advancement		<u>300,000</u>
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Total Disbursements		<u>\$ 1,266,153</u>
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The accompanying notes are an integral part of this financial statement.

MEADE COUNTY
WILLIAM KERRICK, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2017
(Continued)

Net Receipts	\$ 97,967
Less: Statutory Maximum	<u>91,163</u>
Excess Fees	6,804
Less: Training Incentive Benefit	<u>4,052</u>
Excess Fees Due County for 2017	2,752
Payment to Fiscal Court - February 13, 2018	<u>2,619</u>
Balance Due Fiscal Court at Completion of Audit	<u>\$ 133</u>

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

MEADE 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).

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.

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

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

The sheriff's contribution for the KLEFPF portion of retirement for calendar year 2015 was \$8,432, calendar year 2016 was \$8,260, and calendar year 2017 was \$8,724.

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%

MEADE 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 Meade 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 Meade 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 Highway Safety Grant

The Meade County Sheriff's office received a federal grant through the Kentucky Transportation Cabinet's Office of Highway Safety in the amount of \$7,588. The purpose of the grant was to reduce traffic crashes through click it or ticket and impaired driving overtime enforcement. Under the program, the sheriff's office was eligible to receive up to \$8,950 as annually provided per KRS 17.148. Funds totaling \$7,588 were expended during the year. The unexpended grant balance was \$0 as of December 31, 2017.

Note 5. Drug Awareness Resistance Education Account

The Meade County Sheriff maintains a Drug Awareness Resistance Education (D.A.R.E) account. Funds from this account provide salary for an officer to promote awareness and drug prevention among local youth. The D.A.R.E account had a balance of \$2,618 as of January 1, 2017. Receipts for the year were \$2,751 and disbursements were \$2,954, leaving a balance of \$2,415 as of December 31, 2017.

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

Note 6. Drug Forfeiture Accounts

The Meade County Sheriff maintains accounts for the deposit of forfeited funds from drug related court cases. Disbursements from these accounts are restricted in accordance with court orders related to each individual case. The accounts had a balance of \$80,836 as of January 1, 2017. Receipts for the year were \$55,987 and disbursements were \$28,094, leaving a balance of \$108,729 as of December 31, 2017.

Note 7. Related Party Transactions

The Meade County Sheriff conducted business with his son-in-law to perform bookkeeping duties for the sheriff's office. The sheriff paid his son-in-law \$24,000 in contract labor during the calendar year ending December 31, 2017.

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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 Gerry Lynn, Meade County Judge/Executive
The Honorable William Kerrick, Meade County Sheriff
Members of the Meade 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 Meade County Sheriff for the year ended December 31, 2017, and the related notes to the financial statement and have issued our report thereon dated June 26, 2018. The Meade 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 Meade 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 Meade County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Meade 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 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 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.



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 Meade 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.

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

June 26, 2018

SCHEDULE OF FINDINGS AND RESPONSES

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MEADE COUNTY
WILLIAM KERRICK, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2017

STATE LAWS AND REGULATIONS:

2017-001 The Sheriff Did Not Comply With Bid Procedures For Purchases in Excess of \$20,000

The Meade County Sheriff purchased three vehicles in the amount of \$85,712. These vehicles were purchased from a dealership that did not have the state price contract. In accordance with county bid procedures and Kentucky Revised Statutes, the sheriff should have either obtained bids through advertisement or purchased the vehicles through the vendor who was awarded the state price contract. The sheriff does not have adequate policies and procedures in place to review purchasing requirements before purchases are made. The sheriff is not following KRS requirements on bidding procedures, therefore, there is a possibility that the sheriff is paying more for assets than if they were bid.

KRS 424.260(1) states, “[e]xcept where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district, or board or commission of a city or county, or sheriff or county clerk, may make a contract, lease, or other agreement for materials, supplies except for perishable meat, fish, and vegetables, equipment, or for contractual services other than professional, involving an expenditure of more than twenty thousand dollars (\$20,000) without first making newspaper advertisement for bids.”

We recommend the sheriff comply with KRS 424.260 by advertising for bids for purchases exceeding \$20,000, or ensure he purchases from the vendor that was awarded the state price contract. The procurement process should be properly documented and supporting documentation maintained on file.

Sheriff's Response: The sheriff's office did not provide a response.

2017-002 The Meade County Sheriff Loaned Funds From The Drug Forfeiture Account To The Fee Account

The sheriff transferred \$50,000 from the drug forfeiture account in January and deposited the funds into the fee account. The sheriff transferred the money back from the fee account to the drug forfeiture account in December. The sheriff said he considered the transfers from the drug forfeiture account to the fee account a “loan.” However, the sheriff cannot loan money to himself through the transfer of funds from one account to another. The sheriff may participate in a borrowing program through the state called the State Advancement program. Through this program the sheriff is limited by KRS 64.140(1) to borrow \$60,000 per month, and he already received \$60,000 in January when he transferred an additional \$50,000 from his drug forfeiture account.

By borrowing from the Drug Forfeiture Fund the sheriff was not in compliance with KRS 218A.420(4). KRS 218A.420 (4) states that seized funds are to be used for direct law enforcement purposes. This money can be spent for law enforcement purposes, but should not be transferred between accounts for loan purposes.

We recommend the sheriff no longer borrow funds from the Drug Forfeiture Fund. If the sheriff needs additional funds throughout the year, he could request an increase in the amount borrowed through the State Advancement program, or he could use money from the drug forfeiture fund to pay for some direct law enforcement expenses.

Sheriff's Response: The sheriff's office did not provide a response.