

**REPORT OF THE AUDIT OF THE
WHITLEY COUNTY
SHERIFF**

**For The Year Ended
December 31, 2005**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE WHITLEY COUNTY SHERIFF

**For The Year Ended
December 31, 2005**

The Auditor of Public Accounts was engaged to audit the fee account activities of the Whitley County Sheriff office for the year ended December 31, 2005 and we have issued a disclaimer of opinion.

Based upon our assessment of audit risk, we determined the risk of fraud to be too high and we were unable to apply other procedures to overcome this risk. In addition, the Sheriff's Office had serious weaknesses in the design and operation of its internal control procedures and accounting functions.

Report Comments:

- 2005-01 The Sheriff Should Maintain Accurate Accounting Records And Account For All Receipts In The Appropriate Year
- 2005-02 The Sheriff Did Not Deposit Receipts Of The Office In A Timely Manner
- 2005-03 The Sheriff Had A Known Deficit Of \$2,803 In His Official 2005 Fee Account
- 2005-04 The Sheriff Should Submit Known Excess Fees To The Fiscal Court
- 2005-05 The Sheriff Should Not Loan Money To The Fee Account From The Tax Account
- 2005-06 The Sheriff Did Not Provide Adequate Oversight For Fuel Purchases Made With Credit Cards
- 2005-07 The Sheriff Should Maintain Proper Documentation And Properly Account For Payroll Related Items
- 2005-08 The Sheriff Lacked Adequate Controls Over Drug And Alcohol Account Receipts And Disbursements And Did Not Maintain Proper Documentation For Disbursements Of The Account
- 2005-09 The Sheriff Should Not Expend Seized Assets Before Being Awarded By The Court
- 2005-10 The Sheriff's Office Lacked Adequate Segregation Of Duties Over The Accounting Functions
- 2005-11 Other Matters Resulting In Noncompliance

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT 1

STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS 3

NOTES TO FINANCIAL STATEMENT 6

SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS – REGULATORY BASIS 10

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

COMMENTS AND RECOMMENDATIONS 17



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Pat White Jr., Whitley County Judge/Executive
The Honorable Lawrence Hodge, Whitley County Sheriff
Members of the Whitley County Fiscal Court

Independent Auditor's Report

We were engaged to audit the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Whitley County, Kentucky, for the year ended December 31, 2005. This financial statement is the responsibility of the Sheriff.

As further explained in the accompanying comments and recommendations, the Whitley County Sheriff did not maintain adequate accounting records of fee account revenues and expenditures for the 2005 calendar year. The Sheriff's financial records do not permit the application of other auditing procedures to fee account revenues and expenditures. Furthermore, significant discrepancies in the Sheriff's records identified during the engagement and lack of adequate internal controls resulted in a high level of audit risk. In addition, we were not provided with management or legal representation letters.

Since the Whitley County Sheriff did not maintain adequate accounting records, audit risk for this engagement was high as discussed in paragraph two, and because we did not receive the required representation letters and we were not able to apply other auditing procedures to satisfy ourselves as to the validity of fee account revenues and expenditures, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the Sheriff's statement of revenues, expenditures, and excess fees - regulatory basis for the 2005 calendar year.

We were engaged to audit the financial statement referred to above for the purpose of forming an opinion on the financial statement. The Schedule Of Excess Of Liabilities Over Assets is presented for purposes of additional analysis and is not a required part of the financial statement. As discussed in the third paragraph above, the scope of our work was not sufficient to enable us to express an opinion on the financial statement of the Sheriff. Similarly, we are unable to express and do not express an opinion on the Schedule Of Excess Of Liabilities Over Assets in relation to the financial statement.

In accordance with Government Auditing Standards, we have also issued our report dated March 31, 2009, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Pat White, Jr., Whitley County Judge/Executive
The Honorable Lawrence Hodge, Whitley County Sheriff
Members of the Whitley County Fiscal Court

We also present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2005-01 The Sheriff Should Maintain Accurate Accounting Records And Account For All Receipts In The Appropriate Year
- 2005-02 The Sheriff Did Not Deposit Receipts Of The Office In A Timely Manner
- 2005-03 The Sheriff Had A Known Deficit OF \$2,803 In His Official 2005 Fee Account
- 2005-04 The Sheriff Should Submit Known Excess Fees To The Fiscal Court
- 2005-05 The Sheriff Should Not Loan Money To The Fee Account From The Tax Account
- 2005-06 The Sheriff Did Not Provide Adequate Oversight For Fuel Purchases Made With Credit Cards
- 2005-07 The Sheriff Should Maintain Proper Documentation And Properly Account For Payroll Related Items
- 2005-08 The Sheriff Lacked Adequate Controls Over Drug And Alcohol Account Receipts And Disbursements And Did Not Maintain Proper Documentation For Disbursements Of The Account
- 2005-09 The Sheriff Should Not Expend Seized Assets Before Being Awarded By The Court
- 2005-10 The Sheriff's Office Lacked Adequate Segregation Of Duties Over The Accounting Functions
- 2005-11 Other Matters Resulting In Noncompliance

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Whitley County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

March 31, 2009

WHITLEY COUNTY
LAWRENCE HODGE, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2005

Revenues

Federal Grants-

Department of Forestry	\$	5,000	
Corps. Of Engineers		3,060	
Governor's Highway Safety Program		1,396	
HIDTA Grant		47	\$ 9,503

State - Kentucky Law Enforcement Foundation Program Fund 33,237

State Fees For Services:

Finance and Administration Cabinet	22,938	
Court Security	18,480	
Transports	37,700	
Off Track Betting Advertising Refund	114	79,232

Circuit Court Clerk:

Fines and Fees Collected 845

Fiscal Court

Contributions	133,607	
Jail Transports	24,834	
Juvenile Transports	8,238	
Postage	9,935	
Vehicle Grant	64,000	
Accident Reimbursement	25,215	265,829

County Clerk - Delinquent Taxes 6,949

Commission On Taxes Collected 235,005

Fees Collected For Services:

Auto Inspections	11,600	
Accident and Police Reports	2,288	
Serving Papers	42,405	
Carrying Concealed Deadly Weapon Permits	20,215	
Transports	9,292	
School Deputy Reimbursement	26,156	111,956

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

WHITLEY COUNTY
LAWRENCE HODGE, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2005
(Continued)

Revenues (Continued)

Other:

Advertising Fees		\$	5,924
Tax Penalty - 10%			31,218
Accident Reimbursement			7,267
Miscellaneous			1,062

Interest Earned			5,041
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Borrowed Money:

State Advancement	\$	120,000	
Bank Note		215,396	335,396

Total Revenues			1,128,464
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Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-			
Deputies' Salaries		352,476	
Deputies' KLEFPF Salaries		27,900	
Transporter Salary		21,094	
Overtime		2,429	
Contracted Services-			
Advertising		114	
Materials and Supplies-			
Office Materials and Supplies		9,088	
Radio/Camera/Supplies		1,609	
Uniforms		4,658	
Gun/Supplies		1,314	
Auto Expense-			
Gasoline		61,578	
Vehicle Maintenance and Repairs		45,669	
Other Charges-			
Cell Phones		3,711	
Dues		1,023	
Postage		11,169	
Transport Expenses		5,284	
Jail Transports		22,924	
Bond		1,624	

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

WHITLEY COUNTY
LAWRENCE HODGE, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2005
(Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Other Charges- (Continued)

Carrying Concealed Deadly Weapon Permits	\$	13,050	
Summons Other Counties		120	
Rent -2nd Office		600	
Miscellaneous		4,737	\$ 592,171
<hr/>			
Capital Outlay-			
Transport Vehicles			39,840

Debt Service:

State Advancement		120,000	
Notes		215,396	
Interest on Notes		6,014	
Bank Document Fees		875	
Late Fees on Notes		111	
Vehicle Lease		64,945	407,341
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Total Expenditures 1,039,352

Less: Disallowed Expenditures

Finance Charges		232	
Late Charges		179	
Internal Revenue Service Penalty		428	
Payment by Phone Fees		30	
Overlimit Fee		35	904
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Total Allowable Expenditures 1,038,448

Net Revenues 90,016

Less: Statutory Maximum 74,257

Excess Fees 15,759

Less: Training Incentive Benefit 2,396

Excess Fees Due County for 2005 13,363

Payments to Fiscal Court 0

Balance Due Fiscal Court \$ 13,363

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

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2005

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 revenues over expenditures 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 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has 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 revenues and expenditures 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 2005 services
- Reimbursements for 2005 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2005

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

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, 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).

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2005
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent for the first six months and 10.98 percent for the last six months of the year. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 22.08 percent for the first six months and 25.01 percent for the last six months of the year.

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. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The 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(4), 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 Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2005
(Continued)

Note 4. Bank Notes

- A. The Sheriff received a bank loan of \$7,646 on January 14, 2005 for the purchase of a transport vehicle. The terms of the loan agreement required three (3) quarterly interest payments ranging from \$100 to \$102 beginning April 14, 2005 and one (1) payment of \$7,749 on January 14, 2006. During the year the Sheriff paid interest totaling \$248 and late fee payments of \$11. The principal, \$7,646, was repaid on August 4, 2005. As of December 31, 2005 the loan balance was zero (0).
- B. The Sheriff received a bank loan of \$100,125 on March 7, 2005 for the purpose of operating capital. The terms of the loan agreement required one (1) payment of \$101,532 on June 7, 2005 with that amount subject to change due to a variable rate of interest. On July 11, 2005 the Sheriff paid interest totaling \$2,158 and a late fee of \$100. The principal balance of \$100,125 was refinanced with another note. The principal balance of the new note was \$100,250, which included an additional loan fee of \$125. Terms of the new note called for one payment of \$101,329 due on September 11, 2005. On August 4, 2005 the Sheriff paid the principal balance of \$100,250 and \$400 of interest. As of December 31, 2005 the loan balance was zero (0).
- C. The Sheriff received a bank loan of \$50,125 on May 11, 2005 for the purpose of operating capital. The terms of the loan agreement required one (1) payment of \$51,662 on November 11, 2005. On November 17, 2005 the Sheriff paid interest of \$1,587 and refinanced the principal balance of \$50,125 with a new loan (See note F).
- D. The Sheriff received a bank loan of \$37,125 on August 4, 2005 for the purchase of transportation vehicles and operating capital. The terms of the loan agreement required one (1) payment of \$37,718 on November 4, 2005. On November 17, 2005 the Sheriff paid interest of \$677 and refinanced the principal balance of \$37,125 with a new loan (See note F).
- E. The Sheriff received a bank loan of \$20,125 on September 2, 2005 for the purpose of operating capital. The terms of the loan agreement required one (1) payment of \$20,234 on October 2, 2005. On September 6, 2005 the Sheriff paid \$20,125 of principal and \$10 of interest. As of December 31, 2005 the loan balance was zero (0).
- F. The Sheriff renewed and combined two loans (items C and D listed above) on November 17, 2005 for a total of \$87,375, which included both principal and interest from the combined loans and an additional loan fee of \$125. The terms of the agreement required one (1) payment of \$88,938 on February 17, 2006. On January 11, 2006 the Sheriff paid the principal balance of \$87,375 and interest of \$934, leaving a loan balance of zero (0).

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2005
(Continued)

Note 5. Drug and Alcohol Account

Under the terms mandated by the Commonwealth of Kentucky, the Whitley County Sheriff received proceeds from the confiscation, surrender or sale of real and personal property involved in drug related convictions. The beginning balance as of January 1, 2005 was \$9,268. Receipts and disbursements were \$19,311 and \$17,655, respectively. The balance as of December 31, 2005 was \$10,924. These funds are exclusively for direct law enforcement activities and are not included in excess fees.

Note 6. Sublease Agreement

On March 30, 2004, the office of the Sheriff committed to a sub-lease agreement with the Whitley County Fiscal Court for the purchase of eight new vehicles and the necessary equipment required by law for the vehicles. The Sheriff received \$64,000 from the Whitley County Fiscal Court and paid a total of \$64,945 to National City Bank during calendar year 2005. The sub-lease is scheduled to end November 20, 2006. The total remaining balance of the agreement was \$64,974 as of December 31, 2005.

WHITLEY COUNTY
LAWRENCE HODGE, SHERIFF
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS – REGULATORY BASIS

December 31, 2005

Assets

Cash in Bank	\$ 168,443
Deposits in Transit	498
Collected Receivables	116,833
Uncollected Receivables; Due From 2006 Fee Account	<u>1,971</u>
Total Assets	<u>287,745</u>

Liabilities

Paid Obligations:

Outstanding Checks	\$ 9,026	
Liabilities Paid After December 31, 2005	<u>268,045</u>	
Total Paid Obligations		277,071

Unpaid Obligations:

Whitley County- Excess Fees - 2005	13,363	
Due to 2006 Fee Account	<u>114</u>	
Total Unpaid Obligations		<u>13,477</u>
Total Liabilities		<u>290,548</u>
Total Fund Deficit as of December 31, 2005		<u><u>\$ (2,803)</u></u>

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



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Pat White, Jr., Whitley County Judge/Executive
The Honorable Lawrence Hodge, Whitley County Sheriff
Members of the Whitley 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

We were engaged to audit the statement of revenues, expenditures, and excess fees - regulatory basis of the Whitley County Sheriff for the year ended December 31, 2005, and have issued our report thereon dated March 31, 2009 wherein we disclaimed an opinion on the financial statement because the Sheriff failed to maintain adequate accounting records, and lacked adequate internal controls resulting in a high audit and fraud risk. In addition, we were not provided with management or legal representation letters. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Whitley County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures 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 Whitley County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Whitley County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting.



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)

Internal Control Over Financial Reporting (Continued)

We consider the deficiencies described in the accompanying comments and recommendations as items 2005-01, 2005-02, 2005-03, 2005-04, 2005-05, 2005-06, 2005-07, 2005-08, 2005-09, and 2005-10 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Whitley County Sheriff's financial statement for the year ended December 31, 2005, 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 comments and recommendations. These noncompliances are reported in comments 2005-01, 2005-04, 2005-05, 2005-07, 2005-09, and 2005-11.

The Whitley County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Whitley County Fiscal Court, and the Department For Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

March 31, 2009

COMMENTS AND RECOMMENDATIONS

WHITLEY COUNTY
LAWRENCE HODGE, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2005

FINANCIAL STATEMENT FINDINGS

2005-01 The Sheriff Should Maintain Accurate Accounting Records And Account For All Receipts In The Appropriate Year

The Sheriff did not maintain accurate financial records for the 2005 fee account. In addition, the Sheriff deposited 2005 fee receipts to the 2006 fee account. During our testing of receipts and disbursements, we noted the following known errors:

- A total of \$1,971 of calendar year 2005 receipts were not accounted for on the Sheriff's 2005 receipts ledger and were deposited to the 2006 fee account. These included \$1,790 for serving papers, \$20 for auto inspections, \$47 for accident reports, and a state payment of \$114.
- Borrowed money totaling \$8,396 was not accounted for on the Sheriff's receipts ledger or disbursements ledger. These funds included a total of \$875 in bank loan fees, one lien fee of \$21 paid to the county clerk, and one payment of \$7,500 paid to a vendor for the purchase of a vehicle. The bank paid these, directly from the loan proceeds, to the vendor.
- One interest payment of \$677 was not posted to the disbursements ledger.
- One state payment in the amount of \$1,428 for transporting prisoners was not posted to the Sheriff's receipts ledger and therefore was not included on the fourth quarter financial statement.
- Two county payments totaling \$3,997 were posted to the receipts ledger after December 31, 2005 but were not included on the fourth quarter financial statement.
- Interest earned on the fee account for October, November, and December 2005, totaling \$281 was not posted to the receipts ledger and therefore was not included on the fourth quarter financial statement.
- One returned check fee in the amount of \$25 was not posted to the Sheriff's receipts ledger.
- A total of \$311 in check printing and bank fees was not posted to the Sheriff's disbursements ledger.

Lack of any controls over the operations of the office and a lack of oversight by the Sheriff resulted in numerous errors noted on the financial records.

Because internal controls do not exist to prevent and/or detect these types of errors and because the Sheriff did not implement any type of oversight control, these types of errors are allowed to occur. Reports remitted to external agencies, such as the Department for Local Government, are misleading, calculations for excess fees due fiscal court are erroneous, and calendar year receipts are erroneously used in other years. In addition, taxpayer dollars are at greater risk for misappropriation of use.

WHITLEY COUNTY
 LAWRENCE HODGE, SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended December 31, 2005
 (Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2005-01 The Sheriff Should Maintain Accurate Accounting Records And Account For All Receipts In The Appropriate Year (Continued)

KRS 134.160(2) states, "The sheriff shall keep an accurate account of all moneys received by him, showing the amount, the time when and the person from whom received, and on what account. He shall also keep an accurate record of all disbursements made by him, showing the amount, to whom paid, the time of payment, and on what account. He shall so arrange and keep his books that the amounts received and paid on account of separate and distinct appropriations shall be exhibited in separate and distinct accounts."

We recommend the Sheriff immediately implement controls and oversight over his office to assure errors of this magnitude are prevented in a timely manner and maintain accurate financial records in the future as required by KRS 134.160(2). We further recommend that all fee receipts be deposited to the appropriate years accounts. These steps would help to ensure that an accurate financial statement is prepared at year-end. We also recommend the Sheriff transfer \$1,971 from his 2006 fee account to the 2005 fee account for the known erroneous deposit stated above.

Sheriff's Response: The Whitley County Sheriff has implemented controls and more efficient oversight in his office with his bookkeeping staff to insure errors of this type are prevented and to insure accurate financial recordings in the future as required by KRS 134.160(2). Further the Whitley County Sheriff is transferring the sum of \$1,971 from his 2006 fee account to the 2005 fee account to correct the erroneous deposit as stated above.

2005-02 The Sheriff Did Not Deposit Receipts Of The Office In A Timely Manner

During the test of daily receipts we noted that daily receipts are not always deposited in a timely manner. An example follows:

- Daily receipts for October 3, 2005, a random date chosen for testing, were not deposited until October 12, 2005; which is a delay of 7 business days.
- Further review showed that for the month of October receipts for thirteen out of twenty-eight days (13 out of 28) were deposited more than three (3) business days after revenue was received.

The Sheriff lacked controls over the deposit process and did not provide any oversight in this area.

As has been stated in another comment, the Sheriff had known un-deposited receipts of \$1,899, which contributed to the known deficit of \$2,803 in his official 2005 fee account.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The minimum requirements for handling public funds as stated in the Instructional Guide for County Budget Preparation and State Local Finance Officer Policy Manual require that deposits be made daily. Additionally, the practice of making daily deposits reduces the risk of misappropriation of cash, which is the asset most subject to possible theft.

WHITLEY COUNTY
LAWRENCE HODGE, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2005
(Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2005-02 The Sheriff Did Not Deposit Receipts Of The Office In A Timely Manner (Continued)

We recommend the Sheriff immediately implement controls over the deposit process to assure deposits are made daily and include all receipts accepted by the Sheriff's office for that day to comply with KRS 68.210. By making daily deposits, the risk that cash is misappropriated in the office, or diverted for personal use is reduced.

Sheriff's Response: The Whitley County Sheriff has implemented controls over the deposit process to assure that deposits are made daily and to assure that all receipts accepted by the Sheriff's office on a day-to-day basis are reflected in the bookkeeping process to fully comply with KRS 68.210. No cash will remain in the Sheriff's office overnight.

2005-03 The Sheriff Had A Known Deficit Of \$2,803 In His Official 2005 Fee Account

Because of known un-deposited receipts of \$1,899, as well as disallowed expenditures of \$904, the Sheriff had a known deficit of \$2,803. Auditors were unable to determine the complete amount because of a lack of adequate record keeping in the Sheriff's office. Had adequate records been available, the deficit would likely be more.

The Sheriff's office failed to deposit receipts paid by individuals for services rendered into the official fee account. Also, the Sheriff's office did not spend monies of the office on allowable expenditures and instead had the following, deemed un-allowable expenditures per Funk v. Milliken, 317 S.W.2d 499 (KY 1958):

- Finance charges, late charges, telephone payment fees, and over-the-limit fees totaling \$365 for a Visa Credit Card.
- IRS penalties totaling \$428 were paid because the Sheriff's office made insufficient tax deposits by the required date.
- Late fees totaling \$111 were paid on two bank loans.

When receipts go un-deposited, and monies are spent on disallowed expenditures, reports submitted by the Sheriff for external purposes can be inaccurate, other vital services that could be offered by the Sheriff's office are not offered and ultimately, the Sheriff is required to deposit personal funds to cover these items.

As in any office, the Sheriff is expected to deposit all monies paid to his office. He is also expected to expend his fee account monies on expenditures allowed [see Funk v. Milliken, 317 S.W.2d 499 (KY 1958)].

We recommend the Sheriff deposit personal funds of \$2,803 to cover the known deficit in his official 2005 fee account. We further recommend the Sheriff take immediate steps to ensure all monies received by his office are immediately deposited into an official account and that monies spent on the office are for allowable expenditures only.

WHITLEY COUNTY
LAWRENCE HODGE, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2005
(Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2005-03 The Sheriff Had A Known Deficit Of \$2,803 In His Official 2005 Fee Account
(Continued)

Sheriff's Response: The Whitley County Sheriff has deposited personal funds of \$2,803 to cover the known deficit in his official 2005 account. Further he has taken action to ensure all monies received by his office are immediately deposited into an official account and that monies spent on the office are for allowable expenditures only.

2005-04 The Sheriff Should Submit Known Excess Fees To The Fiscal Court

On March 16, 2006, the Sheriff presented his annual financial statement to the fiscal court for approval. However, no excess fees were paid. Based on available records, known excess fees of \$13,363 are due to the fiscal court for 2005 excess fees. Auditors are unable to determine if this is a reasonable amount because of a lack of adequate record keeping in the Sheriff's office. Had adequate records been available, excess fees may have changed and possibly increased.

As has been stated in numerous findings, receipts of the Sheriff's office are often not deposited into the correct account, and sometimes are not deposited at all. Record keeping is inadequate and bank accounts are commingled throughout the year. Because of this, the Sheriff is unable to pay excess fees due the fiscal court as required by law.

KRS 134.310 (6) requires excess fees to be paid at the time the annual settlement is submitted, subject to correction by audit.

We recommend the Sheriff pay known excess fees of \$13,363 to the fiscal court. We further recommend the Sheriff comply with KRS 134.310 by paying to the fiscal court any future excess fees in his custody at the time he presents his annual settlement.

Sheriff's Response: The Whitley County Sheriff will pay any excess fees to the fiscal court. The Judge Executive of Whitley County and the Whitley County Sheriff have discussed this and action is being taken to correct this problem. Further, the Whitley County Sheriff is prepared and will comply with KRS 134.310 by paying to the fiscal court any future excess fees in his custody at the time he presents his annual settlement.

WHITLEY COUNTY
LAWRENCE HODGE, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2005
(Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2005-05 The Sheriff Should Not Loan Money To The Fee Account From the Tax Account

The Sheriff engaged in the practice of loaning money from the tax account to the fee account. During the months of January, February and March of 2005, the Sheriff loaned a total of \$80,000 to his 2005 fee account from the 2004 tax account. On March 7, 2005, \$70,000 was transferred back to the 2004 tax account and the remaining \$10,000 was transferred back on May 17, 2005.

As has been stated in other comments, receipts of the Sheriff's office are regularly deposited into different bank accounts and in other instances, not deposited at all, which results in the need to "loan" monies from the tax account to the fee account. The Sheriff, because of lack of controls over his office, and lack of oversight has allowed this to happen.

When a lack of control over record keeping exists or oversight over record keeping is poor, this type of situation is allowed to occur. The possible effects are shortages in various accounts, which may result in the inability to pay required amounts to taxing districts, vendors, etc. Also, the ability to properly budget for operations of the office becomes increasingly difficult.

KRS 134.170(3) states, "Other than for investments and expenditures permitted by KRS 134.140, the Sheriff shall not apply or use any money received by him for any purpose other than that for which the money was paid or collected." Additionally, KRS 134.300 requires tax collections to be reported and paid to the taxing districts by the tenth (10th) of following month. Only the commissions allowable to the Sheriff and such other fees as are due should be transferred to the fee account.

We recommend the Sheriff refrain from making loans from the tax accounts to the fee accounts. Furthermore, we recommend the Sheriff immediately implement controls and oversight over his office so receipts are deposited in the appropriate account.

In those instances where it becomes necessary to advance tax monies to the fee account, the Sheriff could pay to the fee account, an advance on monthly tax commissions prior to the end the month. When the monthly tax collection reports are prepared and taxes remitted to the taxing districts, the Sheriff could then reduce the amount of commissions due by the amount previously advanced.

Sheriff's Response: The Whitley County Sheriff has previously corrected this error and is now aware that such loans from tax accounts to fee accounts is unacceptable. The Whitley County Sheriff has implemented more stringent and comprehensive bookkeeping measures to assure tighter control over his office receipts so that such receipts are deposited in the appropriate account.

In those instances where it becomes necessary to advance tax monies to the fee account, the Sheriff shall pay to the fee account an advance on monthly tax commissions prior to the end of the month. When the monthly tax collection reports are prepared and taxes remitted to the taxing districts, the Sheriff shall then reduce the amount of commissions due by the amount previously advanced

WHITLEY COUNTY
LAWRENCE HODGE, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2005
(Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2005-06 The Sheriff Did Not Provide Adequate Oversight For Fuel Purchases Made With Credit Cards

The Sheriff did not provide adequate oversight over \$61,578 of fuel credit card purchases and we could not determine if all of the fuel purchased was for official use. We could not find evidence that the Sheriff, prior to payment, reviewed the credit card statements or that vendor receipts were reconciled to amounts on the monthly billing statement.

According to the Sheriff, a deputy will use his assigned fuel card even if he was driving a different cruiser. New deputies, who had not received their fuel card, would use another deputy's or the Sheriff's fuel card until their personal fuel card arrived. In addition, we noted the same odometer reading was used multiple times when fuel was purchased.

Each deputy is assigned a fuel card, with the Sheriff's office maintaining a total of 13 fuel cards. A personal identification number (PIN) and odometer reading is required each time the card is used. When the monthly credit card statement is received, there is a breakdown by cardholder to show the date and time of purchase, gallons of fuel purchased and odometer reading at the time of purchase. The individual receipts provided for each fuel purchase should be reconciled to the monthly statement and the date and time of purchase should be checked against the employee's work schedule.

The Sheriff lacked basic controls over fuel credit card use to ensure they were appropriately used only in an official capacity.

Without evidence of proper oversight of these credit cards, the Sheriff cannot ensure the accuracy of billed fuel and the reasonableness of fuel charged by each deputy. Fuel may be purchased and used for other than official business of the Sheriff's office, ultimately resulting in personal travel being financed by the citizens of Whitley County.

We recommend the Sheriff immediately implement steps to adequately safeguard the cards in use. Each deputy should be held accountable to maintain the original vendors receipt and should ensure actual odometer readings are used at the time of purchase. We further recommend the Sheriff maintain each vendor receipt and reconcile that receipt to the monthly billing statement and employee work schedule prior to payment.

Sheriff's Response: The Whitley County Sheriff has implemented a policy so that each deputy is assigned a fuel card, with the Sheriff's office maintaining a total of 13 fuel cards. A personal identification number (PIN) and odometer reading is required each time the card is used. When the monthly credit card statement is received, there will be a breakdown by cardholder to show the date and the time of purchase, gallons of fuel purchased and odometer reading at the time of purchase. The individual receipts provided for each fuel purchase shall be reconciled to the monthly statement and the date and time of purchase shall be checked against the employee's work schedule.

WHITLEY COUNTY
 LAWRENCE HODGE, SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended December 31, 2005
 (Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2005-06 The Sheriff Did Not Provide Adequate Oversight For Fuel Purchases Made With Credit Cards (Continued)

Sheriff's Response (Continued): Further, the Whitley County Sheriff has immediately implemented these steps to adequately safeguard the cards in use and each deputy shall be held accountable to maintain the original vendors receipt and should ensure actual odometer reading are used at the time of purchase. The Whitley County Sheriff shall maintain each vendor receipt and reconcile that receipt to the monthly billing statement and employee work schedule prior to payment.

2005-07 The Sheriff Should Maintain Proper Documentation And Properly Account For Payroll Related Items

The Sheriff did not maintain adequate documentation for time worked and leave taken for two office employees as time sheets or time cards were not on file for these employees. Lack of administrative policies and internal controls over the office and lack of proper oversight by the Sheriff allowed this situation to occur.

If adequate documentation for actual hours worked and leave balances of each employee is not maintained, it puts the Sheriff's office at risk for possible future payment to an employee who may maintain their own records and subsequently resigns or is otherwise let go. Since this employee would have maintained documentation, which cannot be refuted by the Sheriff's office, the Sheriff's office may owe that employee for leave balances and any overtime documented by the employee.

KRS 337.320 requires the Sheriff to keep a record of the amount paid each pay period to each employee, the hours worked each day and each week by each employee, and such other information as the executive director may require. This statute also requires that such records be kept on file for at least one (1) year after entry.

We recommend the Sheriff comply with this statute by keeping time sheets or time cards for all employees.

Sheriff's Response: The Whitley County Sheriff has implemented the requirements of KRS 337.320 which mandate the Sheriff to keep a record of the amount paid each pay period to each employee, the hours worked each day and each week by each employee, and such other information as the executive director may require. In compliance with this statute such records shall be kept on file for at least one (1) year after entry.

WHITLEY COUNTY
LAWRENCE HODGE, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2005
(Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2005-08 The Sheriff Lacked Adequate Controls Over Drug and Alcohol Account Receipts And Disbursements And Did Not Maintain Proper Documentation For Disbursements Of The Account

During 2005, the Sheriff deposited \$19,311 to and expended \$17,655 from the drug account. Of the thirty-two checks totaling \$17,655 written from this account, thirty-one (31) checks totaling \$17,440 and one (1) check totaling \$215 were written to the Sheriff and one deputy respectively. According to the Sheriff, these checks were cashed and the cash was then used for drug and alcohol eradication purposes.

The Sheriff did not maintain a receipts ledger for the drug account, which required auditors to recap available deposit tickets to determine the operating revenues. We were unable to identify the source of four (4) deposits totaling \$10,151 since the deposits tickets simply indicated that "cash" and "checks" were being deposited and these four (4) deposits could not be traced to any court orders awarding the funds to the Sheriff's Department.

In addition to a disbursements ledger, the Sheriff maintained a hand written log to document the purpose for which each check was written. During our review of this log we noted the following:

- Informants were paid a total of \$16,540 from the drug and alcohol account to make drug and alcohol buys, listen to scanners, and provide information to the Sheriff's department. Notations on deposit tickets indicated that a total of \$598 was returned and re-deposited to the drug account. All checks were written to and cashed by the Sheriff. No signed documentation was maintained by the Sheriff to verify that informants actually received these funds or used them to make drug and alcohol buys. Also since names were not used in the log, auditors could not determine how much each informant received. If an informant received over \$600 a 1099 form should have been issued to report this income. No 1099 forms were issued to these informants.
- On March 14, 2005, the Sheriff issued a check to himself for \$350. This check was cashed and the cash was given to an informant to make an alcohol and marijuana buy. The log stated that the Sheriff's department confiscated \$2,500 in cash as a result of this buy and the money was given to the bookkeeper for deposit. The deposit ticket showed that \$2,200 was deposited to the drug account. A second deposit of \$300 was made the same day but that deposit ticket indicated that this was buy money that was re-deposited. We could not determine if this was part of the \$2,500 seized by the Sheriff's office.
- One check in the amount of \$700 (**disallowed-see below**) and another in the amount of \$215 (**disallowed-see below**) was issued to the Sheriff and one deputy respectively. There was no entry in the sheriff's log showing what these checks were used for and no other documentation was provided to auditors for these expenditures.

WHITLEY COUNTY
LAWRENCE HODGE, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2005
(Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2005-08 The Sheriff Lacked Adequate Controls Over Drug And Alcohol Account Receipts And Disbursements And Did Not Maintain Proper Documentation For Disbursements Of The Account (Continued)

- On June 16, 2005, the Sheriff issued a check to himself for \$350. This check was cashed and according to the Sheriff's log, the cash was given to an informant, who used \$150 of this money to make a drug and alcohol buy. According to the Sheriff's log, the remaining \$200 (**disallowed-see below**) was used to purchase two hand held scanners. No documentation was provided for the purchase of the scanners.

As a result of this extensive testing, we noted the following disallowed expenditures from this account since no documentation was maintained for the purchases:

- \$200 was expended for two hand held scanners.
- \$700 was paid to the Sheriff.
- \$215 was paid to one deputy

The Sheriff did not design and implement proper controls over the receipt and subsequent disbursement of drug and alcohol related transactions. In addition, the Sheriff did not maintain minimum documentation as adopted by the Kentucky Sheriff's Association.

A lack of basic controls over transactions within the Sheriff's office subjects monies of the Sheriff's office to misappropriation or diversion for other than official use. In addition, the Sheriff may be required to pay, with personal funds, for those expenditures that do not have proper documentation.

As in any office, officials are expected to maintain documentation on receipts that come into their office as well as any disbursements made from their office.

We recommend the Sheriff implement controls over the receipts and expenditures of the drug and alcohol account and maintain proper documentation for both receipts and expenditures. A receipts ledger should be maintained for the drug and alcohol account and the source of all receipts should be clearly identified on the deposit tickets. Signed receipts should be obtained from all informants and documentation maintained for each drug and alcohol buy. The Kentucky Sheriffs Association has developed guidelines and forms to be utilized for Sheriffs' record keeping systems.

We also recommend the Sheriff deposit personal funds of \$1,115 into his drug and alcohol account to reimburse the undocumented expenditures listed above.

WHITLEY COUNTY
LAWRENCE HODGE, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2005
(Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2005-08 The Sheriff Lacked Adequate Controls Over Drug And Alcohol Account Receipts And Disbursements And Did Not Maintain Proper Documentation For Disbursements Of The Account (Continued)

Sheriff's Response: The Whitley County Sheriff has implemented more stringent controls over the receipts and expenditures of the drug and alcohol account and maintain proper documentation for both receipts and expenditures. A receipts ledger shall be maintained for the drug and alcohol account and the source of all receipts shall be clearly identified on the deposit tickets. Signed receipts shall be obtained from all informants and documentation maintained for each drug and alcohol buy in conformity with the Kentucky Sheriff's Association guidelines and forms shall be utilized for Sheriffs' record keeping systems.

The Whitley County Sheriff has deposited personal funds of \$1,115 into his drug and alcohol account to reimburse the undocumented expenditures listed above.

2005-09 The Sheriff Should Not Expend Seized Assets Before Being Awarded By The Court

On or before February 6, 2003, the Sheriff seized \$25,000 in cash in a drug-related arrest and these funds were deposited to the Sheriff's drug and alcohol account. This case was not adjudicated until February 12, 2007, at which time the Sheriff and the Commonwealth's Attorney were awarded \$22,500 and \$2,500 respectively from the seized funds. At that time, the Sheriff did not have sufficient funds in his drug and alcohol account to pay the Commonwealth's Attorney. The Commonwealth's Attorney was not paid until May 7, 2007, when additional funds were seized relating to a separate case. Funds confiscated in the second case were not awarded to the Sheriff's office until July 31, 2007, so they should not have been expended prior to July 31, 2007.

In addition, Sheriff's records indicated that on March 14, 2005, the sheriff seized an additional \$2,500 in another drug and alcohol-related case. These funds were also deposited to the Sheriff's drug and alcohol account and as of December 31, 2005, the case had not been adjudicated.

Therefore, as of December 31, 2005, the Sheriff's drug and alcohol account should have had a balance of at least \$27,500, which represented the balance of the seized funds. As of December 31, 2005 the balance of the account was \$10,924 indicating that at least \$16,576 of the seized funds had been spent before the court awarded forfeiture of the seized assets to the Sheriff's department.

Lack of controls over record keeping in the Sheriff's office and lack of any oversight by the Sheriff allowed this situation to occur.

If the court had decided that the assets noted above were to be returned to the defendants, the Sheriff would have had at a minimum a \$16,576 deficit in his drug and alcohol account as of December 31, 2005.

WHITLEY COUNTY
 LAWRENCE HODGE, SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended December 31, 2005
 (Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2005-09 The Sheriff Should Not Expend Seized Assets Before Being Awarded By The Court
 (Continued)

Per KRS 218A.415(2)(a)(b) the Sheriff may take custody of and remove property seized to an appropriate location for disposition in accordance with the law. Once disposition is ordered; then the Sheriff may retain the assets for official use or sell that which is not required to be destroyed by law.

We recommend the Sheriff comply with KRS 218A.415 by segregating all seized assets and ensuring they remain on deposit until forfeited by the court to the Sheriff's department. This can be accomplished by putting seized funds into a separate bank account to be transferred to the drug and alcohol account for use only after being so ordered by the court.

Sheriff's Response: The Whitley County Sheriff has implemented an accounting method so as to comply with KRS 218A.415 thereby segregating all seized assets and ensuring they remain on deposit until forfeited by the court to the Sheriff's department. All seized assets shall be deposited into a separate bank account to be transferred to the drug and alcohol account for use only after being so ordered by the court.

2005-10 The Sheriff's Office Lacked Adequate Segregation Of Duties Over The Accounting Functions

A lack of adequate segregation of duties exists over all accounting functions. During review of internal controls, we noted that the Sheriff's bookkeeper is responsible for opening mail, receiving and recording cash, preparing daily checkout sheets and making daily bank deposits, writing disbursement checks, posting to the receipts and disbursements ledgers, reconciling bank records to the receipt and disbursement ledgers and preparing monthly financial reports.

Limited budget places restrictions on the number of employees the sheriff can hire. When faced with limited number of staff, strong compensating controls should be in place to offset the lack of segregation of duties. In addition, the Sheriff did not have any type of formal administrative policies in place to outline what is expected of employees within his office.

Lack of oversight could result in misappropriation of assets and/or inaccurate financial reporting to external agencies such as the Department for Local Government, which could occur but go undetected.

Additionally, because a lack of adequate segregation of duties existed and because the Sheriff did not provide strong oversight over the office, the following occurred:

- The Sheriff Had a Known Deficit of \$2,803 in His Official 2005 Fee Account
- The Sheriff Did Not Make Deposits in a Timely Manner
- The Sheriff Did Not Maintain Proper Documentation For Disbursements of the Drug and Alcohol Account
- The Sheriff Had Questionable Fuel Purchases Made with Credit Cards

WHITLEY COUNTY
LAWRENCE HODGE, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2005
(Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2005-10 The Sheriff's Office Lacked Adequate Segregation Of Duties Over The Accounting Functions
(Continued)

- The Sheriff Did Not Maintain Accurate Accounting Records And Account For All Receipts In The Appropriate Year
- The Sheriff Did Not Maintain Proper Documentation and Properly Account for Payroll Related Items
- The Sheriff Expended Seized Assets Before Being Awarded by the Court
- The Sheriff Loaned Money To The Fee Account From the Tax Account

A segregation of duties over various accounting functions, such as opening mail, recording cash, preparing bank deposits, writing checks, posting transactions to ledgers, reconciling bank records to the ledgers and preparing monthly reports or the implementation of compensating controls, when needed because the number of staff is limited, is essential for providing protection from asset misappropriation and/ or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To adequately protect against misappropriation of assets and /or inaccurate financial reporting, the Sheriff should separate the duties involving the opening of mail, depositing of cash, disbursing of cash, posting of transactions to the ledgers, reconciling of bank records to the receipts and disbursements ledger and preparing the monthly financial reports. If, due to a limited number of staff, that is not feasible, strong oversight over these areas should occur and involve an employee not currently performing any of those functions. Additionally, the Sheriff could provide this oversight. If the Sheriff does implement compensating controls, these should be documented on the appropriate source document.

The following are examples of controls the Sheriff could implement.

- The Sheriff could periodically recount and deposit cash receipts. This could be documented by initialing the daily check out sheet and deposit ticket.
- The Sheriff could periodically compare the bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. This could be documented by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- All checks could have two (2) signatures, with one being the Sheriff.
- The Sheriff could examine checks prepared by the bookkeeper and compare to proper documentation. This could be documented by initialing the invoices and other supporting documentation.
- The Sheriff could review the bank reconciliation and compare the balance to the balance in the checkbook. Any differences should be reconciled. This could be documented by initialing the bank reconciliation and the balance in the checkbook.
- The Sheriff could receive the bank statements unopened, and review the statements for any unusual items prior to giving them to the person responsible for reconciliations.

WHITLEY COUNTY
 LAWRENCE HODGE, SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended December 31, 2005
 (Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2005-10 The Sheriff's Office Lacked Adequate Segregation Of Duties Over The Accounting Functions
 (Continued)

We further recommend the Sheriff adopt a formal administrative policy, which outlines job responsibilities, what is expected of each employee, and the type of documentation that should be maintained for the office.

Sheriff's Response: The Whitley County Sheriff has implemented new policies and procedures for his office/bookkeeping staff so as to separate duties involving the opening of mail, depositing of cash, disbursing of cash, posting of transactions to the ledgers, reconciling of bank accounts to the receipts and disbursements ledger and preparing the monthly financial reports thereby providing strong oversight over these areas in insure and to protect against misappropriation of assets and/or inaccurate financial reporting. Additionally, the Sheriff shall provide additional oversight. These changes of duties and responsibilities shall be documented and reflected on the appropriate source document.

- *The Sheriff shall periodically recount and deposit cash receipts by initialing the daily check out sheet and deposit ticket.*
- *The Sheriff shall periodically compare the bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger by initialing the bank deposit, daily checkout sheet, and receipts ledger.*
- *All checks shall have two (2) signatures, with one being the Sheriff.*
- *The Sheriff shall periodically checks prepared by the bookkeeper and compare to proper documentation by initialing the invoices and other supporting documentation.*
- *The Sheriff shall review the bank reconciliation and compare the balance to the balance in the checkbook. Any differences shall be reconciled and he shall initial the bank reconciliation and the balance in the checkbook.*
- *The Sheriff shall receive the bank statements unopened, and review the statements for any unusual items prior to giving them to the person responsible for reconciliations.*

This policy and procedure shall be adopted by a formal administrative policy, which outlines job responsibilities, what is expected of each employee, and the type of documentation that should be maintained for the office.

2005-11 Other Matters Resulting In Noncompliance

The following non-compliances were noted during the engagement:

The Sheriff did not submit an asset forfeiture report to appropriate state agencies as required by KRS 218A.440.

The Sheriff did not maintain copies of all voided receipts as required by KRS 68.210.

WHITLEY COUNTY
LAWRENCE HODGE, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2005
(Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2005-11 Other Matters Resulting In Noncompliance (Continued)

The Sheriff did not submit a yearly operating budget and maximum salary cap for deputies to the fiscal court by January 15 as required by the Instructional Guide For County Budget Preparation and State Local Finance Officer Policy Manual.

The Sheriff did not maintain a non-governmental donation register as required by KRS 61.310.

The multiple non-compliances listed above are the result of poor management within the Sheriff's office. Employees of the Sheriff's office responsible for maintenance of the records mentioned above or who have been assigned job duties related to the tasks mentioned above have not been properly supervised to assure compliance with these applicable laws and regulations.

By not complying with applicable laws and regulations, the Sheriff's office may be subject to sanctions by oversight agencies.

As with any public office, the Sheriff is expected to follow all applicable laws and regulations required by the Sheriff of a county located within the Commonwealth of Kentucky.

We recommend the Sheriff comply with the above-mentioned laws and regulations and comply with all applicable laws and regulations of his office. If he is unsure about any law or regulation in particular, we recommend he seek the advice of the Commonwealth of Kentucky, Department for Local Government.

Sheriff's Response: Henceforth the Whitley County Sheriff shall comply with the above-mentioned laws and regulations and comply with all applicable laws and regulations of his office. If he is unsure about any law or regulation in particular, he will seek the advice of the Commonwealth of Kentucky, Department for Local Government.

