

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

**For The Year Ended
December 31, 2012**



**ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

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

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE WHITLEY COUNTY SHERIFF

**For The Year Ended
December 31, 2012**

The Auditor of Public Accounts has completed the Whitley County Sheriff's audit for the year ended December 31, 2012. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$26,345 from the prior year, resulting in excess fees of \$120,594 as of December 31, 2012. Revenues increased by \$217,634 from the prior year and expenditures increased by \$243,979.

Report Comment:

2012-01 The Sheriff's Office Has A Lack Of Segregation Of Duties

Deposits:

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

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

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

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Sheriff of Whitley County, Kentucky, for the year ended December 31, 2012, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Governmental 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 opinions.



The Honorable Pat White, Jr., Whitley County Judge/Executive
The Honorable Colan Harrell, Whitley County Sheriff
Members of the Whitley 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 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 County Sheriff, as of December 31, 2012, 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 revenues, expenditures, and excess fees of the County Sheriff for the year ended December 31, 2012, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

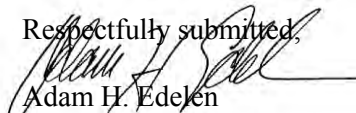
Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 25, 2013 on our consideration of the Whitley County 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 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 effectiveness of the Whitley County Sheriff's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control over financial reporting and compliance.

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

2012-01 The Sheriff's Office Has A Lack Of Segregation Of Duties

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

June 25, 2013

WHITLEY COUNTY
COLAN HARRELL, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2012

Revenues

Federal Grants:

High Intensity Drug Trafficking Area (HIDTA)	\$ 4,400	
U.S. Dept. of Agriculture	1,796	
U.S. Corps of Engineers	<u>4,590</u>	\$ 10,786

State Grants 3,000

State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF) 43,243

State Fees For Services:

Finance and Administration Cabinet	113,170	
Cabinet for Health and Family Services	190	
Sheriff Security Service	<u>25,384</u>	138,744

Circuit Court Clerk:

Fines and Fees Collected	3,112	
Court Ordered Payments	<u>623</u>	3,735

Fiscal Court:

Contributions	612,332	
Juvenile Transports	8,165	
Fiscal Court Postage	<u>188</u>	620,685

County Clerk - Delinquent Taxes 70,378

Commission On Taxes Collected 322,578

Fees Collected For Services:

Auto Inspections	12,190	
Accident and Police Reports	3,045	
Serving Papers	33,090	
Carrying Concealed Deadly Weapon Permits	<u>13,625</u>	61,950

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

WHITLEY COUNTY
 COLAN HARRELL, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

Revenues (Continued)

Other:

Transports	\$	6,422	
School Deputy		67,012	
Tax Penalty 10%		47,515	
Misellaneous		4,981	
Accident Vehicle Repair		4,772	
Election Commissions		1,500	\$ 132,202

Interest Earned 1,554

Borrowed Money:

State Advancement 280,000

Total Revenues 1,688,855

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$	375,800
Part-Time Salaries		78,044
Other Salaries		125,315
Overtime		3,318
Vacation/Sick		14,167
KLEFPF		36,170

Employee Benefits-

Employer's Share Social Security		53,398
Employer's Share Retirement		86,728
Employer's Share Hazardous Duty Retirement		49,032
Employer Paid Health Insurance		110,351

Contracted Services-

Advertising		1,937
Transports		2,693
Training/Certifications		1,202

Materials and Supplies-

Office Materials and Supplies		10,722
Uniforms		4,593

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

WHITLEY COUNTY
 COLAN HARRELL, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Auto Expense-			
Gasoline	\$	90,999	
Vehicle Maintenance and Repairs		28,914	
Other Charges-			
Conventions and Travel		805	
Dues		1,710	
Cell Phone		431	
Jurors Food Expense		354	
Vehicle Expense		153	
Carrying Concealed Deadly Weapon Permits		200	
Miscellaneous		2,703	
Capital Outlay-			
Office Equipment		7,225	
Vehicles		64,720	
Equipment for Vehicles		13,053	\$ 1,164,737
Debt Service:			
State Advancement		280,000	
Lease Vehicles		35,499	315,499
Total Expenditures			<u>\$ 1,480,236</u>
Net Revenues			208,619
Less: Statutory Maximum		85,212	
Less: Training Incentive Benefit		2,813	88,025
Excess Fees Due County for 2012			120,594
Payments to Fiscal Court -			
December 18, 2012		50,000	
January 15, 2013		50,000	
February 19, 2013		19,658	
May 7, 2013		294	
June 11, 2013		642	120,594
Balance Due Fiscal Court at Completion of Audit			<u><u>\$ 0</u></u>

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

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2012

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 134.192 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 special purpose framework. 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 2012 services
- Reimbursements for 2012 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2012

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 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, 2012
 (Continued)

Note 2. Employee Retirement System

The county official 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, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 18.96 percent for the first six months and 19.55 percent for the last six months.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 35.76 percent for the first six months and 37.60 percent for the last six months.

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 (members 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.

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

CERS also provides post retirement health care coverage as follows:

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

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

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

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2012
(Continued)

Note 2. Employee Retirement System (Continued)

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

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. 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 Whitley 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(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 Whitley County 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, 2012, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Lease

On June 30, 2011, the Whitley County Fiscal Court entered into an agreement with Kentucky Association of Counties in the amount of \$98,100. The funds were used to purchase four (4) vehicles for the Whitley County Sheriff's Office. According to the terms of the agreement the Whitley County Sheriff is responsible for making the principal and interest payments. Interest rates vary and are paid monthly. Principal payments are due on December 20th of each year to be completed on December 20, 2013. The total principal outstanding as of December 31, 2012 was \$34,118.

Note 5. Donation Account

The Sheriff received several donations from non-governmental agencies during 2011 which was carried over to the 2012 calendar year. The Sheriff did establish a separate bank account for these donations on January 10, 2011. The balance of the account as of December 31, 2011 was \$160. Total expenditures for 2012 were \$33. The balance of the account as of December 31, 2012 was \$127.

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2012
(Continued)

Note 6. Drug Fund Account

The Sheriff received funds from the former sheriff during the 2012 calendar year. The Sheriff did establish a separate bank account for these Drug funds in May 2012. The funds received in 2012 were \$1,485. Total expenditures for 2012 were \$84. The balance of the account as of December 31, 2012 was \$1,401.

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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



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Pat White, Jr., Whitley County Judge/Executive
The Honorable Colan Harrell, 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**

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 revenues, expenditures, and excess fees - regulatory basis of the Whitley County Sheriff for the year ended December 31, 2012, and the related notes to the financial statement and have issued our report thereon dated June 25, 2013. The County Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Whitley County Sheriff's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing out opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Whitley County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Whitley County Sheriff's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comment and recommendation, we identified a certain deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying comment and recommendation as item 2012-01 to be a material weakness.



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 Whitley 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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

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,



Adam H. Edelen
Auditor of Public Accounts

June 25, 2013

COMMENT AND RECOMMENDATION

WHITLEY COUNTY
COLAN HARRELL, SHERIFF
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2012

INTERNAL CONTROL - MATERIAL WEAKNESS:

2012-01 The Sheriff's Office Has A Lack Of Segregation Of Duties

During our review of internal controls, we noted the Sheriff's office lack adequate segregation of duties. The sheriff's bookkeeper receives revenues as well as prepares deposits, issues and signs checks, records disbursements, reconcile reports, and post adjustments to the ledger.

Due to an entities small size and budget restrictions an official may have limited options for establishing an adequate segregation of duties. In such cases, compensating controls should be implemented. A compensating control is a control that limits the severity of an internal control deficiency and prevents it from rising to the level of a significant deficiency or a material weakness. The Sheriff has implemented compensating controls to offset the lack of adequate segregation of duties in his office. However, these controls are not sufficient to offset the material weakness.

To adequately protect against misappropriation of assets and/or inaccurate financial reporting, the Sheriff should separate the duties involving receipt and disbursement of funds, posting of transactions to the ledgers and preparing 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. Ideally, the Sheriff should provide this oversight. If the Sheriff does implement additional compensating controls, these should be noted on appropriate source documentation.

Sheriff's Response: None.

