

REPORT OF THE AUDIT OF THE
WHITLEY COUNTY
SHERIFF

FOR THE YEAR ENDED
DECEMBER 31, 2013



ADAM H. EDELEN

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**For The Year Ended
December 31, 2013**



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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE WHITLEY COUNTY SHERIFF

For The Year Ended
December 31, 2013

The Auditor of Public Accounts has completed the Whitley County Sheriff's audit for the year ended December 31, 2013. 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 \$35,153 from the prior year, resulting in excess fees of \$85,442 as of December 31, 2013. Revenues decreased by \$29,067 from the prior year and expenditures increased by \$6,086.

Report Comments:

2013-01 The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

2013-02 The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits as of November 6, 2013 and December 31, 2013 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured - November 6, 2013 \$341,504
- Uncollateralized and Uninsured - December 31, 2013 \$347,753

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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, 2013, 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 Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

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

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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, 2013, 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, 2013, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 5, 2014 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.

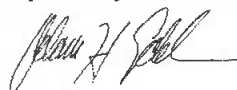
The Honorable Pat White, Jr., Whitley County Judge/Executive
The Honorable Colan Harrell, Whitley County Sheriff
Members of the Whitley County Fiscal Court

Other Reporting Required by Government Auditing Standards (Continued)

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

- 2013-01 The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits
- 2013-02 The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

November 5, 2014

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

For The Year Ended December 31, 2013

Revenues

Federal Grant - U.S. Corps of Engineers	\$	4,860	
State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)			50,188
State Fees For Services:			
Finance and Administration Cabinet	\$	119,321	
Sheriff Security Service		19,130	
Cabinet For Health And Family Services		140	138,591
Circuit Court Clerk:			
Fines and Fees Collected		3,689	
Court Ordered Payments		1,575	5,264
Fiscal Court			617,672
County Clerk - Delinquent Taxes			47,469
Commission On Taxes Collected			331,143
Fees Collected For Services:			
Auto Inspections		12,245	
Accident and Police Reports		3,285	
Serving Papers		28,166	
Elections		1,200	
Carrying Concealed Deadly Weapon Permits		16,480	61,376
Other:			
Transport		5,905	
Miscellaneous		3,869	
Tax Penalty 10%		49,876	
Fiscal Court Postage		165	
School Deputy		62,095	121,910
Interest Earned			1,315
Borrowed Money:			
State Advancement			280,000
Total Revenues			1,659,788

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, 2013
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$ 405,784
Part-Time Salaries	75,944
Other Salaries	126,048
Overtime	4,598
Vacation/Sick	21,039
KLEFPF	41,774

Employee Benefits-

Employer's Share Social Security	56,897
Employer's Share Retirement	94,220
Employer's Share Hazardous Duty Retirement	49,859
Employer Paid Health Insurance	116,775

Contracted Services-

Advertising	450
Transport	627
Training/Certifications	2,790

Materials and Supplies-

Office Materials and Supplies	8,181
Uniforms	6,491
Guns/Supplies	3,148
Evidence Supplies	164

Auto Expense-

Gasoline	94,336
Maintenance and Repairs	24,050

Other Charges-

Dues	854
Postage	944
Vehicle Maintenance and Repairs	240
Bond	236
Prisoner Blood Kit	769
Jurors Food Expense	97
Miscellaneous	6,668

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, 2013
 (Continued)

Expenditures: (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Capital Outlay-			
Vehicles	\$ 25,490	\$ 1,168,473	
Debt Service:			
State Advancement	280,000		
Notes	35,494	315,494	
Total Expenditures			<u>\$ 1,483,967</u>
Net Revenues			175,821
Less: Statutory Maximum			<u>89,417</u>
Excess Fees			86,404
Less: Training Incentive Benefit			<u>963</u>
Excess Fees Due County for 2013			85,441
Payments to Fiscal Court - January 21, 2014		69,511	
February 18, 2014		12,175	
April 8, 2014		157	
			<u>81,843</u>
Balance Due Fiscal Court at Completion of Audit			<u>\$ 3,598</u>

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

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2013

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 2013 services
- Reimbursements for 2013 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2013

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, 2013
 (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 19.55 percent for the first six months and 18.89 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 37.60 percent for the first six months and 35.70 percent for the last six months.

Employer's contributions for 2011 totaled \$94,603, 2012 totaled \$135,760, and 2013 totaled \$144,079.

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%

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2013
(Continued)

Note 2. Employee Retirement System (Continued)

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

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. These requirements were not met, as the Sheriff did not have a written agreement with the bank.

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). On November 6, 2013 and December 31, 2013, the Sheriff's bank balance was exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured - November 6, 2013 \$341,504
- Uncollateralized and Uninsured - December 31, 2013 \$347,753

Note 4. Donation Account

The Sheriff received several donations from non-governmental agencies during 2011 which was carried over to the 2012 and 2013 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, 2012 was \$127. There were no receipts or expenditures for 2013. The balance as of December 31, 2013 was \$127.

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2013
(Continued)

Note 5. 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. The balance at December 31, 2012 was \$1,401. Additional funds from the former Sheriff was recovered and deposited in May 2013 in the amount of \$350. Expenditures for 2013 totaled \$176. The balance as of December 31, 2013 was \$1,575.

Note 6. Forfeiture Account

The Sheriff received funds from the Department of Justice, Department of Treasury and the U.S. Department of Agriculture during the 2013 calendar year. The sheriff did establish a separate bank account for these funds. The funds received during 2013 were \$8,670. Interest earned for 2013 was \$5. Expenditures for 2013 were \$1,630. Therefore, leaving a balance as of December 31, 2013 of \$7,045.

Note 7. 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 was responsible for making the principal and interest payments. Interest rates varied and were paid monthly. Principal payments were due on December 20th of each year to be completed on December 20, 2013. This lease was paid in full during 2013, leaving a \$0 balance as of December 31, 2013.

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, 2013, and the related notes to the financial statement and have issued our report thereon dated November 5, 2014.

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 our 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 comments and recommendations as item 2013-02 to be a material weakness.

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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
(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 an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations as item 2013-01.

Sheriff's Response to Finding

The Whitley County Sheriff's response to the finding identified in our audit is described in the accompanying comment and recommendation. The County Sheriff's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

November 5, 2014

WHITLEY COUNTY
COLAN HARRELL, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2013

STATE LAWS AND REGULATIONS:

2013-01 The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

On November 6, 2013, \$341,504 and on December 31, 2013, \$347,753 of the Sheriff's deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$250,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The Sheriff should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (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.

Sheriff's Response: Currently updated.

INTERNAL CONTROL - MATERIAL WEAKNESS:

2013-02 The Sheriff's Office Lacks Adequate 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, writes checks, posts transactions to the receipts ledger, posts checks to the disbursements ledger, prepares monthly and quarterly reports, and reconciles reports. The Sheriff or another employee did not document oversight of any of these activities. 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 and go undetected.

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: No Response.