

**REPORT OF THE AUDIT OF THE
MENIFEE COUNTY
SHERIFF**

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



**MIKE HARMON
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Rick Stiltner, Menifee County Judge/Executive
The Honorable Toby Wells, Menifee County Sheriff
Members of the Menifee County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the Sheriff of Menifee County, Kentucky, for the year ended December 31, 2017, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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

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

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The Honorable Rick Stiltner, Menifee County Judge/Executive
 The Honorable Toby Wells, Menifee County Sheriff
 Members of the Menifee 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 Menifee 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 Menifee County Sheriff, as of December 31, 2017, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the Menifee County Sheriff for the year ended December 31, 2017, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2018, on our consideration of the Menifee County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Menifee County Sheriff's internal control over financial reporting and compliance.

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

- 2017-001 The Sheriff's Fourth Quarter Report Did Not Accurately Reflect Receipts And Disbursements
- 2017-002 The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,



Mike Harmon
 Auditor of Public Accounts

September 27, 2018

MENIFEE COUNTY
 TOBY WELLS, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2017

Receipts

Federal Grants	\$	8,250	
State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)			16,195
State Fees For Services:			
Finance and Administration Cabinet	\$	65,900	
Sheriff Security Service		<u>1,006</u>	66,906
Circuit Court Clerk:			
Fines and Fees Collected			5,857
Fiscal Court			179,114
County Clerk - Delinquent Taxes			17,291
Commission On Taxes Collected			90,117
Fees Collected For Services:			
Auto Inspections		1,330	
Accident and Police Reports		638	
Serving Papers		10,727	
Carry Concealed Deadly Weapon Permits		2,423	
HB-413 City of Frenchburg		7,106	
Board of Education - KY ASAP		12,850	
Copies		<u>2,072</u>	37,146
Other:			
Add-On Fees			9,269
Borrowed Money:			
State Advancement			<u>24,000</u>
Total Receipts			454,145

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

MENIFEE COUNTY
 TOBY WELLS, SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2017
 (Continued)

Disbursements

Operating Disbursements:

Personnel Services-			
Deputies' Salaries	\$	190,946	
Employee Benefits-			
Employer's Share Social Security		20,245	
Employer's Share Retirement		5,424	
Employer's Share Hazardous Duty Retirement		54,385	
Employer Paid Health Insurance		29,418	
Employer Paid Unemployment Insurance		1,189	
Contracted Services-			
Property Tax Contracts		4,001	
Vehicle Maintenance and Repairs		13,429	
Materials and Supplies-			
Office Materials and Supplies		6,677	
Uniforms		5,600	
Utilities		5,960	
Auto Expense-			
Gasoline		12,207	
Other Charges-			
Dues		50	
Postage		559	
Conventions and Travel		845	
		<u>845</u>	\$ 350,935

Debt Service:

State Advancement		<u>24,000</u>	
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Total Disbursements			<u>\$ 374,935</u>
Net Receipts			79,210
Less: Statutory Maximum			<u>76,982</u>
Excess Fees Due County for 2017			2,228
Payment to Fiscal Court - February 15, 2018			<u>1,205</u>
Balance Due Fiscal Court at Completion of Audit			<u><u>\$ 1,023</u></u>

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

MENIFEE COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2017

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the sheriff as determined by the audit. KRS 134.192 requires the sheriff to settle excess fees with the fiscal court at the time he files his annual settlement with the fiscal court on or before September 1 of each year. KRS 64.830 requires an outgoing sheriff to settle excess fees with the fiscal court of his county by March 15 immediately following the expiration of his term of office.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Under this regulatory basis of accounting, receipts and disbursements are generally recognized when cash is received or disbursed, with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2017 services
- Reimbursements for 2017 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2017

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the county treasurer in the subsequent year.

C. Cash and Investments

KRS 66.480 authorizes the sheriff's office to invest in obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

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

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

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

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

The sheriff's contribution for calendar year 2015 was \$50,961, calendar year 2016 was \$54,414, and calendar year 2017 was \$59,809.

Nonhazardous

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

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own accounts. Nonhazardous members contribute five percent of their annual creditable compensation and one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a four percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

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

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

Hazardous

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

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own accounts. Hazardous members contribute eight percent of their annual creditable compensation and one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A hazardous member's account is credited with a seven and one-half percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

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

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

Hazardous (Continued)

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

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

Health Insurance Coverage

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

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

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

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

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

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

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

Note 3. Deposits

The Menifee County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the sheriff's deposits may not be returned. The Menifee County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of December 31, 2017, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Drug Forfeiture Account

The Menifee County Sheriff maintained a drug forfeiture account from the confiscation, surrender, or sale of real and personal property involved in drug related convictions. These funds are to be used for law enforcement activities. The account had a beginning balance of \$2,565 on January 1, 2017, and funds totaling \$653 were received during the year. The sheriff expended \$2,647 from the account, leaving a cash balance of \$571 as of December 31, 2017.

Note 5. Crime Watch Program Account

The Menifee County Sheriff maintained a crime watch program account. These funds are to be used for crime watch activities. The account had a beginning balance of \$195 on January 1, 2017, and funds totaling \$710 were received during the year. The sheriff expended \$905 from the account, leaving a balance of \$0 and closed the account.

Note 6. Say No To Drugs and K-9 Program Account

The Menifee County Sheriff maintained a "say no to drugs" and K-9 program account. These funds are to be used for drug education and the operation of a K-9 unit. The account had a beginning balance of \$46 on January 1, 2017, and funds totaling \$371 were received during the year. The sheriff expended \$302 from the account, leaving a balance of \$115 as of December 31, 2017.

Note 7. Forest Service Contract

The Menifee County Sheriff's office entered into a Cooperative Law Enforcement Agreement with the U.S. Department of Agriculture, Daniel Boone National Forest. The purpose of this agreement is to intensify patrolling activities in the Daniel Boone National Forest in an effort to reduce illegal activity on federal land. During calendar year 2017, the sheriff received reimbursements of \$8,250 for disbursements related to this contract.

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

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Rick Stiltner, Menifee County Judge/Executive
The Honorable Toby Wells, Menifee County Sheriff
Members of the Menifee County Fiscal Court

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

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the Menifee County Sheriff for the year ended December 31, 2017, and the related notes to the financial statement and have issued our report thereon dated September 27, 2018. The Menifee County Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, 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 Schedule of Findings and Responses as item 2017-002 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 Menifee 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 Schedule of Findings and Responses as item 2017-001.

Views of Responsible Official and Planned Corrective Action

The Menifee County Sheriff's views and planned corrective action for the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Menifee Sheriff's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

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

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

September 27, 2018

SCHEDULE OF FINDINGS AND RESPONSES

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MENIFEE COUNTY
TOBY WELLS, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2017

STATE LAWS AND REGULATIONS:

2017-001 The Sheriff's Fourth Quarter Report Did Not Accurately Reflect Receipts And Disbursements

The sheriff's fourth quarter report, which serves as the sheriff's annual settlement, reflected discrepancies in receipts and disbursements for calendar year 2017, requiring material audit adjustments. Controls were not in place to ensure that all receipts and disbursements were posted correctly to the sheriff's ledgers. As a result, the sheriff's fourth quarter report was materially misstated. KRS 134.192(11) states that, in counties with population of less than 70,000, the sheriff's annual settlement shall include: "[a] complete statement of all funds received by his or her office for official services, showing separately the total income received by his or her office for services rendered, exclusive of his or her commissions for collecting taxes, and the total funds received as commissions for collecting state, county, and school taxes[.]" and "[a] complete statement of all expenditures of his or her office[.]" We recommend the sheriff ensure a complete and accurate fourth quarterly report is prepared in order to ensure all receipts and disbursements are accounted for properly.

Sheriff's Response: In the future, I will be sure to see that all monies be shown in the proper line items.

INTERNAL CONTROL - MATERIAL WEAKNESS:

2017-002 The Sheriff's Office Lacks Adequate Segregation Of Duties

This is a repeat finding and was included in the prior year audit report as finding 2016-001. The sheriff's office lacks adequate segregation of duties. The sheriff's bookkeeper collects payments from customers, records transactions in the ledgers, prepares deposits, and reconciles bank accounts. According to the sheriff, this is caused by a limited budget which restricts the number of employees the sheriff can hire and delegate duties to. Inadequate segregation of duties allows for one person to have a significant role in processing and recording receipts and disbursements, which increases the risk of undetected misappropriation of assets and inaccurate financial reporting. Internal control duties should be segregated to decrease the risk of misappropriation of assets, errors, and inaccurate financial reporting to external agencies. Although the sheriff had implemented some compensating controls such as comparing the daily checkout sheet to the receipts ledger and the bank deposit, these controls did not eliminate the lack of adequate segregation of duties. However, compensating controls decrease the risk present in the absence of proper segregation of duties. We recommend the same person not perform multiple accounting functions, and if the duties cannot be segregated, then strong oversight over the employee's work should be provided and documented.

Sheriff's Response: Due to a small amount of employees working in the office, we were not able to have a proper segregation of duties. We will continue to work on this issue.