

**REPORT OF THE AUDIT OF THE  
NELSON COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2016**



**MIKE HARMON  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

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



CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT ..... 1

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

NOTES TO FINANCIAL STATEMENT ..... 6

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* ..... 13

SCHEDULE OF FINDINGS AND RESPONSES ..... 17

THIS PAGE LEFT BLANK INTENTIONALLY



**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Dean Watts, Nelson County Judge/Executive  
The Honorable Edwin Mattingly, Nelson County Sheriff  
Members of the Nelson 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 Nelson County, Kentucky, for the year ended December 31, 2016, 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 and budget laws. 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 opinion.

209 ST. CLAIR STREET  
FRANKFORT, KY 40601-1817

TELEPHONE 502.564.5841  
FACSIMILE 502.564.2912

[WWW.AUDITOR.KY.GOV](http://WWW.AUDITOR.KY.GOV)

AN EQUAL OPPORTUNITY EMPLOYER M / F / D



The Honorable Dean Watts, Nelson County Judge/Executive  
The Honorable Edwin Mattingly, Nelson County Sheriff  
Members of the Nelson 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 Nelson 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 Nelson County Sheriff, as of December 31, 2016, 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 Nelson County Sheriff for the year ended December 31, 2016, 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 8, 2017, on our consideration of the Nelson 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 entity'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 comment:

2016-001 The Nelson County Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Reconciliations

Respectfully submitted,



Mike Harmon  
Auditor of Public Accounts

September 8, 2017

NELSON COUNTY  
EDWIN MATTINGLY, SHERIFF  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2016

Receipts

Homeland Security Grant	\$	21,167	
Highway Safety Grant		14,883	
Kentucky Law Enforcement Foundation Program Fund (KLEFPF)		110,102	
State Fees For Services		151,422	
Circuit Court Clerk		26,593	
Fiscal Court		9,296	
County Clerk - Delinquent Taxes		28,352	
Commission On Taxes Collected		852,974	
Fees Collected For Services:			
Auto Inspections	\$	15,765	
Accident and Police Reports		2,890	
Serving Papers		76,668	
Carrying Concealed Deadly Weapon Permits		<u>31,975</u>	127,298
Other:			
Miscellaneous and Fingerprints		8,345	
Transport Prisoners/Patients		11,028	
Add-On Fees		<u>51,524</u>	70,897
Interest Earned			514
Borrowed Money:			
State Advancement			<u>360,000</u>
Total Receipts			1,773,498

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

NELSON COUNTY  
 EDWIN MATTINGLY, SHERIFF  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2016  
 (Continued)

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$	661,287	
KLEFPF		52,958	

Employee Benefits-

Employer's Share Hazardous Retirement - KLEFPF		22,696	
Employer Paid Health Insurance		90,376	

Contracted Services-

Tax Software		44,557	
Advertising		620	
Vehicle Maintenance and Repairs		5,884	
Office and Radio Maintenance		3,110	

Materials and Supplies-

Office Materials and Supplies		8,925	
Uniforms		7,869	
Law Enforcement Equipment and Supplies		10,315	

Auto Expense-

Gasoline		23,251	
----------	--	--------	--

Other Charges-

Public Relations		507	
Juror Expenses		155	
Conventions and Travel		7,708	
Dues		1,645	
Postage		13,360	
Transport Prisoners/Patients		8,529	
Highway Safety Grant - to Bardstown City Police		2,617	
Highway Safety Grant - to Fiscal Court		7,688	
Miscellaneous		3,502	

Capital Outlay-

Vehicles		<u>105,620</u>	\$ 1,083,179
----------	--	----------------	--------------

Debt Service:

State Advancement			<u>360,000</u>
-------------------	--	--	----------------

Total Disbursements

\$ 1,443,179

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



NELSON COUNTY  
EDWIN MATTINGLY, SHERIFF  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
For The Year Ended December 31, 2016  
(Continued)

Net Receipts	\$ 330,319
Less: Statutory Maximum	<u>89,310</u>
Excess Fees	241,009
Less: Training Incentive Benefit	<u>1,984</u>
Excess Fees Due County for 2016	239,025
Payment to Fiscal Court - February 9, 2017	<u>239,000</u>
Balance Due Fiscal Court at Completion of Audit	<u>\$ 25</u>

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

NELSON COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2016 **December 31, 2016**

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 2016 services
- Reimbursements for 2016 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2016

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.

NELSON COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2016  
(Continued)

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

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 covered employees contribute five percent of their annual creditable compensation. Nonhazardous members also contribute 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 17.06 percent for the first six months and 18.68 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 also contribute 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.

NELSON COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2016  
 (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 32.95 percent for the first six months and 31.06 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:

<b>Years of Service</b>	<b>% Paid by Insurance Fund</b>	<b>% Paid by Member through Payroll Deduction</b>
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.

NELSON COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2016  
 (Continued)

Note 3. Deposits

The Nelson 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 Nelson 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, 2016, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of November 16, 2016, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured      \$15,036

Note 4. Highway Safety Grant

The Nelson County Sheriff's office received a federal grant passed through from the Kentucky Transportation Cabinet's (KYTC) Office of Highway Safety in the amount of \$14,883. The funds are awarded to sub-grantees to reduce crashes, injuries, fatalities and associated cost by identifying transportation safety issues and developing and implementing effective integrated programs and activities. The agreement allowed funds received to be shared with other law enforcement agencies in Nelson County. The sheriff's office disbursed \$2,617 to the Bardstown Police Department and \$7,688 to the Nelson County Fiscal Court for services during the year, retaining \$4,578 for services provided by the sheriff's office.

Note 5. Homeland Security Grant

The sheriff's office received a Homeland Security Grant in the amount of \$21,167 from the Kentucky Department of Homeland Security. KRS 16.220 establishes a fund in the Governor's Office of Homeland Security to provide grants to sheriff's department for the purchase of body armor for sworn peace officers of those departments and service animals as defined in KRS 525.010 of those departments; firearms (duty weapons) or ammunition; and electronic control devices, electronic control weapons, or electro-muscular disruption technology. The sheriff's office purchased 35 duty weapons during 2015 and submitted request for reimbursement as required by the grant agreement. The Nelson County Fiscal Court signed the grant agreement on November 9, 2015. During calendar year ended December 31, 2016, the fiscal court received \$21,167 and reimbursed the sheriff's office.

NELSON COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2016  
 (Continued)

Note 6. Lease Agreements

The Nelson County Sheriff's office was committed to the following lease agreements as of December 31, 2016:

<u>Item Purchased</u>	<u>Payment</u>	<u>Term of Agreement</u>	<u>Ending Date</u>	<u>Principal Balance December 31, 2016</u>
Hardware	\$ 5,640 Yearly	36 Months	9/30/2018	\$ 11,280
Software	\$ 4,800 Yearly	36 Months	9/30/2018	\$ 9,600
Copier	\$ 389 Monthly	48 Months	1/27/2018	\$ 9,333

Note 7. Forfeiture and Seizure Account

The Nelson County Sheriff's office maintains a drug forfeiture and seizure account. Receipts for this account are from court ordered payments related to drug cases. These funds are reserved for items directly related to law enforcement and are not available for excess fee purposes. The beginning balance was \$4,649, receipts totaled \$16,709, and disbursements totaled \$7,452 during the year. The unexpended fund balance was \$13,906 as of December 31, 2016.

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*

THIS PAGE LEFT BLANK INTENTIONALLY





**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Dean Watts, Nelson County Judge/Executive  
The Honorable Edwin Mattingly, Nelson County Sheriff  
Members of the Nelson 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 Nelson County Sheriff for the year ended December 31, 2016, and the related notes to the financial statement and have issued our report thereon dated September 8, 2017. The Nelson 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 Nelson 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 Nelson County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Nelson 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 2016-001 to be a material weakness.

209 ST. CLAIR STREET  
FRANKFORT, KY 40601-1817

TELEPHONE 502.564.5841  
FACSIMILE 502.564.2912  
WWW.AUDITOR.KY.GOV

AN EQUAL OPPORTUNITY EMPLOYER M / F / D



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 Nelson 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*.

**Sheriff's Response to Finding**

The Nelson County Sheriff's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. The 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,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal line extending to the right.

Mike Harmon  
Auditor of Public Accounts

September 8, 2017

## SCHEDULE OF FINDINGS AND RESPONSES

THIS PAGE LEFT BLANK INTENTIONALLY

NELSON COUNTY  
EDWIN MATTINGLY, SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2016

INTERNAL CONTROL - MATERIAL WEAKNESS:

2016-001 The Nelson County Sheriff's Office Did Not Have Adequate Segregation Of Duties Over Receipts And Reconciliations

---

The sheriff's bookkeeper prepares the daily checkout sheet, deposit ticket, and posts receipts to the receipts ledger. The bookkeeper also prepares disbursement checks, posts to the disbursements ledger, monthly reports, and the monthly bank reconciliations. There was not sufficient evidence available that would show that the sheriff or another employee periodically reviews deposits, ledgers, monthly reports, or the bank reconciliations to offset the risk caused by the lack of segregation of duties. The lack of oversight could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as Department for Local Government. The segregation of duties over various accounting functions such as preparing deposits, recording receipts and disbursements, and preparing monthly reports, or the implementation of compensating controls, is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To adequately protect employees in the normal course of performing their duties, and prevent inaccurate financial reporting or misappropriation of assets, we recommend the sheriff implement strong oversight over these areas, either by an employee independent of those functions or by the sheriff, such as:

- The sheriff should compare the daily bank deposit to the daily checkout sheet and then compare to the bank deposit receipt. This should be documented by initialing the bank deposit, daily checkout sheet and bank deposit receipt.
- The sheriff should compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The sheriff could document this by initialing the bank reconciliation.
- The sheriff should compare the monthly receipts and disbursements ledger to the amounts on the quarterly report. This should be documented by initialing the receipts and disbursements ledger.

*Sheriff's Response: Will attempt to follow recommendations.*