

**REPORT OF THE AUDIT OF THE
PENDLETON COUNTY
SHERIFF**

**For The Year Ended
December 31, 2015**



**MIKE HARMON
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EXECUTIVE SUMMARY
AUDIT OF THE
PENDLETON COUNTY SHERIFF

For The Year Ended
December 31, 2015

The Auditor of Public Accounts has completed the Pendleton County Sheriff's audit for the year ended December 31, 2015. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the receipts, disbursements, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$25,277 from the prior year, resulting in excess fees of \$47,631 as of December 31, 2015. Receipts decreased by \$39,475 from the prior year and disbursements decreased by \$64,752.

Report Comments:

- 2015-001 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements
- 2015-002 The Sheriff's Office Did Not Batch Receipts Daily And Make Daily Deposits
- 2015-003 The Sheriff Administered A Charitable Account Through His Office That Does Not Serve A Public Purpose Associated With A Regular Function Of The Sheriff's Office

Deposits:

The sheriff's deposits as of November 4, 2015 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$85,177

The sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the sheriff's deposits in accordance with the security agreement.

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable David Fields, Pendleton County Judge/Executive
The Honorable Charles Peoples, Pendleton County Sheriff
Members of the Pendleton 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 Pendleton County, Kentucky, for the year ended December 31, 2015, 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, which is a basis of accounting other than accounting principles generally accepted in the United States of America. 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.



The Honorable David Fields, Pendleton County Judge/Executive
The Honorable Charles Peoples, Pendleton County Sheriff
Members of the Pendleton 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 Pendleton 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 Pendleton County Sheriff, as of December 31, 2015, 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 Pendleton County Sheriff for the year ended December 31, 2015, 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 19, 2016 on our consideration of the Pendleton 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 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 David Fields, Pendleton County Judge/Executive
The Honorable Charles Peoples, Pendleton County Sheriff
Members of the Pendleton 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:

- 2015-001 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements
- 2015-002 The Sheriff's Office Did Not Batch Receipts Daily And Make Daily Deposits
- 2015-003 The Sheriff Administered A Charitable Account Through His Office That Does Not Serve A Public Purpose Associated With A Regular Function Of The Sheriff's Office

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 19, 2016

PENDLETON COUNTY
CHARLES PEOPLES, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2015

Receipts

State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)		\$ 20,983
State Fees For Services:		
Finance and Administration Cabinet	\$ 78,417	
Sheriff Security Service	<u>4,649</u>	83,066
Fiscal Court:		
Transports	65,603	
Prisoner Transports	5,081	
FICA Match	<u>30,838</u>	101,522
County Clerk - Delinquent Taxes		18,233
Commission On Taxes Collected		291,162
Fees Collected For Services:		
Auto Inspections	3,222	
Accident and Police Reports	590	
Serving Papers	21,702	
Carrying Concealed Deadly Weapon Permits	<u>6,990</u>	32,504
Other:		
Add-On Fees	24,848	
School Resource Officer	28,000	
Courthouse General Fund	4,830	
Miscellaneous	<u>6,744</u>	64,422
Interest Earned		379
Borrowed Money:		
State Advancement		<u>165,000</u>
Total Receipts		777,271

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

PENDLETON COUNTY
 CHARLES PEOPLES, SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2015
 (Continued)

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$ 103,213
Secretary Salaries	29,000
Transport Salaries	63,000
School Resource Officer	37,378
Range Instructor	1,500
Overtime Gross Salaries	16,952
Court Security Salary	74,036
KLEFPF	22,453

Employee Benefits-

Employer's Share Social Security	31,385
Phone Allowance	1,733

Contracted Services-

Advertising	146
Vehicle Maintenance and Repairs	10,400

Materials and Supplies-

Office Materials and Supplies	3,693
Uniforms	7,728

Auto Expense-

Gasoline	23,676
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Other Charges-

Conventions and Travel	9,072
Dues	562
Postage	838
Office Phones	3,049
Mobile Phones	4,216
Ammunition	3,500
Fiscal Court	5,856
Courthouse General Fund	4,830
CCDW Fees	1,760
Computer/Copier	11,256
Miscellaneous	6,068

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

PENDLETON COUNTY
 CHARLES PEOPLES, SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2015
 (Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay: (Continued)

Capital Outlay-			
Office Equipment	\$	647	\$ 477,947
Debt Service:			
State Advancement			<u>165,000</u>
Total Disbursements			<u>\$ 642,947</u>
Net Receipts			134,324
Less: Statutory Maximum			<u>82,752</u>
Excess Fees			51,572
Less: Training Incentive Benefit			<u>3,941</u>
Excess Fees Due County for 2015			47,631
Payment to Fiscal Court - December 31, 2015		42,196	
February 2, 2016		<u>5,427</u>	<u>47,623</u>
Balance Due Fiscal Court at Completion of Audit			<u>\$ 8</u>

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

PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2015

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 2015 services
- Reimbursements for 2015 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2015

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 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).

PENDLETON COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2015
 (Continued)

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

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 (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.

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 the plan. The county's contribution rate for nonhazardous employees was 17.67 percent for the first six months and 17.06 percent for the last six months.

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. The county's contribution rate for hazardous employees was 34.31 percent for the first six months and 32.95 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 (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.

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%

PENDLETON COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2015
 (Continued)

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

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.

Note 3. Deposits

The Pendleton 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 Pendleton 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, 2015, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of November 4, 2015, 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 \$85,177

PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2015
(Continued)

Note 4. Special Accounts

A. Asset Forfeiture

The Pendleton County Sheriff's office maintains a drug account for the receipt and disbursement of funds resulting from drug related seizures and forfeitures. This account had a beginning balance of \$25,394. Disbursements from the account are for law enforcement activities. During calendar year 2015, there were receipts of \$13,935 and disbursements of \$8,495, leaving a balance of \$30,834 as of December 31, 2015.

B. Canine Unit Account

The Pendleton County Sheriff maintained a canine unit account. The account consists of funds obtained through donations. The proceeds are used to support the sheriff's canine unit. This account had a beginning balance of \$399. The account was closed and the funds were transferred to the Cop and Court Account in July leaving a zero balance as of December 31, 2015.

C. Pendleton County Cop And Court Account

The Pendleton County Sheriff maintains a cop and court account. This account consists of funds obtained through fundraiser proceeds to be used with the annual shop with a cop program. The beginning balance in the account was \$1,040. Receipts during the year totaled \$2,943 and expenditures totaled \$3,252, leaving a balance of \$731 as of December 31, 2015.

D. Drug Court Account

The Pendleton County Sheriff maintains a donation account. This account consists of funds allotted by the Pendleton County Fiscal Court for the drug court program that is administered by the Pendleton County Circuit Court. The beginning balance in the account was \$4,810. There were no receipts or disbursements during the year, leaving a balance of \$4,810 in the account as of December 31, 2015.

E. Payroll Revolving Account

The sheriff maintains a payroll revolving account. This account is used to account for payroll activity from the sheriff's office. From this account the employee's federal, state, and local income taxes are accounted for and paid. It is a clearing account where monthly deposits are made from the fee account in order to cover all monthly payments being made to the federal, state, and local tax agencies. This account was closed January 21, 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*



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable David Fields, Pendleton County Judge/Executive
The Honorable Charles Peoples, Pendleton County Sheriff
Members of the Pendleton 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 Pendleton County Sheriff for the year ended December 31, 2015, and the related notes to the financial statement and have issued our report thereon dated September 19, 2016. The Pendleton 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 Pendleton 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 Pendleton County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Pendleton 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 comments and recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

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 deficiencies described in the accompanying comments and recommendations as items 2015-001 and 2015-002 to be material weaknesses.



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

Internal Control over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying comments and recommendations as item 2015-003 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Pendleton 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying comments and recommendations as items 2015-002 and 2015-003.

Sheriff's Responses to Findings

The Pendleton County Sheriff's responses to the findings identified in our audit are described in the accompanying comments and recommendations. The Pendleton County 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 19, 2016

COMMENTS AND RECOMMENDATIONS

PENDLETON COUNTY
CHARLES PEOPLES, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2015

FINANCIAL STATEMENT FINDINGS:

2015-001 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

The sheriff's office lacks adequate segregation of duties over receipts and disbursements. All employees of the sheriff's office collect receipts. The office manager prepares the daily bank deposit and daily checkout sheet and then posts items to the receipts ledger. The office manager prepares the quarterly financial report and bank reconciliations that are agreed to the receipts and disbursement ledgers. The office manager prepares checks for all disbursements including payroll and posts to the disbursements ledger. The sheriff and office manager are the only authorized check signers. The sheriff does not require dual signatures on checks; however, the office manager generally signs checks.

A lack of segregation of duties over receipts and disbursements creates an opportunity for misappropriation of assets. By having the same employee perform these functions, there is increased risk of undetected errors, misappropriation and assets or inaccurate financial reporting to external agencies such as Department for Local Government. Good internal controls dictate that the same employee should not handle, record, and reconcile receipts and disbursements.

Due to the sheriff's number of staff, composed of three full-time employees, it is difficult to segregate duties over receipts and disbursements effectively.

We recommend the sheriff implement compensating controls to offset this weakness. The sheriff should periodically compare the daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger when prepared by another employee. The sheriff should document this review process by initialing the daily checkout sheets and deposit slips. The sheriff should review the quarterly financial report and compare amounts reported on the receipts and disbursements ledger. Bank statements should be reconciled regularly and reviewed by another person. This review should be documented by dating and initialing the bank statement and the reconciliation sheets.

Sheriff's Response: Sheriff also signs all checks.

2015-002 The Sheriff's Office Did Not Batch Receipts Daily And Make Daily Deposits

The sheriff does not batch receipts daily or account for the numerical sequence of receipts. It was further noted that during June 2015, it appears receipts were used from three different receipt books. From our sample, it was determined that the bookkeeper batched receipts based on deposit date.

Lack of oversight could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the Department for Local Government.

Due to the sheriff's office having a small number of staff, where the recordkeeping and deposit activity is normally handled by one person, and where collections are not sizeable in dollar amounts, there is an incentive to delay the daily batching of receipts and deposits until the dollar value has increased.

The minimum requirements promulgated pursuant to KRS 68.210 dictate that collections should be deposited intact into a federally insured banking institution on a daily basis. It requires officials to issue receipts and reconcile daily checkout sheets with daily deposit totals. Also, the checkout sheets should agree to batched receipts, deposits, and the receipts ledger.

PENDLETON COUNTY
CHARLES PEOPLES, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2015
(Continued)

FINANCIAL STATEMENT FINDINGS: (CONTINUED)

2015-002 The Sheriff's Office Did Not Batch Receipts Daily And Make Daily Deposits (Continued)

We recommend the sheriff's office implement procedures to ensure receipts are batched, posted to a daily checkout sheet, and deposited daily in order to be in compliance with KRS 68.210. We further recommend the sheriff use the same receipt book until all receipts in the book have been issued, accounting for the numerical sequence of batched receipts. Also, daily checkout sheets should detail receipt numbers issued, the amount of cash or checks collected, and be attached to the white and yellow copies of receipts.

Sheriff's Response: Deposits are not made on for only \$5.00.

2015-003 The Sheriff Administered A Charitable Account Through His Office That Does Not Serve A Public Purpose Associated With A Regular Function Of The Sheriff's Office

The sheriff maintains a county cop & court bank account that is run through his office for the Shop With A Cop Program. This account does not serve a public purpose associated with the regular function of the sheriff's office. During testing of disbursements, the auditor noted four checks written to cash from the county cop & court account totaling \$3,000. The Pendleton County Cop & Court account was created over 20 years ago in order for individuals from the sheriff's office and the local court system to raise money in order to purchase Christmas gifts for underprivileged children in Pendleton County. The program is fully funded by local donations which are administered by the sheriff. This program is highly visible and publicized in the local paper, with pictures of individual children and a local law enforcement official who accompany the child.

Charitable accounts run through the sheriff's office must serve a public purpose associated with a regular function of the sheriff's office, such as drug awareness education through DARE. In addition, to be an allowable charitable activity, the charity should be a statewide or national organization. The sheriff should have a specific agreement or guidelines in place that describe the activities to be performed by the sheriff or his deputies that are related to a regular function of the office, the method of collecting funds, and the restriction on the expenditure of funds. Furthermore, accounts should meet the requirements of Funk vs. Milliken. In Funk vs. Milliken, 317 S.W.2d 499 (Ky. 1958), Kentucky's highest court ruled that county fee officials' expenditures of public funds will be allowable only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not personal expenses. Good internal controls dictate that disbursements be made by check to ensure that all transactions are allowable, necessary, properly supported, and reviewed by management.

The sheriff may continue to participate in this activity; however, this activity should not be performed during regularly scheduled work hours. The activity should be operated completely externally to the sheriff's office and administered by a private or not for profit entity, such as the Kentucky Sheriff's Association. We also recommend the sheriff discontinue writing checks to cash. All disbursements should be made by check to ensure all disbursements are allowable and necessary and properly recorded.

Sheriff's Response: Sheriff wants all accounts to fall under an audit.

