

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

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



**MIKE HARMON
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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, 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.



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, 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 Pendleton 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 August 14, 2017, 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, 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 comments:

- 2016-001 The Pendleton County Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements
- 2016-002 The Pendleton County Sheriff Did Not Batch Receipts Daily And Make Daily Deposits
- 2016-003 The Pendleton County 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,



Mike Harmon
 Auditor of Public Accounts

August 14, 2017

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

For The Year Ended December 31, 2016

Receipts

State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)	\$		27,603
State Fees For Services:			
Finance and Administration Cabinet	\$	63,895	
Sheriff Security Service		4,317	68,212
Fiscal Court			59,906
County Clerk - Delinquent Taxes			10,956
Commission On Taxes Collected			307,122
Fees Collected For Services:			
Auto Inspections		3,574	
Accident and Police Reports		550	
Serving Papers		23,294	
Carrying Concealed Deadly Weapon Permits		11,405	38,823
Other:			
Add-On Fees		26,042	
School Resource Officer		28,000	
Courthouse General Fund		4,500	
Miscellaneous		7,263	65,805
Interest Earned			1,491
Borrowed Money:			
State Advancement			185,000
Total Receipts			764,918

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, 2016
 (Continued)

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$ 116,219
Secretaries' Salaries	30,188
Transport Salaries	65,694
School Resource Officer	38,556
Range Instructor	1,500
Overtime Gross Salaries	37,495
Court Security Salaries	65,046
KLEFPF	22,542

Employee Benefits:

Phone Allowance	2,218
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Contracted Services-

Advertising	247
Vehicle Maintenance and Repairs	10,893

Materials and Supplies-

Office Materials and Supplies	2,596
Uniforms	3,377

Auto Expense-

Gasoline	21,281
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Other Charges-

Conventions and Travel	4,485
Dues	626
Postage	848
Office Phones	3,057
Mobile Phones	4,793
Ammunition	3,465
Fiscal Court	6,977
Courthouse General Fund	4,470
CCDW Fees	2,775
Computer/Copier	6,058
Miscellaneous	4,632

Capital Outlay-

Office Equipment	1,124
Vehicles	30,000
	<u>\$ 491,162</u>

Debt Service:

State Advancement	<u>185,000</u>
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Total Disbursements \$ 676,162

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, 2016
(Continued)

Net Receipts	\$ 88,756
Less: Statutory Maximum	<u>83,356</u>
Excess Fees	5,400
Less: Training Incentive Benefit	<u>3,968</u>
Excess Fees Due County for 2016	1,432
Payment to Fiscal Court - February 3, 2017	<u>1,297</u>
Balance Due Fiscal Court at Completion of Audit	<u>\$ 135</u>

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

PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENT

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).

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

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.

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.

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

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

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.

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:

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.

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

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, 2016 and November 3, 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 at November 3, 2016 \$27,433
- Uncollateralized and Uninsured at December 31, 2016 \$236,248

Note 4. Special Accounts

A. Asset Forfeiture

The Pendleton County Sheriff's office maintains a drug account for the receipt and expenditure of funds resulting from drug related seizures and forfeitures. This account had a beginning balance of \$30,834. Expenditures from the account are for law enforcement activities. During 2016, there were receipts of \$2,350 and expenditures of \$11,917, leaving a balance of \$21,267 as of December 31, 2016.

B. 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 \$731. Receipts during the year totaled \$2,450 and expenditures totaled \$2,000, leaving a balance of \$1,181 as of December 31, 2016.

C. Drug Court Account

The Pendleton County Sheriff maintains a drug court account. This account consists of funds allotted by the Pendleton County Fiscal Court for the Drug Court program that is administered by the circuit court. The beginning balance in the account was \$4,810. There were no receipts, and disbursements of \$300 during the year, leaving a balance of \$4,510 in the account as of December 31, 2016.

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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*

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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

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, 2016, and the related notes to the financial statement and have issued our report thereon dated August 14, 2017. 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 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 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 Schedule of Findings and Responses as 2016-001 and 2016-002 to be material weaknesses.

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 Schedule of Findings and Responses as item 20016-003 to be a significant deficiency.



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 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 Schedule of Findings and Responses as items 2016-002 and 2016-003.

Sheriff's Responses to Findings

The Pendleton County Sheriff's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The 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

August 14, 2017

SCHEDULE OF FINDINGS AND RESPONSES

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PENDLETON COUNTY
CHARLES PEOPLES, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2016

FINANCIAL STATEMENT FINDINGS:

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

The Pendleton County Sheriff's office lacks adequate segregation of duties over receipts and disbursements. This is a repeat finding and was included in the prior year audit report as finding 2015-001. 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; the office manager generally signs checks.

According to the sheriff, having a small office staff composed of three full time employees, it is very difficult to segregate duties over receipts and disbursements in a positive and constructive manner.

The lack of segregation of duties over receipts and disbursements creates an opportunity for misappropriation of assets such as cash. By having the same employee perform these functions, the risk of undetected errors or fraud increases, such as misappropriation of assets or inaccurate financial reporting to external agencies such as the Department for Local Government.

Good internal controls dictate that the same employee should not handle, record, and reconcile receipts and disbursements.

We recommend the sheriff implement compensating controls to offset this weakness. The sheriff could 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 could 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 or initialing the bank statement, along with the reconciliation sheets.

Sheriff's Response: Due to a small agency with limited office staff segregation of duties is virtually impossible at the level requested.

Auditor's Reply: While a small office staff does make it more difficult to segregate duties, it can be done as long as you have more than one person. If a complete segregation cannot be achieved, compensating controls should be put in place to check the work of those with incompatible duties.

2016-002 The Pendleton County Sheriff Did Not Batch Receipts Daily And Make Daily Deposits

The Pendleton County Sheriff does not batch receipts daily or account for the numerical sequence of receipts. This is a repeat finding and was included in the prior year audit report as finding 2015-002. During June 2016, receipts appear to be used from three different receipt books. From our sample, it was determined that the bookkeeper batched receipts based on deposit date.

PENDLETON COUNTY
 CHARLES PEOPLES, SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2016
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-002 The Pendleton County Sheriff Did Not Batch Receipts Daily And Make Daily Deposits (Continued)

According to the sheriff, because the office has a small 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.

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

KRS 68.210 gives the state local finance officer the authority to determine minimum accounting requirements for local government entities. As such, the Department for Local Government requires local governments to follow guidelines set forth in the *County Budget Preparation and State Local Finance Officer Policy Manual*. This manual requires collections to be deposited intact into a federally insured banking institution on a daily basis. It also requires officials to issue receipts and reconcile daily checkout sheets with daily deposit totals. The checkout sheets should agree to batched receipts, deposits, and the receipts ledger.

We recommend the sheriff implement procedures to ensure receipts are batched, posted to a daily checkout sheet, and deposited daily in order to be in compliance with minimum accounting requirements required by the Department for Local Government. 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 and/or checks collected, and be attached to the white and yellow copies of the receipts.

Sheriff's Response: We understand the need however some days we may only collect \$5.00 which to deposit is a waste of time and resources.

Auditor's Reply: While we understand that there may be small amounts of money collected, the Department for Local Government still requires daily deposits.

2016-003 The Pendleton County 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

This is a repeat finding and was included in the prior year audit report as finding 2015-003. The Pendleton County Sheriff maintains a county cop and court 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 a check written to cash from the county cop and court account.

The Pendleton County Cop & Court Account was created more than 20 years ago in order for individuals from the sheriff's office and the local court system to raise monies in order to purchase Christmas gifts for disadvantaged children from 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 kids and a local law enforcement official that accompany the child.

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

PENDLETON COUNTY
CHARLES PEOPLES, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2016
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-003 The Pendleton County 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
(Continued)

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. To be an allowable charitable activity under KRS 61.310(8), the activities to be performed by the sheriff or his deputies should relate to a regular function of the office. Good internal controls dictate that disbursements be made by check to ensure that all transactions are allowable, necessary, properly supported, and reviewed by management.

We recommend the sheriff only accept allowable donations and spend the funds for activities that are for the public purposes of his office. To comply with KRS 61.310, the sheriff should conduct any charitable activities that are not part of his official duties, either in his personal capacity or through existing charitable organizations rather than through his office. We also recommend the sheriff discontinue writing checks to deputy sheriffs. Any disbursement should be made by check to ensure all disbursements are allowable and necessary and properly recorded.

Sheriff's Response: I understand the issue. But because it is a charitable account that use for benefit of the use of public youth. I want this account to be audited.

Auditor's Reply: The Auditor of Public Accounts office is charged with auditing the official accounts of the sheriff's office. A charitable program is not an official duty of the sheriff's office.