

**REPORT OF THE AUDIT OF THE
FLEMING COUNTY
SHERIFF**

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



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

The Honorable Larry Foxworthy, Fleming County Judge/Executive
The Honorable Gary Kinder, Fleming County Sheriff
Members of the Fleming 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 Fleming 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.

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AN EQUAL OPPORTUNITY EMPLOYER M / F / D



The Honorable Larry Foxworthy, Fleming County Judge/Executive
The Honorable Gary Kinder, Fleming County Sheriff
Members of the Fleming 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 Fleming 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 Fleming 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 Fleming 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 June 28, 2018, on our consideration of the Fleming 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 Sheriff Did Not Submit The Fourth Quarter Report To The Department For Local Government
- 2016-002 Bank Loan Fees And Civil Penalties Are Not Allowable Expenses Of The Fee Account
- 2016-003 The Sheriff’s Office Lacks Adequate Segregation Of Duties Over Fee Receipts And Disbursements

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

June 28, 2018

FLEMING COUNTY
GARY KINDER, 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)	\$	15,272
State Fees For Services:		
Finance and Administration Cabinet	\$	71,577
Sheriff Security Service		7,132
Transports		281
		78,990
Circuit Court Clerk:		
Fines and Fees Collected		10,105
Fiscal Court		68,900
County Clerk - Delinquent Taxes		17,684
Commission On Taxes Collected		218,563
Fees Collected For Services:		
Auto Inspections		7,248
Accident and Police Reports		325
Serving Papers		18,234
Carry Concealed Deadly Weapon Permits		8,065
		33,872
Other:		
Add-On Fees		24,096
Board of Education		31,543
Miscellaneous		943
		56,582
Interest Earned		219
Borrowed Money:		
State Advancement		175,000
Bank Note		70,000
		\$ 245,000
Total Receipts		745,187

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

FLEMING COUNTY
 GARY KINDER, 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	\$ 189,683	
Part-Time Salaries	19,498	
KLEFPF Gross Salaries	15,586	
Bailiff Salaries	71,419	

Employee Benefits-

Employer's Share Hazardous Duty Retirement	12,343	
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Contracted Services-

Advertising	95	
Vehicle Maintenance and Repairs	9,744	
Communications	9,797	
Transports	812	

Materials and Supplies-

Office Materials and Supplies	5,553	
Uniforms	3,827	

Auto Expense-

Gasoline	20,259	
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Other Charges-

Computer Expense	2,825	
Postage	781	
Fiscal Court Fees	3,285	
Training	1,221	
Miscellaneous	1,835	

Capital Outlay-

Office Equipment	4,527	
Vehicles	16,283	\$ 389,373

Debt Service:

State Advancement	175,000	
Notes	70,095	245,095

Total Disbursements		\$ 634,468
Less: Disallowed Disbursements		
Civil Penalties	(250)	
Fees on Bank Note	(95)	(345)
Total Allowable Disbursements		<u>634,123</u>

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

FLEMING COUNTY
GARY KINDER, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2016
(Continued)

Net Receipts	\$ 111,064
Less: Statutory Maximum	<u>79,386</u>
Excess Fees	31,678
Less: Training Incentive Benefit	<u>1,984</u>
Balance Due Fiscal Court at Completion of Audit*	<u>\$ 29,694</u>

* - The sheriff presented checks to the fiscal court for \$21,604 and \$8,090 on September 29, 2017, and May 9, 2018, respectively.

FLEMING 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).

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.

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

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

The sheriff's contribution for calendar year 2014 was \$32,921, calendar year 2015 was \$11,581, and calendar year 2016 was \$12,343.

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 KRS Board of Trustees 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.

FLEMING 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 KRS Board of Trustees 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.

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

Note 3. Deposits

The Fleming 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 Fleming 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 17, 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 \$245,269

Note 4. Drug Forfeiture Account

The Fleming County Sheriff's office maintains a drug forfeiture account. This account is funded by proceeds from the confiscation, surrender or sale of real personal property involved in drug related convictions. The beginning balance in this account was \$1,180. During 2016, the sheriff's office received \$30,025 in court ordered payments, restitution, and interest. During the year, \$15,023 was expended for allowable purposes, leaving a balance of \$16,182 as of December 31, 2016.

Note 5. Donation Account

The Fleming County Sheriff's office maintains a donation account to account for private and public donations to the sheriff's office. The beginning balance in this account as of January 1, 2016 was \$341. During the year, there was no activity in this account, leaving a balance of \$341 as of December 31, 2016.

Note 6. Lease Agreements

- A. On February 21, 2015, the Fleming County Fiscal Court entered into a \$60,317 lease agreement on behalf of the Fleming County Sheriff's office to purchase two vehicles. Principal and interest payments are due by the 20th of each month and are paid by the sheriff's office. The principal outstanding was \$18,383 as of December 31, 2016.
- B. On April 16, 2015, the sheriff's office entered into a lease agreement for a copier and a printer. The lease agreement requires a base monthly payment of \$152 for 60 months, plus variable charges for the number of images over the base amount. The outstanding balance was \$6,080 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 Larry Foxworthy, Fleming County Judge/Executive
The Honorable Gary Kinder, Fleming County Sheriff
Members of the Fleming 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 Fleming County Sheriff for the year ended December 31, 2016, and the related notes to the financial statement and have issued our report thereon dated June 28, 2018. The Fleming 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 Fleming 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 Fleming County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fleming 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 2016-003 to be a material weakness.



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 Fleming 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 2016-001 and 2016-002.

Views of Responsible Official and Planned Corrective Action

The Fleming County Sheriff's views and planned corrective action for the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The 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,

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

June 28, 2018

SCHEDULE OF FINDINGS AND RESPONSES

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FLEMING COUNTY
GARY KINDER, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2016

STATE LAWS AND REGULATIONS:

2016-001 The Sheriff Did Not Submit The Fourth Quarter Report To The Department For Local Government

This is a repeat finding and was reported in the prior year audit report as finding 2015-001. The fourth quarter report (year-end financial statement) was not submitted to the Department for Local Government's (DLG) state local finance officer. DLG mailed the sheriff a delinquent notice dated March 14, 2017. The sheriff did not ensure that he or his staff submitted the fourth quarter report to DLG. As a result, the sheriff's financial condition is not known to the state local finance officer and DLG, which is the regulatory agency for county officials. KRS 68.210 authorizes the state local finance officer to require officials from local governments to submit financial reports. Quarterly reports are to be submitted by the twentieth day following the close of the quarter in order to satisfy this requirement. We recommend the sheriff ensure quarterly reports are prepared and submitted by the twentieth of each month following the close of the quarter.

Sheriff's Response: We are currently working on submitting them on time.

2016-002 Bank Loan Fees And Civil Penalties Are Not Allowable Expenses Of The Fee Account

The sheriff paid a \$95 bank loan fee and a civil penalty of \$250 from the fee account. According to the sheriff, this was due to him not being aware that bank loan fees and civil penalties were not allowable expenses of the fee account. The disallowed disbursements result in taxpayer funds being spent inappropriately. In addition, the sheriff personally owes \$345 to the 2016 fee account to reimburse these disallowed disbursements. Fee officials are required to expend funds on allowable expenses as defined in the case of Funk v Milliken, 317 S.W.2d 499 (Ky. 1958). In Funk v. Milliken, 317 S.W.2d 499 (Ky. 1958), Kentucky's highest court reaffirmed the rule that county fee officials' expenditures of public funds will be allowed only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not personal expenses. We recommend the sheriff reimburse \$345 to the 2016 fee account from his personal funds for these disallowed disbursements. Furthermore, we recommend the sheriff only expend funds for allowable purposes in the future.

Sheriff's Response: After this was brought to our attention we paid back to fee account.

INTERNAL CONTROL - MATERIAL WEAKNESS:

2016-003 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Fee Receipts And Disbursements

This is a repeat finding and was reported in the prior year audit report as finding 2015-006. The sheriff's office lacks adequate segregation of duties and internal controls over fee receipts and disbursements. The bookkeeper, deputy clerk, and occasionally the sheriff, all collect fee receipts. The bookkeeper prepares a daily bank deposit, reconciles the daily receipts to the income/expense report, and posts items to the receipts ledger. The bookkeeper prepares checks for payment of expenses and posts checks to the disbursements ledger. The bookkeeper signs the majority of the checks, with the sheriff signing only occasionally. Only one signature is required on checks. The bookkeeper prepares the monthly bank reconciliation and the monthly and quarterly reports.

As previously described, the sheriff has not structured his office in a way that segregates duties and responsibilities. The sheriff has also not provided sufficient oversight of the financial reporting process. A lack of oversight could result in the undetected misappropriation of assets and inaccurate financial reporting to external agencies, such as the Department for Local Government. Additionally, internal controls and proper segregation of duties protect employees and the sheriff in the normal course of performing their daily responsibilities.

FLEMING COUNTY
GARY KINDER, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2016
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESS: (Continued)

2016-003 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Fee Receipts And Disbursements
(Continued)

Good internal controls dictate the same employee should not receive payments, prepare deposits, and post to the receipts ledger; the same employee should not prepare monthly reports, sign checks, and post to the disbursements ledger; and the same employee should not deposit funds, sign checks, post to ledgers, and prepare bank reconciliations and monthly reports.

We recommend the sheriff's office implement internal controls and segregate duties as much as possible. Employees receiving payments and preparing deposits should not be posting to the receipts ledger and preparing bank reconciliations. Employees preparing and signing checks should not be posting to the disbursements ledger and preparing bank reconciliations. A proper segregation of duties may not be possible with a limited number of employees, and in that case, the sheriff could take on the responsibility of preparing or reviewing the daily deposits, receipts and disbursements ledgers, monthly reports, and bank reconciliations. These reviews must be documented in a way that indicates what was reviewed, by whom, and when, because signing off on inaccurate information does not provide internal control. Furthermore, the sheriff could require dual signatures on all checks, with one signature being the sheriff's.

Sheriff's Response: The sheriff did not provide a response.