

**REPORT OF THE AUDIT OF THE
METCALFE COUNTY
SHERIFF**

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



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

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

EXECUTIVE SUMMARY
AUDIT OF THE
METCALFE COUNTY SHERIFF

For The Year Ended
December 31, 2015

The Auditor of Public Accounts has completed the Metcalfe 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 \$19,200 from the prior year, resulting in excess fees of \$57,407 as of December 31, 2015. Receipts increased by \$12,976 from the prior year and disbursements decreased by \$6,224.

Report Comments:

- 2015-001 The Sheriff Paid \$65 In Disallowed Disbursements For Penalties And Interest
- 2015-002 The Sheriff's Office Lacks Internal Controls And Adequate Segregation Of Duties Over The Payroll Process
- 2015-003 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts, Disbursements, And The Reconciliation Process

Deposits:

The sheriff's deposits as of December 7, 2015 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$463,626

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 Greg Wilson, Metcalfe County Judge/Executive
The Honorable Rondal Shirley, Metcalfe County Sheriff
Members of the Metcalfe 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 Metcalfe 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.



The Honorable Greg Wilson, Metcalfe County Judge/Executive
The Honorable Rondal Shirley, Metcalfe County Sheriff
Members of the Metcalfe County Fiscal Court

Auditor's Responsibility (Continued)

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

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 Metcalfe 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 Metcalfe 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 Metcalfe 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 August 12, 2016 in our consideration of the Metcalfe 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 Greg Wilson, Metcalfe County Judge/Executive
The Honorable Rondal Shirley, Metcalfe County Sheriff
Members of the Metcalfe 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 Paid \$65 In Disallowed Disbursements For Penalties And Interest
- 2015-002 The Sheriff's Office Lacks Internal Controls And Adequate Segregation Of Duties Over The Payroll Process
- 2015-003 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts, Disbursements, And The Reconciliation Process

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

August 12, 2016

METCALFE COUNTY
 RONDAL SHIRLEY, 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)	\$	10,384
State Fees For Services:		
Finance and Administration Cabinet	\$	73,431
Sheriff Security Service	3,402	76,833
Circuit Court Clerk:		
Fines and Fees Collected		463
Fiscal Court		58,288
County Clerk - Delinquent Taxes		16,532
Commission On Taxes Collected		150,063
Fees Collected For Services:		
Auto Inspections	2,970	
Accident and Police Reports	1,015	
Serving Papers	16,005	
Carrying Concealed Deadly Weapon Permits	5,495	25,485
Other:		
Add-On Fees	14,019	
Miscellaneous	727	
HB 577 (Fiscal Court's Portion Serving Papers)	3,910	
School Resource Officer	20,000	38,656
Interest Earned		68
Borrowed Money:		
State Advancement		33,305
Total Receipts		410,077

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

METCALFE COUNTY
 RONDAL SHIRLEY, 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	\$	52,652
Justice Center Salaries		55,618
Office Clerk's Salaries		40,217
School Resource Officer's Salary		24,384
KLEFPF Salaries		9,622

Employee Benefits-

Employer's Share Social Security		18,909
Employer's Share Retirement - KLEFPF		1,727

Contracted Services-

Advertising		159
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Materials and Supplies-

Office Materials and Supplies		4,696
Uniforms		2,400

Auto Expense-

Gasoline		12,830
Maintenance and Repairs		6,594

Other Charges-

Dues		730
Postage		2,203
Employee Training		1,202
HB 577		3,910
Miscellaneous		72
Carrying Concealed Deadly Weapon		1,120
Tax Penalty and Interest		65

Capital Outlay-

Office Equipment		<u>522</u>	\$	239,632
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Debt Service:

State Advancement		<u>33,305</u>
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Total Disbursements 272,937

Less: Disallowed Disbursements

Tax Penalty and Interest		<u>65</u>
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Total Allowable Disbursements \$ 272,872

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

METCALFE COUNTY
RONDAL SHIRLEY, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2015
(Continued)

Net Receipts	\$ 137,205
Less: Statutory Maximum	<u>76,842</u>
Excess Fees	60,363
Less: Training Incentive Benefit	<u>2,956</u>
Excess Fees Due County for 2015	57,407
Payment to Fiscal Court - March 8, 2016	<u>56,825</u>
Balance Due Fiscal Court at Completion of Audit	<u><u>\$ 582</u></u>

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

METCALFE 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, including but not limited to, 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).

METCALFE 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.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2014, 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. Members contribute five percent (nonhazardous) of their annual creditable compensation and one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a four percent (nonhazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

The sheriff's contribution to employer's share of KLEFPF retirement for calendar year 2013 was \$1,796, calendar year 2014 was \$1,700, and calendar year 2015 was \$1,727.

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.

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%

METCALFE 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.

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 Metcalfe 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 Metcalfe 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 December 7, 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 \$463,626

Note 4. Drug Eradication Account

The Metcalfe County Sheriff maintains a drug eradication account, which is funded by proceeds from the confiscation, surrender, or sale of real and personal property involved in drug related convictions. These funds are to be used for law enforcement activities. As of January 1, 2015, the account had a balance of \$2,406. During 2015, \$1 of interest was received and \$434 was expended, leaving a balance of \$1,973 as of December 31, 2015.

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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



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Greg Wilson, Metcalfe County Judge/Executive
The Honorable Rondal Shirley, Metcalfe County Sheriff
Members of the Metcalfe 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 Metcalfe County Sheriff for the year ended December 31, 2015, and the related notes to the financial statement and have issued our report thereon dated August 12, 2016. The Metcalfe 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 Metcalfe 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 Metcalfe County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Metcalfe 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 a certain deficiency in internal control that we consider to be a material weakness and other deficiencies we consider to be significant deficiencies.

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 comments and recommendations as item 2015-003 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)

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Metcalfe 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 2015-001 and 2015-002.

Sheriff's Responses to Findings

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

August 12, 2016

COMMENTS AND RECOMMENDATIONS

METCALFE COUNTY
RONDAL SHIRLEY, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2015

FINANCIAL STATEMENT FINDINGS:

2015-001 The Sheriff Paid \$65 In Disallowed Disbursements For Penalties And Interest

During calendar 2015, the sheriff paid out of his 2015 fee account penalties and interest payments of \$16 and \$49 to the Internal Revenue Service and the State Treasurer, respectively.

Lack of internal controls and oversight of the payroll wage/withholding reporting process contributed to wages being incorrectly reported to tax agencies. Paying penalties and interest fees which are not necessary or beneficial to the public reduces the amount of operating funds for the sheriff's office, or reduces the amount of excess fees paid to the fiscal court, or both. The penalty and interest charges paid are unnecessary and not beneficial to the public. As a result, they have been disallowed.

Good internal controls dictate that the sheriff should monitor all disbursements to ensure compliance with state laws and regulations and to ensure payments are timely and accurate to avoid penalties. In Funk vs. Milliken, 317 S.W.2d 499 (Ky. 1958), Kentucky's highest court reaffirmed the rule that county fee officials' disbursement of public funds will be allowable only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not personal expenses.

We recommend the sheriff deposit personal funds of \$65 to reimburse his 2015 fee account for these disallowed disbursements. We also recommend in the future the sheriff's office disburse funds for official purposes and that these disbursements be necessary for the operation of the office, adequately documented, reasonable in amount, beneficial to the public, and not personal in nature.

Sheriff's Response: This money will be paid back into the account. New payroll program will eliminate this from happening again.

2015-002 The Sheriff's Office Lacks Internal Controls And Adequate Segregation Of Duties Over The Payroll Process

The sheriff's office manager/bookkeeper prepares individual earning records, all payroll checks, all withholding and wage reports, and all payments to the appropriate agencies.

The sheriff's withholding and wage reports and payments for calendar year 2015 contained the following errors:

- Individual earnings records did not agree to the withholdings/wages reported and paid to the fiscal court. Insurance withholdings were underpaid by \$805, retirement withholdings were underpaid by \$46. These amounts were turned over with excess fees and /or adjusted on the financial statement. In addition, county taxes were overpaid by \$2.
- The individual earning records did not agree to the withholdings/wages reported and paid to the Internal Revenue Service for federal and FICA withholdings, the state of Kentucky for state taxes, and the City of Edmonton for city taxes. The sheriff overpaid the Internal Revenue Service by \$83, overpaid the State of Kentucky by \$187, and the City of Edmonton by \$16.

In addition, the sheriff's office does not have a written policy regarding employee vacation and sick leave earned and used during the year.

METCALFE COUNTY
RONDAL SHIRLEY, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2015
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-002 The Sheriff's Office Lacks Internal Controls And Adequate Segregation Of Duties Over The Payroll Process (Continued)

The sheriff's office lacks proper controls and oversight over the preparation of payroll and withholding reports and payments. Failure to reconcile total payroll amounts each month to the individual earning records and monthly reports has resulted in under/over reporting of wages and payment of withholdings to the appropriate agencies.

KRS 141.330 states that every employer who fails to withhold or pay the department any sums required to be withheld and paid shall be personally liable. In addition, segregation of duties over payroll preparation and wage/withholding reports and payments, or the implementation of compensating controls, is essential to protect from asset misappropriation and inaccurate financial reporting. Proper segregation of duties also protects employees in the normal course of performing their daily responsibilities.

We recommend the sheriff strengthen internal controls over the payroll process. This includes separating the duties of preparing payroll, payment of payroll, reporting wages/withholdings to appropriate agencies and payment to those agencies. If that is not feasible due to a limited budget and staff, cross checking procedures on wage/withholding reports with individual earning records before payments are made could be implemented and documented by the individual performing the procedure. In addition, the sheriff should implement a written policy over vacation and sick leave and track leave balances. The county attorney could review the policy for compliance with laws and regulations.

Sheriff's Response: We have new payroll system that will take care of these kind of errors.

2015-003 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts, Disbursements, And The Reconciliation Process

The sheriff's office has a lack of segregation of duties over receipts, disbursements, and the reconciliation process. The office manager/bookkeeper collects receipts, prepares deposits, prepares daily checkout sheets, prepares and signs checks, and prepares financial statements and monthly reports. She also posts to the ledgers and reconciles the bank statements. The sheriff has instituted some review processes such as periodic documented reviews of daily checkouts and deposits by other office staff. However, no documented evidence was found of reviews of ledgers, monthly reports, and bank reconciliations.

This condition is a result of a limited budget, which restricts the number of employees the sheriff can hire or delegate duties to. Lack of oversight could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the Department for Local Government.

The segregation of duties over various accounting functions such as opening mail, preparing deposits, recording receipts and disbursements, and preparing monthly reports, or the implementation of compensating controls is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

METCALFE COUNTY
RONDAL SHIRLEY, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2015
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-003 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts, Disbursements, And The Reconciliation Process (Continued)

We recommend the sheriff separate the duties involving receipts, disbursements, preparation of monthly reports, preparation of financial reports, and bank reconciliations. If that is not feasible due to a limited number of staff, strong oversight over those areas should occur and involve an employee not currently performing any of those functions. Additionally, the sheriff could also provide the oversight. The individual providing the oversight should initial source documents as evidence of this review.

Sheriff's Response: No response.

