

**REPORT OF THE AUDIT OF THE  
WHITLEY COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2006**



**CRIT LUALLEN  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE WHITLEY COUNTY SHERIFF**

**For The Year Ended  
December 31, 2006**

The Auditor of Public Accounts was engaged to audit the fee account activities of the Whitley County Sheriff office for the year ended December 31, 2006 and we have issued a disclaimer of opinion.

Based upon our assessment of audit risk, we determined the risk of fraud to be too high and we were unable to apply other procedures to overcome this risk. In addition, the Sheriff's Office had serious weaknesses in the design and operation of its internal control procedures and accounting functions.

#### **Report Comments:**

- 2006-01 The Sheriff Should Maintain Accurate Accounting Records And Account For All Receipts In The Appropriate Year
- 2006-02 The Sheriff Lacked Controls Over Deposits And Did Not Provide Adequate Oversight
- 2006-03 The Sheriff Did Not Deposit Receipts Of The Office In A Timely Manner
- 2006-04 The Sheriff's Office Did Not Deposit All Cash Receipts
- 2006-05 The Sheriff Had A Known Deficit Of \$40,624 In His Official 2006 Fee Account
- 2006-06 The Sheriff Should Not Loan Money To The Fee Account From The Tax Account
- 2006-07 The Sheriff Did Not Provide Adequate Oversight For Fuel Purchases Made With Credit Cards
- 2006-08 The Sheriff Should Maintain Proper Documentation And Properly Account For Payroll-Related Items
- 2006-09 The Sheriff Lacked Adequate Controls Over Drug And Alcohol Receipts And Disbursements And Did Not Maintain Proper Documentation For Disbursements Of The Account
- 2006-10 The Sheriff's Office Lacked Adequate Segregation Of Duties Over The Accounting Functions
- 2006-11 Other Matters Resulting In Noncompliance

#### **Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities or bonds.



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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

Honorable Pat White, Jr., Whitley County Judge/Executive  
Honorable Lawrence Hodge, Whitley County Sheriff  
Members of the Whitley County Fiscal Court

Independent Auditor's Report

We were engaged to audit the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Whitley County, Kentucky, for the year ended December 31, 2006. This financial statement is the responsibility of the Sheriff.

As further explained in the accompanying comments and recommendations, the Whitley County Sheriff did not maintain adequate accounting records of fee account revenues and expenditures for the 2006 calendar year. The Sheriff's financial records do not permit the application of other auditing procedures to fee account revenues and expenditures. Furthermore, significant discrepancies in the Sheriff's records identified during the engagement and lack of adequate internal controls resulted in a high level of audit risk. In addition, we were not provided with management or legal representation letters.

Since the Whitley County Sheriff did not maintain adequate accounting records, audit risk for this engagement was high as discussed in paragraph two, and because we did not receive the required representation letters and we were not able to apply other auditing procedures to satisfy ourselves as to the validity of fee account revenues and expenditures, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the Sheriff's statement of revenues, expenditures, and excess fees - regulatory basis for the 2006 calendar year.

We were engaged to audit the financial statement referred to above for the purpose of forming an opinion on the financial statement. The Schedule Of Excess Of Liabilities Over Assets is presented for purposes of additional analysis and is not a required part of the financial statement. As discussed in the third paragraph above, the scope of our work was not sufficient to enable us to express an opinion on the financial statement of the Sheriff. Similarly, we are unable to express and do not express an opinion on the Schedule Of Excess Of Liabilities Over Assets in relation to the financial statement.

In accordance with Government Auditing Standards, we have also issued our report dated March 31, 2009, on our consideration of the 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 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. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



Honorable Pat White, Jr., Whitley County Judge/Executive  
Honorable Lawrence Hodge, Whitley County Sheriff  
Members of the Whitley County Fiscal Court

We also present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2006-01 The Sheriff Should Maintain Accurate Accounting Records And Account For All Receipts In The Appropriate Year
- 2006-02 The Sheriff Lacked Controls Over Deposits And Did Not Provide Adequate Oversight
- 2006-03 The Sheriff Did Not Deposit Receipts Of The Office In A Timely Manner
- 2006-04 The Sheriff's Office Did Not Deposit All Cash Receipts
- 2006-05 The Sheriff Had A Known Deficit Of \$40,624 In His Official 2006 Fee Account
- 2006-06 The Sheriff Should Not Loan Money To The Fee Account From The Tax Account
- 2006-07 The Sheriff Did Not Provide Adequate Oversight For Fuel Purchases Made With Credit Cards
- 2006-08 The Sheriff Should Maintain Proper Documentation And Properly Account For Payroll-Related Items
- 2006-09 The Sheriff Lacked Adequate Controls Over Drug And Alcohol Receipts And Disbursements And Did Not Maintain Proper Documentation For Disbursements Of The Account
- 2006-10 The Sheriff's Office Lacked Adequate Segregation Of Duties Over The Accounting Functions
- 2006-11 Other Matters Resulting In Noncompliance

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Whitley County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

March 31, 2009

WHITLEY COUNTY  
LAWRENCE HODGE, SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2006

Revenues

Federal Grants			
High Intensity Drug Trafficking Area Grant	\$	948	
U.S. Department of Forestry		5,000	
U.S. Army Corps of Engineers		<u>3,060</u>	\$ 9,008
State - Kentucky Law Enforcement Foundation Program Funds			28,630
State Fees For Services:			
Finance and Administration Cabinet		29,077	
House Bill 452 - Court Cost		<u>20,635</u>	49,712
Circuit Court Clerk:			
Fines and Fees Collected		1,566	
Court Ordered Payments		<u>1,330</u>	2,896
Fiscal Court			
Contributions		148,450	
Jail Transports		8,103	
Juvenile Transports		17,960	
Postage Reimbursement		8,697	
Vehicle Grant		63,397	
Accident Reimbursement		<u>1,178</u>	247,785
County Clerk - Delinquent Taxes			11,966
Commission On Taxes Collected			250,460
Fees Collected For Services:			
Auto Inspections		7,909	
Accident and Police Reports		1,802	
Serving Papers		37,611	
Carrying Concealed Deadly Weapon Permits		11,820	
Transports		9,194	
School Deputy Reimbursement		<u>26,156</u>	94,492

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

WHITLEY COUNTY  
LAWRENCE HODGE, SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
For The Year Ended December 31, 2006  
(Continued)

Revenues (Continued)

Other:

Advertising Fees - \$5	\$	4,385	
Tax Penalty - 10%		20,504	
Miscellaneous		5,148	
Execution Order - Vehicle Sale		43,200	
Accident Restitution		2,100	\$ 75,337

Interest Earned 6,668

Borrowed Money:

State Advancement		123,176	
Bank Note		130,500	253,676

Total Revenues 1,030,630

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies Gross Salaries	283,003
Transporter Salary	13,440
Kentucky Law Enforcement Foundation Program Funds	22,689
Overtime	649
Unused Vacation Paid	4,030
Contract Labor	672

Employee Benefits-

Employer's Share Social Security	28,938
Employer's Share Retirement	10,638
Employer's Share Hazardous Duty Retirement	78,767
Employer Paid Health Insurance	44,177
Employer Paid Dental Insurance	2,513

Contracted Services-

Advertising	94
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Materials and Supplies-

Office Materials and Supplies	9,923
Equipment and Maintenance	380
Uniforms	2,524

WHITLEY COUNTY

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

LAWRENCE HODGE, SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
For The Year Ended December 31, 2006  
(Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Auto Expense-		
Gasoline	\$	60,287
Maintenance and Repairs		24,734
Other Charges-		
Cellular Phone Plans		3,050
Dues		1,193
Postage		10,418
Bond		812
Carrying Concealed Deadly Weapons Permits		8,115
Summons - Other Counties		150
Transport Expense		2,714
Execution Order		41,895
Miscellaneous		1,403
		<u>657,208</u>
Debt Service:		
State Advancement		123,176
Bank Notes		130,500
Bank Note Interest		7,394
Bank Document Fees		500
Bank Note Late Fees		400
Vehicle Lease Agreement		64,974
		<u>326,944</u>
Total Expenditures		984,152
Less: Disallowed Expenditures		
Finance Charges		319
Visa Late Fees		152
Overdraft Fees		151
Bank Note Late Fees		400
		<u>1,022</u>
Total Allowable Expenditures		<u>983,130</u>
Net Revenues		47,500
Less: Statutory Maximum		79,247
Excess Fees		<u>(31,747)</u>
Less: Training Incentive Benefit		3,302
		<u>3,302</u>
Excess Expenditures Over Revenues	\$	<u><u>(35,049)</u></u>

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

WHITLEY COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2006

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 revenues over expenditures 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 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures 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 2006 services
- Reimbursements for 2006 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2006

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

At the direction of the fiscal court, 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).

WHITLEY COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2006  
(Continued)

Note 2. Employee Retirement System

The county officials 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. This is a cost-sharing, multiple-employer, defined benefit pension plan that 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 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent for the first six months and 13.19 percent for the last six months of the year. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 25.01 percent for the first six months and 28.21 percent for the last six months of the year.

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. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The 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(4), 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 Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

WHITLEY COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2006  
(Continued)

Note 4. Bank Notes

- A. The Sheriff received a bank loan of \$80,125 on January 11, 2006 for the purpose of operating capital. The terms of the loan agreement required one (1) payment of \$83,046 on July 11, 2006. The Sheriff renewed the bank loan on August 8, 2006 and made a payment of \$3,697. This amount included principal, interest and late fees. The new principal of \$80,125 and additional interest of \$1,836 was repaid on November 16, 2006. As of December 31, 2006 the loan balance was zero (0).
- B. The Sheriff received a bank loan of \$16,125 on March 24, 2006 for the purpose of operating capital. The terms of the loan agreement required one (1) payment of \$16,743 on September 24, 2006. The Sheriff paid \$16,125 of principal and \$816 of interest and late fees on October 23, 2006. As of December 31, 2006 the loan balance was zero (0).
- C. The Sheriff received a bank loan of \$34,125 on April 6, 2006 for the purpose of operating capital. The terms of the loan agreement required one (1) payment of \$35,469 on October 6, 2006. The Sheriff paid \$34,125 of principal and \$1,569 of interest and penalties on October 23, 2006. As of December 31, 2006 the loan balance was zero (0).

Note 5. Sublease Agreement

On March 30, 2004, the office of the Sheriff committed to a sub-lease agreement with the Whitley County Fiscal Court for the purchase of eight new vehicles and the necessary equipment required by law for the vehicles. The Sheriff received \$63,397 from the Whitley County Fiscal Court and paid a total of \$64,974 to National City Bank during calendar year 2006. The sub-lease was scheduled to end November 20, 2006. The total remaining balance of the agreement was zero (0) as of December 31, 2006.

Note 6. Drug and Alcohol Account

Under the terms mandated by the Commonwealth of Kentucky, the Whitley County Sheriff received proceeds from the confiscation, surrender or sale of real and personal property involved in drug related convictions. The beginning balance as of January 1, 2006 was \$10,924. Receipts and disbursements were \$ 3,271 and \$11,595, respectively. The balance as of December 31, 2006 was \$2,600. These funds are exclusively for direct law enforcement activities and are not included in excess fees.

WHITLEY COUNTY  
LAWRENCE HODGE, SHERIFF  
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

For The Year Ended December 31, 2006

Assets

Cash in Bank	\$	109,446
Deposits in Transit		80
Collected Receivables		169,879
Uncollected Receivables:		
Due From 2005 Tax Account:		
Interest	\$	372
10% Add-On Fees		1,665
Sheriff's Fees		325
Deposit Errors		10,059
Returned Check Fees		307
Due From 2006 Tax Account:		
Deposit Errors		6,703
Due From 2005 Fee Account		114
		<hr/>
Total Uncollected Receivables		19,545
		<hr/>
Total Assets	\$	298,950

Liabilities

Paid Obligations:		
Outstanding Checks		119,342
Liabilities Paid After December 31, 2006		158,038
		<hr/>
Total Paid Obligations		277,380
Unpaid Obligations:		
Kentucky Retirement System		306
Kentucky Law Enforcement Council		113
Internal Revenue Service		834
Whitley County-		
Health/Dental Insurance Withholdings		530
Due To 2005 Fee Account-		
Deposit Errors		1,971

WHITLEY COUNTY  
LAWRENCE HODGE, SHERIFF  
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS  
For The Year Ended December 31, 2006  
(Continued)

Liabilities (Continued)

Unpaid Obligations: (Continued)

Due To 2007 Fee Account-  
Deposit Errors

\$ 58,440

Total Unpaid Obligations

62,194

Total Liabilities

339,574

Total Fund Deficit as of December 31, 2006

\$ (40,624)

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





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Pat White, Jr., Whitley County Judge/Executive  
The Honorable Lawrence Hodge, Whitley County Sheriff  
Members of the Whitley 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

We were engaged to audit the statement of revenues, expenditures, and excess fees - regulatory basis of the Whitley County Sheriff for the year ended December 31, 2006, and have issued our report thereon dated March 31, 2009 wherein we disclaimed an opinion on the financial statement because the Sheriff failed to maintain adequate accounting records and lacked adequate internal controls resulting in a high audit and fraud risk. In addition, we were not provided with management or legal representation letters. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Whitley County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures 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 Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting.



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)

We consider the deficiencies described in accompanying comments and recommendations as items 2006-01, 2006-02, 2006-03, 2006-04, 2006-05, 2006-06, 2006-07, 2006-08, 2006-09, and 2006-10 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Whitley County Sheriff's financial statement for the year ended December 31, 2006, 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. These noncompliances are reported in comments 2006-01, 2006-06, 2006-08, and 2006-11.

The Whitley County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Whitley County Fiscal Court, and the Department For Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

March 31, 2009

COMMENTS AND RECOMMENDATIONS



WHITLEY COUNTY  
LAWRENCE HODGE, SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2006

**FINANCIAL STATEMENT FINDINGS**

2006-01 The Sheriff Should Maintain Accurate Accounting Records And Account For All Receipts In The Appropriate Year

The Sheriff did not maintain accurate financial records for the 2006 fee account. In addition, the Sheriff deposited 2005 and 2007 fee receipts to the 2006 fee account. During our testing of receipts and disbursements, we noted the following known errors:

- A total of \$1,971 of calendar year 2005 receipts were deposited to the 2006 fee account. These included \$1,790 for serving papers, \$20 for auto inspections, \$47 for accident reports, and a state payment of \$114.
- A total of \$55,342 of calendar year 2007 fee receipts was deposited to the 2006 fee account. This included cash in the amount of \$4,237, \$20 for accident reports, \$3,285 for serving papers, \$20 for auto inspections, \$180 for carry conceal deadly weapons fees (CCDW), \$50 for miscellaneous receipts, and \$47,550 in county support payments. Of these amounts the \$47,550 for county support payments was posted to the 2006 receipts ledger.
- Receipts for serving papers and auto inspections for \$5,810 and \$20 respectively were not posted to the Sheriff's receipts ledger and therefore were not included on the fourth quarter financial report.
- Borrowed money totaling \$500 was not accounted for on the Sheriff's receipts ledger or disbursements ledger and therefore were not included on the fourth quarter financial report. These funds were for bank loan fees that were paid directly to the bank from loan proceeds.
- One (1) High Intensity Drug Trafficking Area (HIDTA) overtime payment for \$285 was deposited to the 2005 tax account and was not included on the Sheriff's receipts ledger or fourth quarter financial report.
- Four (4) restitution payments from the Circuit Court Clerk's office totaling \$1,320 were deposited to the 2006 fee account but were not posted to the Sheriff's receipts ledger and therefore were not included on the fourth quarter financial report.
- Five (5) 2006 calendar year state fee payments totaling \$6,344 and two (2) transport payments from a mental institution totaling \$1,890 were posted to the Sheriff's 2006 receipts ledger but were deposited to the 2005 tax account.
- Interest earned on the fee account totaling \$484 was not posted to the receipts ledger and therefore was not included on the fourth quarter financial statement.
- One returned check fee in the amount of \$40 was not posted to the Sheriff's receipts ledger.
- One cash payment of \$2,100 for restitution to the Sheriff's office for damages to a Sheriff's vehicle was not posted to the receipts ledger and was therefore not included on the fourth quarter financial report. This payment was deposited to the Sheriff's 2006 fee account on May 8, 2007.
- Payments for commissions earned on taxes totaling \$13,330 were not included on the Sheriff's receipts ledger and therefore were not on the fourth quarter financial report.
- One (1) Lake Patrol payment for \$3,060 and one (1) Kentucky Law Enforcement Foundation Program Fund (KLEFPF) payment for \$3,623 were posted to the Sheriff's 2006 fee receipts ledger but were actually deposited to the 2006 tax account.

WHITLEY COUNTY  
 LAWRENCE HODGE, SHERIFF  
 COMMENTS AND RECOMMENDATIONS  
 For The Year Ended December 31, 2006  
 (Continued)

**FINANCIAL STATEMENT FINDINGS (Continued)**

2006-01 The Sheriff Should Maintain Accurate Accounting Records And Account For All Receipts In The Appropriate Year (Continued)

- Bank service charges totaling \$196 were not posted to the Sheriff's disbursements ledger.
- Additional errors totaling \$9,394 were noted between the Sheriff's disbursements ledger and the bank records.

Lack of any controls over the operations of the office and a lack of or poor oversight by the Sheriff resulted in numerous errors noted on the financial records.

Because internal controls do not exist to prevent and/or detect these types of errors and because the Sheriff did not implement any type of oversight control, these types of errors are allowed to occur. Reports remitted to external agencies, such as the Department for Local Government, are misleading, calculations for excess fees due fiscal court are erroneous, and calendar year receipts are erroneously used in other years. In addition, taxpayer dollars are at greater risk for misappropriation of use.

KRS 134.160(2) states "The sheriff shall keep an accurate account of all moneys received by him, showing the amount, the time when and the person from whom received, and on what account. He shall also keep an accurate record of all disbursements made by him, showing the amount, to whom paid, the time of payment, and on what account. He shall so arrange and keep his books that the amounts received and paid on account of separate and distinct appropriations shall be exhibited in separate and distinct accounts."

We recommend the Sheriff immediately implement controls and oversight over his office to assure errors of this magnitude are prevented in a timely manner and maintain accurate financial records in the future as required by KRS 134.160(2). We further recommend that all fee receipts be deposited to the appropriate years accounts. These steps would help to ensure that an accurate financial statement is prepared at year-end. We also recommend the Sheriff transfer \$1,971 and \$55,342 from his 2006 fee account to the 2005 and 2007 fee accounts respectively for the known erroneous deposits stated above. The Sheriff should also transfer \$6,629 and \$6,683, from the 2005 and 2006 tax accounts respectively to the 2006 fee account for the known erroneous deposits stated above.

*Sheriff's Response: The Whitley County Sheriff has implemented controls and oversight over his office to assure errors of this magnitude are prevented in a timely manner and maintain accurate financial records in the future as required by KRS 134.160(2). All fee receipts will be deposited to the appropriate years accounts. These steps would help to ensure that an accurate financial statement is prepared at year-end. He will transfer \$1,971 and \$55,342 from his 2006 fee account to the 2005 and 2007 fee accounts respectively for the known erroneous deposits stated above. The Sheriff will also transfer \$6,629 and \$6,683, from the 2005 and 2006 tax accounts respectively to the 2006 fee account for the known erroneous deposits stated above.*

WHITLEY COUNTY  
 LAWRENCE HODGE, SHERIFF  
 COMMENTS AND RECOMMENDATIONS  
 For The Year Ended December 31, 2006  
 (Continued)

**FINANCIAL STATEMENT FINDINGS (Continued)**

2006-02 The Sheriff Lacked Controls Over Deposits And Did Not Provide Adequate Oversight

The Sheriff's deposit for 7/28/06 only listed the total amount of checks deposited on the bank deposit ticket and not each individual check. As a result, auditors obtained deposit detail from the bank and found several deposit errors including the following:

The deposit ticket taken to the bank dated 7/28/06 stated, "checks \$3,908.41" and "cash \$24.43". The sheriff's copy of the ticket stated "Cumberland River Comp. Ment. Transp. \$1,260" and "Comm of Ky KLEF \$2,672.84". When the deposit detail was obtained from the bank it showed that this deposit was made up of \$24.43 cash and the following checks:

\$1,863.41	1	State fee claim payment
450.00	1	Cumberland River Comprehensive care payment
760.00	2	Circuit Court Clerk restitution payments
770.00	24	Serving papers payments
20.00	1	Carrying concealed deadly weapons permit payment
25.00	5	Auto inspection payments
20.00	4	Accident Reports

Subsequent investigation found that the Cumberland River Comprehensive Care and Commonwealth of Kentucky (State fee claim payment) checks listed on the Sheriff's copy of the deposit ticket were actually deposited into the 2005 Tax Account instead of the 2006 fee account.

The Sheriff lacked controls over the deposit process and did not provide any oversight in this area.

As has been stated in another comment, the Sheriff had known un-deposited receipts of \$4,553, which contributed to the known deficit of \$40,624 in his official 2006 fee account. Had the Sheriff monitored deposits more closely, and required his personnel to list checks individually on the bank deposit ticket, these types of errors and irregularities may have been detected and corrected promptly.

As cash is the asset most vulnerable to misappropriation or theft, any official is expected to provide adequate safeguards over this asset.

We recommend the Sheriff immediately implement controls over the deposit process to assure deposits are made daily to the correct account, and accurately reflect what is deposited. In addition, deposits should include all receipts accepted by the Sheriff's office for that day to comply with KRS 68.210. By making accurate, daily deposits, the risk that cash is misappropriated in the office, or diverted for personal use is reduced.

*Sheriff's Response: The Whitley County Sheriff has implemented controls over the deposit process to assure deposits are made daily to the correct account, and accurately reflect what is deposited. All deposits will include all receipts accepted by the Sheriff's office for that day to comply with KRS 68.210.*

WHITLEY COUNTY  
LAWRENCE HODGE, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2006  
(Continued)

**FINANCIAL STATEMENT FINDINGS (Continued)**

2006-03 The Sheriff Did Not Deposit Receipts Of The Office In A Timely Manner

During the test of receipts, we noted the following:

- On July 31, 2006, the Sheriff was ordered by the court to take possession of vehicles from an auto dealer and sell them at auction for the lien holder. The Sheriff complied with the court order and sold the vehicles at public auction on September 8, 2006. The Sheriff released the proceeds of \$41,895 (\$43,200 less \$1,305 commission) to the lien holder on September 26, 2006. However, the funds received from the auction were not deposited until October 23, 2006, forty-four (44) days later.
- During the test of a random date of May 19, 2006 chosen, the auditor found that receipts received on Friday, May 19 and Tuesday, May 23 were combined on one daily checkout sheet. The school deputy reimbursement cleared May 19. However, the balance of the transactions, \$3,316 total, did not clear the bank until May 31, 2006; which is a delay of 7 business days.
- During the confirmation of State Fees, the auditor noted a total of fourteen checks were not deposited in a timely manner. One of the checks was not deposited until one hundred seventeen (117) business days after the check was issued. Also, during the confirmation of Fiscal Court receipts the auditor noted that ten out of a total of seventeen (10 out of 17) checks were not deposited within three (3) business days.
- Upon review of the bank deposits, auditors also found that 2005 and 2007 receipts were deposited to the 2006 fee account.

The Sheriff lacked controls over the deposit process and did not provide any oversight in this area.

As has been stated in another comment, the Sheriff had known un-deposited receipts of \$4,553, which contributed to the known deficit of \$40,624 in his official 2006 fee account.

Also, when deposits are not made timely, the risk that a bank account can be overdrawn is greatly increased.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The minimum requirements for handling public funds as stated in the Instructional Guide for County Budget Preparation and State Local Finance Officer Policy Manual require that deposits be made daily. Additionally, the practice of making daily deposits reduces the risk of misappropriation of cash, which is the asset most subject to possible theft.

We recommend the Sheriff immediately implement controls over the deposit process to assure deposits are made daily and include all receipts accepted by the Sheriff's office for that day to comply with KRS 68.210. By making daily deposits, the risk that cash is misappropriated in the office, or diverted for personal use is reduced.

WHITLEY COUNTY  
LAWRENCE HODGE, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2006  
(Continued)

**FINANCIAL STATEMENT FINDINGS (Continued)**

2006-03 The Sheriff Did Not Deposit Receipts Of The Office In A Timely Manner (Continued)

*Sheriff's Response: As stated the Whitley County Sheriff has implemented controls over the deposit process to assure deposits are made daily and include all receipts accepted by the Sheriff's office for that day to comply with KRS 68.210.*

2006-04 The Sheriff's Office Did Not Deposit All Cash Receipts

We determined some cash receipts were not deposited as noted below in the example. Deposits were not made daily and cash checkout sheets were not prepared on a daily basis. Additionally, the cash checkout sheets were prepared to include receipts for several days.

During the test of receipts, we noted the following:

One daily checkout sheet included the dates May 19, 2006 through May 23, 2006 and totaled \$9,855. We compared the total receipts per the cash checkout sheet to the deposits and then to the amounts posted to the receipts ledger. The total of two (2) deposits dated May 19, 2006 and May 24, 2006 agreed to the total of the cash checkout sheet for the test period and the amounts listed on the cash checkout sheet agreed to the amounts posted to the receipts ledger. In addition the total on the cash checkout sheet agreed to the total per copies of the receipts issued by the Sheriff's office and attached to the cash checkout sheet. However, the copies of the receipts issued by the Sheriff's office included receipts for \$317 paid in cash. No cash was included in the bank deposits made on May 19, 2006 and May 24, 2006. Additionally we obtained the deposit details from the bank and compared the checks deposited to the amounts recorded on the cash checkout sheet and found that they did not agree.

Subsequently, we reviewed ten (10) months of the Sheriff's cash checkout sheets and corresponding customer receipt copies. The majority of November and December receipt copies did not indicate the method of payment. Therefore the total amount of cash receipts could not be determined for those months. Based on the copies of receipts issued by the Sheriff's office from January 2, 2006 thru October 31, 2006, the Sheriff received \$12,654 in cash. Bank records show \$10,922 as being deposited during that period. The difference, \$1,732, cannot be accounted for and is, therefore, considered un-deposited.

The Sheriff lacked controls over the deposit process and did not provide any oversight in this area.

As has been stated in another comment, the Sheriff had known un-deposited receipts of \$4,553, which contributed to the known deficit of \$40,624 in his official 2006 fee account.

As cash is the asset most vulnerable to misappropriation or theft, an official is expected to provide adequate safeguards over this asset.

WHITLEY COUNTY  
LAWRENCE HODGE, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2006  
(Continued)

**FINANCIAL STATEMENT FINDINGS (Continued)**

2006-04 The Sheriff's Office Did Not Deposit All Cash Receipts (Continued)

We recommend the Sheriff immediately implement controls over the deposit process to assure all receipts issued are batched daily and properly posted to a daily cash checkout sheet. Deposits should be made daily to the correct bank account, accurately reflect what is deposited and reconciled to the daily cash checkout sheet. By making accurate, daily deposits, the risk that cash is misappropriated in the office, or diverted for personal use is reduced.

*Sheriff's Response: As stated the Whitley County Sheriff has implemented controls over the deposit process to assure all receipts issued are batched daily and properly posted to a daily cash checkout sheet. Deposits will be made daily to the correct bank account, accurately reflect what is deposited and reconciled to the daily cash checkout sheet.*

2006-05 The Sheriff Had A Known Deficit of \$40,624 In His Official 2006 Fee Account

Because of known un-deposited receipts of \$4,553, disallowed expenditures of \$1,022, and excess spending of \$35,049, the Sheriff had a known deficit of \$40,624. Auditors were unable to determine the complete amount because of a lack of adequate record keeping in the Sheriff's office. Had adequate records been available, the deficit would likely be more.

The Sheriff's office did not deposit receipts paid by individuals for services rendered into the official fee account. Also, the Sheriff's office did not spend monies of the office on allowable expenditures and instead had the following, deemed un-allowable expenditures per **Funk v. Milliken, 317 S.W.2d 499 (KY 1958)**:

- Finance charges and late fees totaling \$471 were paid for a Visa Credit Card
- Overdraft charges totaling \$151 were paid on the official 2006 bank account
- Late fees totaling \$400 were paid on three bank loans.

In addition, because the Sheriff's office commingled monies from different fee years, the 2006 calendar year spent monies that actually belonged to the 2005 and 2007 fee accounts.

When receipts go un-deposited, monies are spent on disallowed expenditures, and each fee year is not maintained separately, reports submitted by the Sheriff for external purposes are inaccurate, other vital services that could be offered by the Sheriff's office are not offered, excess fees due the fiscal court are not paid and ultimately, the Sheriff is required to deposit personal funds to cover these items.

As in any office, the Sheriff is expected to deposit all monies paid to his office into the correct official account. He is also expected to expend his fee account monies on allowed expenditures [see **Funk v. Milliken, 317 S.W.2d 499 (KY 1958)**].

WHITLEY COUNTY  
 LAWRENCE HODGE, SHERIFF  
 COMMENTS AND RECOMMENDATIONS  
 For The Year Ended December 31, 2006  
 (Continued)

**FINANCIAL STATEMENT FINDINGS (Continued)**

2006-05 The Sheriff Had A Known Deficit of \$40,624 In His Official 2006 Fee Account (Continued)

We recommend the Sheriff deposit personal funds of \$40,624 to cover the known deficit in his official 2006 fee account. We further recommend the Sheriff take immediate steps to ensure all monies received by his office are immediately deposited into the correct official account and that monies spent on the office are for allowable expenditures only.

*Sheriff's Response: The Whitley County Sheriff will make every effort to reconcile this error in the 2006 fee account as soon as possible.*

2006-06 The Sheriff Should Not Loan Money To The Fee Account From The Tax Account

The Sheriff engaged in the practice of loaning money from the tax account to the fee account. During the months of January, May, and June of 2006, the Sheriff loaned a total of \$24,800 to his 2006 fee account from the 2005 tax account. On April 5, 2006 \$2,500 was transferred back to the 2005 tax account and the remaining \$22,300 was transferred back on July 10, 2006. In November of 2006 the Sheriff loaned a total of \$80,000 to his 2006 fee account from the 2006 tax account. This was transferred back to the 2006 tax account on January 24, 2007.

As has been stated in other comments, receipts of the Sheriff's office are regularly deposited into different bank accounts and in other instances, not deposited at all, which results in the need to "loan" monies from the tax account to the fee account. The Sheriff, because of lack of controls over his office, and lack of oversight has allowed this to happen.

When a lack of control over record keeping exists or oversight over record keeping is poor, this type of situation is allowed to occur. The possible effects are shortages in various accounts, which may result in the inability to pay required amounts to taxing districts, vendors, etc. Also, the ability to properly budget for operations of the office becomes increasingly difficult.

KRS 134.170(3) states, "Other than for investments and expenditures permitted by KRS 134.140, the Sheriff shall not apply or use any money received by him for any purpose other than that for which the money was paid or collected." Additionally, KRS 134.300 requires tax collections to be reported and paid to the taxing districts by the tenth (10<sup>th</sup>) of following month. Only the commissions allowable to the Sheriff and such other fees as are due should be transferred to the fee account.

We recommend the Sheriff refrain from making loans from the tax accounts to the fee accounts. Furthermore, we recommend the Sheriff immediately implement controls and oversight over his office so receipts are deposited in the appropriate account.

In those instances where it becomes necessary to advance tax monies to the fee account, the Sheriff could pay to the fee account, an advance on monthly tax commissions prior to the end the month. When the monthly tax collection reports are prepared and taxes remitted to the taxing districts, the Sheriff could then reduce the amount of commissions due by the amount previously advanced.

WHITLEY COUNTY  
LAWRENCE HODGE, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2006  
(Continued)

**FINANCIAL STATEMENT FINDINGS (Continued)**

2006-06    The Sheriff Should Not Loan Money To The Fee Account From The Tax Account  
(Continued)

*Sheriff's Response: The Whitley County Sheriff agrees to refrain from making loans from the tax accounts to the fee accounts and has implemented controls and oversight over his office so receipts are deposited in the appropriate account.*

2006-07    The Sheriff Did Not Provide Adequate Oversight For Fuel Purchases Made With  
Credit Cards

The Sheriff did not provide adequate oversight over \$46,314 of fuel credit card purchases and we could not determine if all of the fuel purchased was for official use. We could not find evidence that the Sheriff, prior to payment, reviewed the credit card statements or that vendor receipts were reconciled to amounts on the monthly billing statement.

According to the Sheriff, a deputy will use his assigned fuel card even if he was driving a different cruiser. New deputies, who had not received their fuel card, would use another deputy's or the Sheriff's fuel card until their personal fuel card arrived. In addition, we noted the same odometer reading was used multiple times when fuel was purchased.

Each deputy is assigned a fuel card, with the Sheriff's office maintaining a total of 13 fuel cards. A personal identification number (PIN) and odometer reading is required each time the card is used. When the monthly credit card statement is received, there is a breakdown by cardholder to show the date and time of purchase, gallons of fuel purchased and odometer reading at the time of purchase. The individual receipts provided for each fuel purchase should be reconciled to the monthly statement and the date and time of purchase should be checked against the employee's work schedule.

The Sheriff's office lacked basic controls over fuel credit card use to ensure they were appropriately used only in an official capacity.

Without evidence of proper oversight of these credit cards, the Sheriff cannot ensure the accuracy of billed fuel and the reasonableness of fuel charged by each deputy. Fuel may be purchased and used for other than official business of the Sheriff's office, ultimately resulting in personal travel being financed by the citizens of Whitley County.

We recommend the Sheriff immediately implement steps to adequately safeguard the cards in use. Each deputy should be held accountable to maintain the original vendor's receipt and should ensure actual odometer readings are used at the time of purchase. We further recommend the Sheriff maintain each vendor receipt and reconcile that receipt to the monthly billing statement and employee work schedule prior to payment.

WHITLEY COUNTY  
LAWRENCE HODGE, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2006  
(Continued)

**FINANCIAL STATEMENT FINDINGS (Continued)**

2006-07 The Sheriff Did Not Provide Adequate Oversight For Fuel Purchases Made With Credit Cards (Continued)

*Sheriff's Response: As answered and responded to elsewhere in this audit the Sheriff has implemented steps to adequately safeguard the cards in use. Each deputy will be held accountable to maintain the original vendor's receipt and should ensure actual odometer readings are used at the time of purchase. The sheriff will maintain each vendor receipt and reconcile that receipt to the monthly billing statement and employee work schedule prior to payment.*

2006-08 The Sheriff Should Maintain Proper Documentation And Properly Account For Payroll- Related Items

During our engagement, we noted the following issues concerning payroll:

Timesheets for two (2) office employees were not maintained. However, these two (2) office personnel were paid \$4,030 for unused vacation and/or sick time, which is allowable according to the County's administrative code.

The Sheriff received incentive payments for deputies that were not eligible. Several deputies took voluntary layoffs June 30, 2006. Since the Criminal Justice Department was not notified in a timely manner, the Sheriff received \$7,880 of additional Kentucky Law Enforcement Foundation Program Funds (KLEFPF) for the layoff period. Afterwards, the Criminal Justice Department reduced the 2007 incentive payments to account for these overpayments. The Sheriff transferred \$4,783 of the 2006 overpayments to the 2007 official fee account leaving a balance due of \$3,097. In addition, the Sheriff received \$113 for the employer's share of retirement for one deputy, who was not eligible for retirement. It is important to note that in 2006, the Criminal Justice Department included a schedule of deputies and their gross incentive with the monthly incentive check.

The Sheriff incorrectly reported one deputy's earnings and did not report payments for contract labor. On December 1, 2006, a deputy was paid \$1,006 for services rendered. The disbursement was not posted to the individual's earning record; therefore, that deputy's wages were incorrectly reported on the Wage and Tax Statement (Form W-2). Also, on December 15, 2006 and December 29, 2006, the Sheriff paid one individual a total of \$672 for contract labor that was not reported as income.

The Sheriff issued a payroll check to an employee before services were rendered. The Sheriff routinely issued payroll disbursements bi-weekly on Fridays. In August 2006, two (2) sets of payroll disbursements were issued; one on August 11 and one on August 25. One employee was issued a paycheck on August 15, 2006 instead of August 25, 2006. This disbursement cleared the 2006 Fee Account on August 16, 2006.

WHITLEY COUNTY  
LAWRENCE HODGE, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2006  
(Continued)

**FINANCIAL STATEMENT FINDINGS (Continued)**

2006-08 The Sheriff Should Maintain Proper Documentation And Properly Account For Payroll-Related Items (Continued)

The Sheriff paid one (1) deputy \$258 for Kentucky Law Enforcement Foundation Program Fund (KLEFPF) Incentive when that payment had not been earned. The deputy received the incentive for the month of July. But the deputy in question had taken a voluntary layoff as of June 30, 2006 and did not return until August 26, 2006. Therefore, the deputy could not have earned the incentive for which he was paid. Since this payment was immaterial in amount and was paid in September, after the deputy had returned to work, we are considering this an additional payment for services rendered in September. The funds reimbursed from KLEFPF for this payment are included in the amounts to be transferred to the 2007 Fee account

Lack of administrative policies and internal controls over the office and lack of proper oversight by the Sheriff allowed these situations to occur.

As in any office, proper documentation of payroll is vital to proper reporting. Additionally, the Sheriff is expected to receipt into his official account only those receipts earned for services rendered.

If adequate documentation for actual hours worked and leave balances of each employee is not maintained, it puts the Sheriff's office at risk for possible future payment to an employee who may maintain their own records subsequently resigns or is otherwise let go. Since this employee would have maintained documentation, which cannot be refuted by the Sheriff's office, the Sheriff's office may owe that employee for leave balances and any overtime documented by the employee.

KRS 337.320 requires the Sheriff to keep a record of the amount paid each pay period to each employee, the hours worked each day and each week by each employee, and such other information as the executive director may require. This statute also requires that such records be kept on file for at least one (1) year after entry.

Federal regulations require all entities to prepare a Wage and Tax Statement, Form W-2, for all employees that include all wages paid for that calendar year. Federal regulations also require a Form 1099-MISC to be prepared when contract labor expenditures for an individual exceed \$600.

KRS 45.340 provides in part that checks shall be tendered to an officer or employee only after he has completed the work for which he is being paid. Additionally, Section 3 of the Kentucky Constitution states public emolument to any person must be based on the consideration of public services. This has been clarified in OAG 79-448 to mean "public services actually rendered."

We recommend the Sheriff comply with KRS 337.320 by keeping time sheets or time cards for all employees.

WHITLEY COUNTY  
 LAWRENCE HODGE, SHERIFF  
 COMMENTS AND RECOMMENDATIONS  
 For The Year Ended December 31, 2006  
 (Continued)

**FINANCIAL STATEMENT FINDINGS (Continued)**

2006-08    The Sheriff Should Maintain Proper Documentation And Properly Account For Payroll Related Items (Continued)

We recommend the Sheriff issue a check for \$3,097 to the 2007 fee account and issue a refund to KLEFPF in the amount of \$113. We further recommend in the future the Sheriff notify the Criminal Justice Department of any layoffs or other changes in a timely manner and inform them immediately if an incentive is received for deputies that are not on the payroll.

We also recommend the Sheriff comply with federal regulations pertaining to the payment of wages by preparing the required forms and verify that those forms are correct before submission.

Additionally, we recommend the Sheriff comply with KRS 45.340 and the Kentucky Constitution by verifying payroll expenditures before payment is rendered.

*Sheriff's Response: The Whitley County Sheriff will comply with KRS 337.320 by keeping time sheets or time cards for all employees. He will issue a check for \$3,097 to the 2007 fee account and issue a refund to KLEFPF in the amount of \$113. He will notify the Criminal Justice Department of any layoff's or other changes in a timely manner and inform them immediately if an incentive is received for deputies that are not on the payroll.*

*He will comply with federal regulations pertaining to the payment of wages by preparing the required forms and verify that those forms are correct before submission. He will comply with KRS 45.340 and the Kentucky Constitution by verifying payroll expenditures before payment is rendered.*

2006-09    The Sheriff Lacked Adequate Controls Over Drug And Alcohol Receipts And Disbursements And Did Not Maintain Proper Documentation For Disbursements Of The Account

During 2006, the Sheriff deposited \$2,717 to and expended \$11,595 from the drug account. All of the checks written from the account went to the Sheriff. According to the Sheriff, these checks were cashed and the cash was then used for drug and alcohol eradication purposes.

The Sheriff did not maintain an adequate receipts ledger for the drug account, which resulted in auditors being unable to identify the source of nine (9) deposits totaling \$967 since the receipts ledger simply indicated a "name" and "donation" or "restitution". Court orders awarding the funds to the Sheriff's Department were not provided to us. Included in these deposits was a deposit for \$200 on January 23, 2006 that stated "Raid". The hand written log, provided to the auditors by the Sheriff, did not include an entry for January 23, 2006. Additionally, the Sheriff deposited a total of \$350 of court ordered "drug fund" payments into the 2005 Tax Account instead of the Drug and Alcohol Account.

WHITLEY COUNTY  
LAWRENCE HODGE, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2006  
(Continued)

**FINANCIAL STATEMENT FINDINGS (Continued)**

2006-09    The Sheriff Lacked Adequate Controls Over Drug And Alcohol Receipts And Disbursements And Did Not Maintain Proper Documentation For Disbursements Of The Account (Continued)

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The Sheriff did not maintain adequate documentation for any of the expenditures from the drug account. Although the Sheriff maintained a hand written log explaining the purposes of the drug account expenditures, no signed documentation was maintained to show that the checks cashed were actually given to the informants. In addition the Sheriff did not provide the auditors with documentation for any of the buys made by informants. The Sheriff's handwritten log did not include any explanations for five (5) checks totaling \$1,900 (**See disallowed-below**) made payable to the Sheriff.

Because of this extensive review of the log, we noted the following disallowed expenditures:

Five checks, made payable to the Sheriff and totaling \$1,900, did not have any explanation in the hand written log for the disbursement.

The Sheriff did not design and implement proper controls over the receipt and subsequent disbursement of drug and alcohol related transactions. In addition, the Sheriff did not maintain minimum documentation as adopted by the Kentucky Sheriff's Association.

A lack of basic controls over transactions within the Sheriff's office subjects monies of the Sheriff's office to misappropriation or diversion for other than official use. In addition, the Sheriff may be required to pay, with personal funds, for those expenditures that do not have proper documentation.

As in any office, officials are expected to maintain documentation on receipts that come into their office as well as any disbursements made from their office.

We recommend the Sheriff implement controls over the receipts and expenditures of the drug and alcohol account and maintain proper documentation for both receipts and expenditures. A receipts ledger should be maintained for the drug and alcohol account and the source of all receipts should be clearly identified on the deposit tickets. Signed receipts should be obtained from all informants and documentation maintained for each drug and alcohol buy. The Kentucky Sheriffs Association has developed guidelines and forms to be utilized for Sheriffs' record-keeping systems.

We also recommend the Sheriff also deposit personal funds of \$1,900 into his drug and alcohol account to reimburse the undocumented expenditures listed above.

We further recommend the Sheriff transfer \$350 from the 2005 Tax Account into the Drug and Alcohol Account.

WHITLEY COUNTY  
 LAWRENCE HODGE, SHERIFF  
 COMMENTS AND RECOMMENDATIONS  
 For The Year Ended December 31, 2006  
 (Continued)

**FINANCIAL STATEMENT FINDINGS (Continued)**

2006-09    The Sheriff Lacked Adequate Controls Over Drug And Alcohol Receipts And Disbursements And Did Not Maintain Proper Documentation For Disbursements Of The Account (Continued)

*Sheriff's Response: The Whitley County Sheriff will implement controls over the receipts and expenditures of the drug and alcohol account and maintain proper documentation for both receipts and expenditures. A receipts ledger will be maintained for the drug and alcohol account and the source of all receipts will be clearly identified on the deposit tickets. Signed receipts will be obtained, if possible from all informants and documentation maintained for each drug and alcohol buy. The Sheriff will follow the Kentucky Sheriff's Association guidelines for record-keeping systems.*

*He will deposit personal funds of \$1,900 into his drug and alcohol account to reimburse the undocumented expenditures listed above.*

*He will transfer \$350 from the 2005 Tax Account into the Drug and Alcohol Account.*

2006-10    The Sheriff's Office Lacked Adequate Segregation Of Duties Over The Accounting Functions

A lack of adequate segregation of duties exists over all accounting functions. During review of internal controls, we noted that the Sheriff's bookkeeper is responsible for opening mail, receiving and recording cash, preparing daily checkout sheets and making daily bank deposits, writing disbursement checks, posting to the receipts and disbursements ledgers, reconciling bank records to the receipt and disbursement ledgers and preparing monthly financial reports.

Limited budget places restrictions on the number of employees the Sheriff can hire. When faced with limited number of staff, strong compensating controls should be in place to offset the lack of segregation of duties. In addition, the Sheriff did not have any type of formal administrative policies in place to outline what is expected of employees within his office.

Lack of oversight could result in misappropriation of assets and/or inaccurate financial reporting to external agencies such as the Department for Local Government, which could occur but go undetected.

Additionally, because a lack of adequate segregation of duties existed and because the Sheriff did not provide strong oversight over the office, the following occurred:

- The Sheriff Had a Known Deficit of \$40,624 in His Official 2006 Fee Account
- The Sheriff Did Not Make Daily Deposits and Did Not Make Sure All Cash Received in His Office Was Deposited Into the Official Bank Account
- The Sheriff Did Not Maintain Proper Documentation For Disbursements of the Drug and Alcohol Account
- The Sheriff Had Questionable Fuel Purchases Made with Credit Cards

WHITLEY COUNTY  
 LAWRENCE HODGE, SHERIFF  
 COMMENTS AND RECOMMENDATIONS  
 For The Year Ended December 31, 2006  
 (Continued)

**FINANCIAL STATEMENT FINDINGS (Continued)**

2006-10    The Sheriff's Office Lacked Adequate Segregation Of Duties Over The Accounting Functions (Continued)

- The Sheriff Did Not Maintain Accurate Accounting Records And Account For All Receipts In The Appropriate Year
- The Sheriff Did Not Maintain Proper Documentation and Properly Account for Payroll Related Items
- The Sheriff Loaned Money To The Fee Account From the Tax Account

A segregation of duties over various accounting functions, such as opening mail, recording cash, preparing bank deposits, writing checks, posting transactions to ledgers, reconciling bank records to the ledgers and preparing monthly reports or the implementation of compensating controls, when needed because the number of staff is limited, is essential for providing protection from asset misappropriation and/ or inaccurate financial reporting.

Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To adequately protect against misappropriation of assets and /or inaccurate financial reporting, the Sheriff should separate the duties involving the opening of mail, depositing of cash, disbursing of cash, posting of transactions to the ledgers, reconciling of bank records to the receipts and disbursements ledger and preparing the monthly financial reports. If, due to a limited number of staff, that is not feasible, strong oversight over these areas should occur and involve an employee not currently performing any of those functions. Additionally, the Sheriff could provide this oversight. If the Sheriff does implement compensating controls, these should be documented on the appropriate source document.

The following are examples of controls the Sheriff could implement.

- The Sheriff could periodically recount and deposit cash receipts. This could be documented by initialing the daily check out sheet and deposit ticket.
- The Sheriff could periodically compare the bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. This could be documented by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- All checks should have two (2) signatures, with one being the Sheriff.
- The Sheriff could examine checks prepared by the bookkeeper and compare to proper documentation. This could be documented by initialing the invoices and other supporting documentation.
- The Sheriff could review the bank reconciliation and compare the balance to the balance in the checkbook. Any differences should be reconciled. This could be documented by initialing the bank reconciliation and the balance in the checkbook.
- The Sheriff could receive the bank statements unopened, and review the statements for any unusual items prior to giving them to the person responsible for reconciliations.

WHITLEY COUNTY  
LAWRENCE HODGE, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2006  
(Continued)

**FINANCIAL STATEMENT FINDINGS (Continued)**

2006-10 The Sheriff's Office Lacked Adequate Segregation Of Duties Over The Accounting Functions (Continued)

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We further recommend the Sheriff adopt a formal administrative policy, which outlines job responsibilities, what is expected of each employee, and the type of documentation that should be maintained for the office.

*Sheriff's Response: The corrective action plan has previously been addressed in this audit as the Sheriff intends to adequately protect against misappropriation of assets and/or inaccurate financial reporting, and will the duties involving the opening of mail, depositing of cash, disbursing of cash, posting of transactions to the ledgers, reconciling of bank records to the receipts and disbursements ledger and preparing the monthly financial reports. He will provide this oversight. He plans to address each of the examples set forth herein.*

*He is in the process of adopting a formal administrative policy, which outlines job responsibilities, what is expected of each employee, and the type of documentation that should be maintained for the office.*

2006-11 Other Matters Resulting In Noncompliance

The following non-compliances were noted during the engagement:

The Sheriff did not submit an asset forfeiture report to appropriate state agencies as required by KRS 218A.440.

The Sheriff did not maintain copies of all voided receipts as required by KRS 68.210.

The Sheriff did not submit a yearly operating budget and maximum salary cap for deputies to the fiscal court by January 15 as required by the Instructional Guide For County Budget Preparation and State Local Finance Officer Policy Manual.

The Sheriff did not maintain a non-governmental donation register as required by KRS 61.310.

The Sheriff did not pay several invoices within 30 days of receipt as required by KRS 65.140.

The Sheriff did not collect vehicle inspection fees received by the county clerk's office as required by KRS 186A.115.

The Sheriff did not invest monies seized and forfeited into an interest bearing bank account as required by KRS 66.480.

The Sheriff did not repay bank notes in a timely manner as required by the applicable bank agreement, which resulted in \$400 in late fee charges that were paid.

WHITLEY COUNTY  
LAWRENCE HODGE, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2006  
(Continued)

**FINANCIAL STATEMENT FINDINGS (Continued)**

2006-11 Other Matters Resulting In Noncompliance (Continued)

The multiple non-compliances listed above are the result of poor management within the Sheriff's office. Employees of the Sheriff's office responsible for maintenance of the records mentioned above or have been assigned job duties related to the tasks mentioned above have not been properly supervised to assure compliance with these applicable laws, regulations and external contracts.

By not complying with applicable laws, regulations, and external contracts, the Sheriff's office may be subject to sanctions by oversight agencies.

As with any public office, the Sheriff is expected to follow all applicable laws and regulations required by the Sheriff of a county located within the Commonwealth of Kentucky. The Sheriff is also expected to adhere to any external contracts he enters into in his official capacity as Sheriff of Whitley County.

We recommend the Sheriff comply with the above-mentioned laws and regulations and comply with all applicable laws and regulations of his office. If he is unsure about any law or regulation in particular, we recommend he seek the advice of the Commonwealth of Kentucky, Department for Local Government. We further recommend he comply with all external contracts.

*Sheriff's Response: The Whitley County Sheriff will comply with the above-mentioned laws and regulations and comply with all applicable laws and regulations of his office. If he is unsure about any law or regulation in particular, he will seek the advice of the Commonwealth of Kentucky, Department for Local Government. He will comply with all external contracts.*

