

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

**For The Year Ended  
December 31, 2007**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

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



## **EXECUTIVE SUMMARY**

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

**For The Year Ended  
December 31, 2007**

The Auditor of Public Accounts was engaged to audit the fee account activities of the Whitley County Sheriff's office for the year ended December 31, 2007 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:**

- 2007-01 The Sheriff Should Maintain Accurate Accounting Records And Account For All Receipts In The Appropriate Year
- 2007-02 The Sheriff Lacked Controls Over Deposits And Did Not Provide Adequate Oversight
- 2007-03 The Sheriff Did Not Deposit Receipts Of The Office In A Timely Manner
- 2007-04 The Sheriff Had A Known Deficit Of \$10,628 In His Official 2007 Fee Account
- 2007-05 The Sheriff Should Submit Known Excess Fees To The Fiscal Court
- 2007-06 The Sheriff Did Not Provide Adequate Oversight For Fuel Purchases Made With Credit Cards
- 2007-07 The Sheriff Should Maintain Proper Documentation And Properly Account For And Report All Payroll And Related Items
- 2007-08 The Sheriff Did Not Maintain Proper Documentation For Disbursements Of The Drug And Alcohol Account
- 2007-09 The Sheriff Should Properly Account For Forfeitures Received In Accordance With KRS 218A.420
- 2007-10 The Sheriff's Office Lacked Adequate Segregation Of Duties Over All Accounting Functions
- 2007-11 Other Matters Resulting In Noncompliance

#### **Deposits:**

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



CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT .....	1
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS .....	3
NOTES TO FINANCIAL STATEMENT .....	6
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS - REGULATORY BASIS.....	9
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.....	13
COMMENTS AND RECOMMENDATIONS .....	17





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, 2007. 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 2007 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 2007 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:

- 2007-01 The Sheriff Should Maintain Accurate Accounting Records And Account For All Receipts In The Appropriate Year
- 2007-02 The Sheriff Lacked Controls Over Deposits And Did Not Provide Adequate Oversight
- 2007-03 The Sheriff Did Not Deposit Receipts Of The Office In A Timely Manner
- 2007-04 The Sheriff Had A Known Deficit Of \$10,628 In His Official 2007 Fee Account
- 2007-05 The Sheriff Should Submit Known Excess Fees To The Fiscal Court
- 2007-06 The Sheriff Did Not Provide Adequate Oversight For Fuel Purchases Made With Credit Cards
- 2007-07 The Sheriff Should Maintain Proper Documentation And Properly Account For And Report All Payroll And Related Items
- 2007-08 The Sheriff Did Not Maintain Proper Documentation For Disbursements Of The Drug And Alcohol Account
- 2007-09 The Sheriff Should Properly Account For Forfeitures Received In Accordance With KRS 218A.420
- 2007-10 The Sheriff's Office Lacked Adequate Segregation Of Duties Over All Accounting Functions
- 2007-11 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, 2007

Revenues

Federal Contracts		
Department of Forestry	\$	5,000
Corp. of Engineers		3,060
State - Kentucky Law Enforcement Foundation Program Fund		32,584
State Fees For Services:		
Finance and Administration Cabinet	\$	52,715
Cabinet For Health And Family Services		19,907
		72,622
Circuit Court Clerk:		
Fines and Fees Collected		1,560
Court Ordered Payments		275
		1,835
Fiscal Court		
Contributions		339,550
Postage		10,295
Juvenile Transports		22,799
Accident Reimbursement		12,025
		384,669
County Clerk - Delinquent Taxes		9,590
Commission On Taxes Collected		289,986
Fees Collected For Services:		
Auto Inspections		8,613
Accident and Police Reports		1,735
Serving Papers		64,845
Carrying Concealed Deadly Weapon Permits		6,100
Transports		6,856
		88,149
Other:		
School Deputy Reimbursement		26,156
Advertising Fee (\$5)		5,710
Tax Penalty Fee (10%)		27,875
Miscellaneous		4,499
		64,240

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, 2007  
 (Continued)

Revenues (Continued)

Interest Earned		\$	16,718
Borrowed Money:			
State Advancement	\$	140,000	
Bank Note		143,925	283,925
			<hr/>
Total Revenues			1,252,378

Expenditures

Operating Expenditures:

Personnel Services-			
Deputies' Salaries		344,933	
KLEFPF Gross Salaries		26,918	
Contract Labor		8,558	
Employee Benefits-			
Employer's Share Social Security		32,573	
Employer's Share Retirement		17,187	
Employer's Share Hazardous Duty Retirement		96,352	
Employer Paid Health Insurance		49,519	
Employer Paid Dental Insurance		2,776	
Contracted Services-			
Advertising		162	
Materials and Supplies-			
Office Materials and Supplies		7,270	
Uniforms		8,498	
Radio/Camera Supplies		2,942	
Gun/Supplies		372	
Auto Expense-			
Gasoline		69,997	
Maintenance and Repairs		27,699	
Accident - Vehicle Repairs		2,474	
Other Charges-			
Cell Phones		4,011	
Dues		875	
Postage		11,350	
Bond		1,346	

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, 2007  
(Continued)

Expenditures (Continued)

Operating Expenditures: (Continued)

Other Charges- (Continued)

Jurors-Food/Expenses	\$	34	
Prisoner Blood Kit		255	
Summons-Other Counties		110	
Transports		27,514	
Miscellaneous		4,212	\$ 747,937
			<hr/>

Debt Service:

State Advancement		140,000	
Bank Notes		143,925	
Bank Note Interest		3,248	
Bank Loan Origination Fees		625	
Bank Note Late Fee		100	287,898
			<hr/>

Total Expenditures 1,035,835

Less: Disallowed Expenditures

Bank Note Late Fee		100	
Finance Charges & Late Fees		1,135	
Fee Account Overdrafts		1,201	
Visa card Over-limit Fees		113	2,549
			<hr/>

Total Allowable Expenditures 1,033,286

Net Revenues 219,092

Less: Statutory Maximum 81,277

Excess Fees 137,815

Less: Training Incentive Benefit 3,387

Balance Due Fiscal Court \$ 134,428

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

WHITLEY COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2007

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 2007 services
- Reimbursements for 2007 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2007

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, 2007  
(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 13.19 percent for the first six months and 16.17 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 28.21 percent for the first six months and 33.87 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 Whitley 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(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 Whitley County 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, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

WHITLEY COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2007  
(Continued)

Note 4. Bank Notes

- A. The Sheriff received a bank loan of \$75,125 on January 12, 2007 for the purpose of operating capital. The terms of the loan agreement required one (1) payment of \$77,675 on July 12, 2007. The Sheriff paid \$75,125 of principal and \$2,028 of interest on June 5, 2007. As of December 31, 2006 the loan balance was zero (0).
- B. The Sheriff received a bank loan of \$60,250 on March 22, 2007 for the purpose of operating capital. The terms of the loan agreement required one (1) payment of 61,092 on May 22, 2007. The Sheriff paid \$60,250 of principal, \$1,036, and \$100 of late fees on June 5, 2007. As of December 31, 2007 the loan balance was zero (0).
- C. The Sheriff received a bank loan of \$8,550 on November 8, 2007 for the purpose of operating capital. The terms of the loan agreement required one (1) payment of \$8,874 on May 8, 2008. As of December 31, 2007 the principal loan balance due was \$8,550. Subsequently on February 27, 2008, the Sheriff paid \$8,550 of principal and \$198 of interest.

Note 5. 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, 2007 was \$2,600. Receipts and disbursements were \$69,870 and \$63,182, respectively. The balance as of December 31, 2006 was \$9,288. These funds are exclusively for direct law enforcement activities and are not included in excess fees.

Note 6. Subsequent Events

As of December 31, 2007, the Sheriff's official 2007 fee account had a cash balance of \$82,560. In addition the 2007 fee account had deposits in transit of \$2,184, collected receivables of 245,879, outstanding checks and paid liabilities of \$287,654 resulting in a balance of \$42,969 of 2007 fee moneys in the official bank account. The Sheriff subsequently used all of the 2007 fee bank account balance of \$42,969 for calendar year 2008 activity. As of March 31, 2009, the 2007 fee account has a balance of zero (\$0).

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

December 31, 2007

Assets

Cash in Bank	\$	82,560
Deposits in Transit		2,184
Collected Receivables		245,879
Uncollected Receivables:		
Due From 2005 Tax Account-		
2007 Telecom Payment	\$	273
Due From 2006 Tax Account-		
July 2007 School Deputy Payment	6,539	
2007 State Payments	3,611	
2007 Fee Payments	11,309	
2007 Sheriff \$5 Fees	50	
2007 Sheriff's 10% Tax Penalty	48	
2007 Interest	1,286	
2007 Returned Check Fees	148	
Due From 2006 Fee Account-		
February 2007 Fiscal Court Contribution	20,390	
March 2007 Fiscal Court Contribution	20,370	
April 2007 Fiscal Court Contribution	6,790	
2007 Accident Report Fees Collected	20	
2007 Serving Papers Fees Collected	3,285	
2007 Auto Inspection Fees Collected	20	
2007 Carrying Concealed Deadly Weapon Fees Collected	180	
2007 Miscellaneous Fees Collected	4,287	
Kentucky Law Enforcement Foundation Program		
Funds (KLEFPF) 2006 Overpayments	<u>3,097</u>	
Total Uncollected Receivables		<u>81,703</u>
Total Assets		<u>412,326</u>

WHITLEY COUNTY  
LAWRENCE HODGE, SHERIFF  
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS - REGULATORY BASIS  
December 31, 2007  
(Continued)

Liabilities

Paid Obligations:

Outstanding Checks	\$ 23,660
Liabilities Paid After December 31, 2007	<u>263,994</u>

Total Paid Obligations \$ 287,654

Unpaid Obligations:

Overpayment Of School Tax Commissions	872
Due To Whitley County Fiscal Court 2007 Excess Fees	<u>134,428</u>

Total Unpaid Obligations 135,300

Total Liabilities 422,954

Total Fund Deficit as of December 31, 2007 \$ (10,628)



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, 2007, 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. We consider the deficiencies described in accompanying comments and recommendations as items 2007-01, 2007-02, 2007-03, 2007-04, 2007-05, 2007-06, 2007-07, 2007-08, 2007-09, and 2007-10 to be significant deficiencies in 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)

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, 2007, 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 2007-01, 2007-05, 2007-07, and 2007-11.

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 Government 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, 2007

**FINANCIAL STATEMENT FINDINGS**

2007-01 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 2007 fee account. In addition, the Sheriff deposited 2007 fee receipts to the 2006 fee account and the 2006 tax account. During our testing of receipts and disbursements, we noted the following known errors:

- 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 carrying concealed 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 actually posted to the 2006 receipts ledger.
- A total of \$14,920 of calendar year 2007 receipts were not accounted for in the Sheriff's 2007 receipts ledger and were deposited to the 2006 tax account. These included \$3,611 of state payments, \$10,130 for serving papers, \$675 for transporting prisoners, \$179 for serving papers, \$95 for auto inspections, and \$230 for carrying concealed deadly weapon licenses.
- A total of \$10,555 receipts for serving papers were deposited to the 2007 fee account but were not accounted for on the Sheriff's 2007 receipts ledger.
- A refund of \$300 for a Sheriff's conference was not posted as a reduction in the Sheriff's 2007 fee account receipts ledger and disbursements ledger.
- Bank note origination fees of \$625 were not accounted for in the Sheriff's 2007 fee account receipts ledger or disbursements ledger.
- A total of \$23,890 in deposit errors, overpayments, and interest corrections for tax commission receipts were discovered by auditors.
- A total of \$1,532 was not transferred from the 2006 tax account to the Sheriff's 2007 fee account. These included sheriff's advertising fees of \$50, ten percent (10%) tax penalty fees of \$48, and returned check fees of \$148 and interest of \$1,286. Since these were not transferred they were not posted to the receipts ledger.
- One State telecom payment of \$273 that was deposited to the 2005 tax account was not transferred to the 2007 fee account and therefore was not posted to the receipts ledger.
- One 2007 school deputy reimbursement of \$6,539 that was deposited to the 2006 tax account was not transferred to the 2007 fee account and therefore was not posted to the receipts ledger.
- A total of \$1,374 in payments were not posted to the Sheriff's disbursements ledger. These included bank finance charges of \$60, Non-sufficient fund charges of \$1,201 that were written by the Sheriff's office, and credit card over limit fees of \$113.
- Interest earned on the Sheriff's 2007 fee account for the period January through December 2007 totaling \$188 was not posted to the receipts ledger.
- Three returned check fees totaling \$30 were not posted to the Sheriff's receipts ledger and disbursements ledger.
- One court ordered payment in the amount of \$275 was not posted to the Sheriff's receipts ledger.
- One transporting prisoner payment of \$90 that was deposited was not posted to the Sheriff's receipts ledger.

WHITLEY COUNTY  
LAWRENCE HODGE, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2007  
(Continued)

**FINANCIAL STATEMENT FINDINGS (Continued)**

2007-01    The Sheriff Should Maintain Accurate Accounting Records And Account For All Receipts In The Appropriate Year (Continued)

- Vacation pay of \$1,463 was posted to the disbursements ledger twice.

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 the following: \$55,342 from his 2006 fee account to the 2007 fee account; \$22,991 from his 2006 tax account to the 2007 fee account; and \$273 from his 2005 tax account to his 2007 fee account for the known erroneous deposit 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. He will transfer the following: \$50,647 from his 2006 fee account to the 2007 fee account; \$22,991 from his 2006 tax account to the 2007 fee account; and \$273 from his 2005 tax account to his 2007 fee account for the known erroneous deposit stated above.*



WHITLEY COUNTY  
 LAWRENCE HODGE, SHERIFF  
 COMMENTS AND RECOMMENDATIONS  
 For The Year Ended December 31, 2007  
 (Continued)

**FINANCIAL STATEMENT FINDINGS (Continued)**

2007-02 The Sheriff Lacked Controls Over Deposits And Did Not Provide Adequate Oversight

During the review of receipts and bank deposits, we noted that Sheriff's office personnel only list the total amount of checks deposited on the bank deposit ticket that is taken to the bank. As a result, auditors obtained deposit detail from the bank and found several discrepancies as noted below.

The deposit ticket taken to the bank dated August 28, 2007 stated, "checks \$6,565" and "cash \$11". The Sheriff's copy of the deposit ticket listed the following checks and no cash:

Comm. of KY Transport	\$ 270
Comm. Of KY Bailiff	1,636
Summons	1,480
Inspections	100
Accident Reports	60
CCDW & Picture	145
Fiscal Court Transport	1,180
Comm. of KY Court Cost	1,705
Total	\$ 6,576

When deposit detail was obtained from the bank it showed that this deposit was made up of the following cash and 98 checks listed by category:

Summons	\$ 5,230
Inspections	5
Accident Reports	10
CCDW	140
Fiscal Court Transport	1,180
Cash	11
Total	\$ 6,576

Subsequent investigation found that the Commonwealth of Kentucky check of \$1,705 listed on the Sheriff's copy (**see above**) of the deposit ticket was actually deposited into the 2006 Tax Account, instead of the 2007 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 \$1,540, which contributed to the known deficit of \$10,628 in his official 2007 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.

WHITLEY COUNTY  
LAWRENCE HODGE, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2007  
(Continued)

**FINANCIAL STATEMENT FINDINGS (Continued)**

2007-02 The Sheriff Lacked Controls Over Deposits And Did Not Provide Adequate Oversight (Continued)

We recommend the Sheriff immediately implement controls over the deposit process to assure deposits are made daily and into 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 and into the correct account, and accurately reflect what is deposited. Deposits will include all receipts accepted by the Sheriff's office for that day to comply with KRS 68.210.*

2007-03 The Sheriff Did Not Deposit Receipts Of The Office In A Timely Manner

During the test of daily receipts we noted that daily receipts are not properly accounted for. Auditors noted the following for the random date chosen, October 3, 2007.

- The daily checkout sheet included receipts from October 1, 2007 thru October 8, 2007.
- The daily checkout sheet did not agree to the receipts issued. The daily checkout sheet included an additional \$180 of revenues for vehicle inspections.
- The revenues for the daily checkout sheet cleared the bank on October 5<sup>th</sup> and October 17<sup>th</sup>.

During the confirmation of State Fee and Fiscal Court receipts we also noted the following:

- Fourteen state fee receipts were not deposited in a timely manner. One of the late receipts was not deposited until one hundred seventeen (117) business days after the check was issued.
- Ten fiscal court receipts out of a total of seventeen (10 out of 17) were not deposited within three (3) business days.

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 \$1,540, which contributed to the known deficit of \$10,628 in his official 2007 fee account.

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.

WHITLEY COUNTY  
LAWRENCE HODGE, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2007  
(Continued)

**FINANCIAL STATEMENT FINDINGS (Continued)**

2007-03 The Sheriff Did Not Deposit Receipts Of The Office In A Timely Manner (Continued)

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.

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

2007-04 The Sheriff Had A Known Deficit Of \$10,628 In His Official 2007 Fee Account

Because of known un-deposited receipts of \$1,540, disallowed expenditures of \$2,549, and a \$6,539 bank error for a stop payment removed twice, the Sheriff had a known deficit of \$10,628. 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, late charges, telephone payment fees, and over the limit fees totaling \$1,248 for a Visa Credit Card
- Overdraft charges totaling \$1,201 were paid on the official 2007 fee bank account
- Late fees totaling \$100 were paid on one bank loan.

Additionally, the Sheriff did not properly reconcile the bank account resulting in the \$6,539 bank error not being caught and corrected.

When receipts go un-deposited, monies are spent on disallowed expenditures, and reconciliations are not completed properly, 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 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 and prepare timely, correct reconciliations. 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, 2007  
(Continued)

**FINANCIAL STATEMENT FINDINGS (Continued)**

2007-04 The Sheriff Had A Known Deficit Of \$10,628 In His Official 2007 Fee Account (Continued)

We recommend the Sheriff deposit personal funds of \$10,628 to cover the known deficit in his official 2007 fee account. We further recommend the Sheriff take immediate steps to ensure all monies received by his office are immediately deposited into an official account that is subsequently reconciled and that monies spent on the office are for allowable expenditures only.

*Sheriff's Response: The Whitley County Sheriff will make every effort to comply with this recommendation as soon as possible if needed. He has taken immediate steps to ensure all monies received by his office are immediately deposited into an official account that is subsequently reconciled and that monies spent on the office are for allowable expenditures only.*

2007-05 The Sheriff Should Submit Known Excess Fees To The Fiscal Court

On June 13, 2008, the Sheriff presented his annual financial statement to the fiscal court for approval. However, no excess fees were paid. Based on available records, known excess fees of \$134,428 are due to the fiscal court for 2007 excess fees. Auditors are unable to determine if this is a reasonable amount because of a lack of adequate record keeping in the Sheriff's office. Had adequate records been available, excess fees may have changed and possibly increased.

As has been stated in numerous findings, receipts of the Sheriff's office are often not deposited into the correct account, and sometimes are not deposited at all. Record keeping is inadequate and bank accounts are commingled throughout the year. Because of this, the Sheriff is unable to pay excess fees due the fiscal court as required by law.

KRS 134.310 (6) requires excess fees to be paid at the time the annual settlement is submitted, subject to correction by audit.

We recommend the Sheriff pay known excess fees of \$134,428 to the fiscal court. We further recommend the Sheriff comply with KRS 134.310 by paying to the fiscal court any future excess fees in his custody at the time he presents his annual settlement.

*Sheriff's Response: The Whitley County Sheriff will make every reasonable effort to comply with this recommendation if necessary. He will comply with KRS 134.310 by paying to the fiscal court any future excess fees in his custody at the time he presents his annual settlement.*

WHITLEY COUNTY  
LAWRENCE HODGE, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2007  
(Continued)

**FINANCIAL STATEMENT FINDINGS (Continued)**

2007-06 The Sheriff Did Not Provide Adequate Oversight For Fuel Purchases Made With Credit Cards

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The Sheriff did not provide adequate oversight over \$69,572 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 the majority of the time 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 vendors 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.

*Sheriff's Response: As stated elsewhere herein the Whitley County Sheriff has implemented steps to adequately safeguard the cards in use. Each deputy will be held accountable to maintain the original vendors receipt and will 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.*

WHITLEY COUNTY  
LAWRENCE HODGE, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2007  
(Continued)

**FINANCIAL STATEMENT FINDINGS (Continued)**

2007-07 The Sheriff Should Maintain Proper Documentation And Properly Account For And Report All Payroll And Related Items

The Sheriff did not maintain adequate documentation for time worked and leave taken for two office employees as time sheets or time cards were not on file for these employees.

Additionally, in calendar year 2007 the Sheriff paid one (1) office personnel \$1,463 for unused vacation time, which is allowable according to the County's administrative code. However, since this person is one of the office personnel the Sheriff did not maintain time sheets or time cards for, it couldn't be determined if services were rendered or if vacation time was not used.

Also, the Sheriff under reported the earned income for one (1) employee by \$645. The Sheriff correctly posted all employee payments to the total payroll on his disbursements ledger and subsequent financial statement. However, one employee's paycheck for one (1) period was not calculated in that employees earned income. Therefore, that employee's earned income was reported incorrectly on his Federal Wage and Tax Statement (W-2).

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

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 resign 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. Additionally, if an employee is paid for unused leave, as stated above, the employee may be paid in excess of what is actually owed.

Also, in the case of incorrect reporting, the Sheriff puts the office as well as employees at risk of payment for penalties and interest.

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.

Additionally, Section 3 of the Kentucky Constitution, clarified by OAG 79-448, requires payment to any person, whether employee or under personal service contract, to be made only after services have been rendered.

As in any office, accurate employee records are expected to be maintained for proper reporting to external agencies such as the IRS and the Kentucky Retirement System. We recommend the Sheriff comply with the above statute by keeping time sheets or time cards for all employees. We further recommend the Sheriff keep a record of vacation hours used and available for each employee.

WHITLEY COUNTY  
LAWRENCE HODGE, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2007  
(Continued)

**FINANCIAL STATEMENT FINDINGS (Continued)**

2007-07 The Sheriff Should Maintain Proper Documentation And Properly Account For And Report All Payroll And Related Items (Continued)

We also recommend that the Sheriff amend the employee's Federal Wage and Tax Statement and in the future the Sheriff verify each employee's wages before submitting the Wage and Tax Statement.

*Sheriff's Response: The Whitley County Sheriff has implemented steps to adequately safeguard the cards in use. Each deputy will be held accountable to maintain the original vendors 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.*

2007-08 The Sheriff Did Not Maintain Proper Documentation For Disbursements Of The Drug And Alcohol Account

During 2007, the Sheriff did not maintain adequate documentation for 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 \$3,150 (**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 \$3,150, did not have any explanation in the hand written log for the disbursement.
- Overdraft charges totaling \$90, are deemed disallowed per **Funk v. Milliken, 317 S.W.2d 499 (KY 1958)**:

The Sheriff did not maintain minimum documentation as adopted by the Kentucky Sheriff's Association.

Because of this, the Sheriff may be required to pay, with personal funds, for those expenditures that do not have proper documentation.

WHITLEY COUNTY  
LAWRENCE HODGE, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2007  
(Continued)

**FINANCIAL STATEMENT FINDINGS (Continued)**

2007-08    The Sheriff Did Not Maintain Proper Documentation For Disbursements Of The Drug  
And Alcohol Account (Continued)

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 deposit personal funds of \$3,240 into his drug and alcohol account to reimburse the undocumented expenditures listed above as well as the overdraft charges deemed disallowed.

We also recommend the Sheriff implement the guidelines and forms to be utilized for Sheriffs' record keeping systems adopted by the Kentucky Sheriffs Association.

*Sheriff's Response: The Whitley County Sheriff will deposit personal funds of \$3,240 into his drug and alcohol account to reimburse the undocumented expenditures listed above as well as the overdraft charges deemed disallowed.*

*He will implement the guidelines and forms to be utilized for Sheriffs' record keeping systems adopted by the Kentucky Sheriffs Association.*

2007-09    The Sheriff Should Properly Account For Forfeitures Received In Accordance With  
KRS 218A.420

The Sheriff's Department (the department) was awarded a 2005 Ford Mustang and \$30,549 in cash seized as part of a drug-related arrest. In accordance with the court order dated July 31, 2007, the vehicle, cash, and all of the items of personal property recovered by the department were to be forfeited to the department and/or other entities for disposition pursuant to the Kentucky Revised Statutes.

The Sheriff's Department advertised for bids for the purchase of the 2005 Ford Mustang. The NADA value of the vehicle as of the court order date was \$13,475. Per the Sheriff's bookkeeper, only one (1) bid was received in the amount of \$5,500. Records obtained from the Automated Vehicle Information System (AVIS) in the County Clerk's Office, and an affidavit signed by the Sheriff, indicated that the vehicle was sold to an individual on November 19, 2007 for \$1,000. No funds were deposited to the Sheriff's drug account at this time. Also the individual to whom the vehicle was transferred was not the person that had submitted the bid. On December 12, 2007, this vehicle was then transferred to an auto dealer. Bank records indicate that a deposit was made to the Sheriff's drug account in the amount of \$5,500 dated December 11, 2007, which cleared on December 12, 2007.



WHITLEY COUNTY  
LAWRENCE HODGE, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2007  
(Continued)

**FINANCIAL STATEMENT FINDINGS (Continued)**

2007-09    The Sheriff Should Properly Account For Forfeitures Received In Accordance With KRS 218A.420 (Continued)

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As of the date of this audit report, the Sheriff has not, in accordance with KRS 218A.420(4), distributed amount due to the Office of the Attorney General.

Lack of controls over record keeping in the Sheriff's office and lack of any oversight by the Sheriff allowed this situation to occur.

The Sheriff may be in violation of law if he does not turn over in a timely manner, the forfeited funds to the appropriate external agency. Because other findings concerning commingling funds between accounts and lack of depositing receipts exist in this Sheriff's report, the possibility of the Sheriff being held personally liable for payment may also exist.

KRS 218A.420(4) states that coin, currency, or the proceeds from the sale of property forfeited shall be distributed as follows:

- (a) Eighty-five percent (85%) shall be paid to the law enforcement agency or agencies which seized the property, to be used for direct law enforcement purposes; and
- (b) Fifteen percent (15%) shall be paid to the Office of the Attorney General or, in the alternative, the fifteen percent (15%) shall be paid to the Prosecutors Advisory Council for deposit on behalf of the Commonwealth attorney or county attorney who has participated in the forfeiture proceeding, as determined by the court pursuant to subsection (9) of this section.

Based on the deposited amount for the sale of the vehicle, and the amount of cash forfeited to the Sheriff's department, we recommend the Sheriff distribute fifteen percent (\$5,407) of the total realized funds from the forfeiture to the Office of the Attorney General. We will also refer these findings to the Commonwealth Attorney to determine if further action is warranted due to the variance between the amount of funds received by the Sheriff and the sale price of the vehicle on the affidavit signed by the Sheriff.

*Sheriff's Response: The Whitley County Sheriff will distribute fifteen percent (\$5,407) of the total realized funds from the forfeiture to the Office of the Attorney General.*

WHITLEY COUNTY  
LAWRENCE HODGE, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2007  
(Continued)

**FINANCIAL STATEMENT FINDINGS (Continued)**

2007-10    The Sheriff's Office Lacked Adequate Segregation Of Duties Over All Accounting Functions

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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 \$10,628 in His Official 2007 Fee Account
- The Sheriff Did Not Make Timely Deposits and Did Not Provide Adequate Internal Controls Over the Process
- 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
- 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 Did Not Properly Account For Forfeitures Received in Accordance with KRS 218A.420

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.

WHITLEY COUNTY  
LAWRENCE HODGE, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2007  
(Continued)

**FINANCIAL STATEMENT FINDINGS (Continued)**

2007-10    The Sheriff's Office Lacked Adequate Segregation Of Duties Over All Accounting  
                  Functions (Continued)

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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.

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: To adequately protect against misappropriation of assets and/or inaccurate financial reporting, the Sheriff will 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. Additionally, the Sheriff will provide this oversight so as to comply and remedy the examples as set forth herein.*

*The Sheriff will adopt a formal administrative policy, which outlines job responsibilities, what is expected of each employee, and the type of documentation that will be maintained for the office.*

WHITLEY COUNTY  
LAWRENCE HODGE, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2007  
(Continued)

**FINANCIAL STATEMENT FINDINGS (Continued)**

2007-11 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 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 \$100 in late fee charges that were paid.
- The Sheriff did not prepare and submit his fourth quarter financial report as required by the Instructional Guide For County Budget Preparation and State Local Finance Officer Policy Manual.

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 who 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.*

