

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

**For The Year Ended
December 31, 2010**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FORMER WHITLEY COUNTY SHERIFF

**For The Year Ended
December 31, 2010**

The Auditor of Public Accounts was engaged to audit the fee account activities of the former Whitley County Sheriff's Office for the year ended December 31, 2010 and we have issued a disclaimer of opinion.

Report Comments:

- 2010-01 The Former Sheriff Did Not Maintain Accurate Accounting Records
- 2010-02 The Former Sheriff Lacked Adequate Internal Controls Over Overtime And Holiday Pay
- 2010-03 The Former Sheriff Paid Unused Vacation Benefits Which Are Questionable
- 2010-04 The Former Sheriff Did Not Properly Account For Vehicle Repairs And Maintenance Expenditures
- 2010-05 The Former Sheriff Should Have Provided Adequate Oversight For All Fuel Purchases Made With Credit Cards
- 2010-06 The Former Sheriff's Office Lacked Adequate Segregation Of Duties Over Accounting Functions
- 2010-07 All Whitley County Assets Should Be Titled In The Name Of The County
- 2010-08 The Former Sheriff Expended Seized Assets Prior To Forfeiture By The Court And Has Not Paid Amounts Due To Others From Forfeitures
- 2010-09 The Former Sheriff Did Not Maintain Proper Documentation For Receipts And Disbursements Of The Drug And Alcohol Account
- 2010-10 The Former Sheriff Should Deposit Personal Funds To The Drug And Alcohol Account For All Current And Prior Year Disallowed Expenditures
- 2010-11 The Former Sheriff Did Not Take Corrective Action For Prior Year Findings
- 2010-12 The Former Sheriff Should Submit Additional Excess Fees To The Fiscal Court

Deposits:

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

CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT 1

STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS 3

NOTES TO FINANCIAL STATEMENT 6

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 10

COMMENTS AND RECOMMENDATIONS..... 15



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Pat White, Jr., Whitley County Judge/Executive
The Honorable Lawrence Hodge, Former Whitley County Sheriff
The Honorable Colan Harrell, 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 former Sheriff of Whitley County, Kentucky, for the year ended December 31, 2010. This financial statement is the responsibility of the former Sheriff.

As further explained in the accompanying comments and recommendations, the former Whitley County Sheriff did not maintain adequate accounting records of fee account revenues and expenditures for the 2010 calendar year. The former Sheriff's financial records do not permit the application of other auditing procedures to the fee account revenues and expenditures. Furthermore, discrepancies in the former 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 a management representation letter from the former Sheriff or a legal representation letter from the County Attorney.

Since the former 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 former Sheriff's statement of revenues, expenditures and excess fees - regulatory basis for the 2010 calendar year.

In accordance with Government Auditing Standards, we have also issued our report dated June 10, 2011 on our consideration of the former Whitley County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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.



The Honorable Pat White, Jr., Whitley County Judge/Executive
The Honorable Lawrence Hodge, Former Whitley County Sheriff
The Honorable Colan Harrell, 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:

- 2010-01 The Former Sheriff Did Not Maintain Accurate Accounting Records
- 2010-02 The Former Sheriff Lacked Adequate Internal Controls Over Overtime And Holiday Pay
- 2010-03 The Former Sheriff Paid Unused Vacation Benefits Which Are Questionable
- 2010-04 The Former Sheriff Did Not Properly Account For Vehicle Repairs And Maintenance Expenditures
- 2010-05 The Former Sheriff Should Have Provided Adequate Oversight For All Fuel Purchases Made With Credit Cards
- 2010-06 The Former Sheriff's Office Lacked Adequate Segregation Of Duties Over Accounting Functions
- 2010-07 All Whitley County Assets Should Be Titled In The Name Of The County
- 2010-08 The Former Sheriff Expended Seized Assets Prior To Forfeiture By The Court And Has Not Paid Amounts Due To Others From Forfeitures
- 2010-09 The Former Sheriff Did Not Maintain Proper Documentation For Receipts And Disbursements Of The Drug And Alcohol Account
- 2010-10 The Former Sheriff Should Deposit Personal Funds To The Drug And Alcohol Account For All Current And Prior Year Disallowed Expenditures
- 2010-11 The Former Sheriff Did Not Take Corrective Action For Prior Year Findings
- 2010-12 The Former Sheriff Should Submit Additional Excess Fees To The Fiscal Court

This report is intended solely for the information and use of the former 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

June 10, 2011

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

For The Year Ended December 31, 2010

Revenues

Federal Grants		
U.S. Corps. Of Engineers	\$ 3,157	
U.S. Department of Forestry	<u>5,000</u>	\$ 8,157
State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)		39,032
State Fees For Services:		
Transporting Prisoners	22,396	
Court Security Services	14,148	
Sheriff Security Services - HB452	20,990	
Sumoning Witnesses	<u>60</u>	57,594
Circuit Court Clerk:		
Fines and Fees Collected	2,885	
Court Ordered Payments	<u>544</u>	3,429
Fiscal Court		
Contributions	470,888	
Juvenile Transports	33,135	
Accident Reimbursement	<u>1,200</u>	505,223
County Clerk - Delinquent Taxes		54,411
Commission On Taxes Collected		289,182
Fees Collected For Services:		
Arrest Fees	30	
Auto Inspections	10,939	
Accident and Police Reports	1,926	
Serving Papers	60,824	
Carrying Concealed Deadly Weapon Permits	8,721	
Transports	2,880	
School Resource Officer	<u>63,432</u>	148,752
Other:		
Tax Penalty - 10%	44,977	
Miscellaneous	<u>2,743</u>	47,720

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

WHITLEY COUNTY
LAWRENCE HODGE, FORMER SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2010
(Continued)

Revenues (Continued)

Interest Earned		\$	1,990
Borrowed Money:			
State Advancement	\$	140,000	
Bank Notes		71,262	211,262
			<hr/>
Total Revenues			1,366,752

Expenditures

Operating Expenditures:

Personnel Services-		
Deputies' Salaries	\$	476,806
KLEFPF Salaries		30,439
Employee Benefits-		
Employer's Share Social Security		43,212
Employer's Share Retirement		40,867
Employer's Share Hazardous Duty Retirement		109,993
Employer Paid Health Insurance		95,733
Employer Paid Dental Insurance		3,931
Unused Vacation Benefit Paid		9,205
Contracted Services-		
Advertising		713
Materials and Supplies-		
Office Materials and Supplies		4,868
Uniforms		993
Auto Expense-		
Gasoline		77,440
Maintenance and Repairs		24,198
Accident Vehicle Repairs		1,200
Other Charges-		
Dues		762
Postage		1,494
Summons - Other Counties		80

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

WHITLEY COUNTY
LAWRENCE HODGE, FORMER SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2010
(Continued)

Expenditures (Continued)

Operating Expenditures: (Continued)

Other Charges- (Continued)

Bond	\$	1,571	
Cell Phones		1,515	
Storage		840	
Gun/Supplies		550	
Prisoner Blood Kits		200	
Transports		3,730	
Miscellaneous		699	
			\$ 931,039

Debt Service:

State Advancement		140,000	
Notes		71,262	
Bank Note Fees		1,262	
Interest		3,622	
			216,146

Total Expenditures			\$ 1,147,185
Less: Disallowed Expenditures			275
Total Allowable Expenditures			1,146,910
Net Revenues			219,842
Less: Statutory Maximum			86,977
Excess Fees Due County for 2010			132,865
Payments to Fiscal Court - June 18, 2010		12,414	
December 10, 2010		55,000	
February 16, 2011		35,071	102,485
Balance Due Fiscal Court at Completion of Audit			\$ 30,380

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

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2010

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 2010 services
- Reimbursements for 2010 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2010

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, 2010
(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. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.16 percent for the first six months and 16.93 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 32.97 percent for the first six months and 33.25 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. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

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 former 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.

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2010
(Continued)

Note 3. Deposits (Continued)

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 former Whitley County Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of December 31, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Bank Loans

The former Sheriff received a bank loan of \$70,700 on January 7, 2010 for the purpose of operating expense. The terms of the loan agreement required one (1) payment due on July 8, 2010. The former Sheriff renewed the note on August 3, 2010 incurring an additional \$562 in bank documentation fees. The new terms of the loan agreement required two (2) consecutive payments beginning September 17, 2010 and continuing on the same day each month thereafter and one final balloon payment due on the maturity date of November 17, 2010. The former Sheriff paid a total of \$71,262 principal and \$3,622 of interest in four (4) payments. As of December 31, 2010 the balance of the loan was zero.

Note 5. Drug and Alcohol Account

Under the terms mandated by the Commonwealth of Kentucky, the former Whitley County Sheriff received proceeds from the confiscation, surrender, or sale of real and personal property involved in drug related convictions. These funds are to be used exclusively for direct law enforcement activities and are not considered part of excess fees. The beginning book balance as of January 1, 2010 was \$3,553. Receipts and expenditures were \$1 and \$3,554 respectively. The bank balance as of December 31, 2010 was \$0. Additionally, this account had uncollected receivables of \$1,750 and unpaid liabilities of \$5,442 from prior years transactions. As of December 31, 2010 the book balance for this account was in a deficit of \$3,692.

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, Former Whitley County Sheriff
The Honorable Colan Harrell, 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 former Whitley County Sheriff for the year ended December 31, 2010, and have issued our report thereon June 10, 2011, wherein we disclaimed an opinion on the financial statement because the former Sheriff failed to maintain adequate accounting records and lacked adequate internal controls resulting in a high audit risk. In addition, we were not provided with management and 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 former 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 former 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comments and recommendations as items 2010-01, 2010-06, 2010-10, and 2010-11 to be material weaknesses.

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards,
(Continued)

Internal Control Over Financial Reporting (Continued)

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying comments and recommendations as items 2010-02, 2010-03, 2010-04, 2010-05, and 2010-09 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the former Whitley County Sheriff's financial statement for the year ended December 31, 2010, 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 recommendation as items 2010-04, 2010-07, 2010-08, and 2010-12.

This report is intended solely for the information and use of management, the former Whitley County Sheriff, others within the entity, and the Whitley County Fiscal Court 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

June 10, 2011

COMMENTS AND RECOMMENDATIONS

WHITLEY COUNTY
LAWRENCE HODGE, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2010

FINANCIAL STATEMENT FINDINGS:

2010-01 The Former Sheriff Did Not Maintain Accurate Accounting Records

The former Sheriff did not maintain accurate financial records for the 2010 fee account. During our testing of receipts and disbursements we noted the following known errors:

- Bank note origination fees of \$1,262 were borrowed and repaid but were not posted to the former Sheriff's 2010 receipts or disbursements ledgers.
- An additional \$302 due from the 2009 tax account for commissions, interest and 10% add-on penalties was not posted to the receipts ledger.
- Interest earned on fee deposits after year end totaling \$36 was not posted to the receipts ledger.
- One payment to the former Sheriff from the County Clerk for delinquent taxes totaling \$12,414 was received and deposited by the fiscal court in error and was not included on the former Sheriff's receipts ledger. The former Sheriff's office was not aware of this missing payment. Since this was found during the audit, auditors adjusted the receipts ledgers and included this amount as excess fees paid to the fiscal court.
- One IRS refund of \$1,535 received during calendar year 2010 was deposited to the 2008 fee account and not accounted for on the 2010 receipts ledger. The 2008 fee audit had already been completed so this refund should have been deposited to the 2010 fee account. Auditors adjusted the 2010 receipts ledger and have included this amount as a receivable of the 2010 fee account due from the 2008 fee account.
- One voided check in the amount of \$75 was posted to the disbursements ledger.
- One refund due totaling \$50 was not included as a liability of the former Sheriff's financial statement.
- Adjustments for unexplained variances of \$208 and \$204 had to be made to the receipts and disbursements ledgers respectively to agree to the bank totals

In addition, auditors made numerous reclassifications to the receipts ledger to accurately reflect revenues. Adjustments were also made to the receipts and disbursements ledgers to remove refunds. All log sheets needed to confirm the number of legal papers served were discarded after year end. Therefore, auditors could not confirm these revenues were properly accounted for.

We recommend the former Sheriff make the necessary transfers to the 2010 fee account for the undistributed commission, interest, penalties, and deposit errors as stated above.

Former Sheriff's Response: No Response.

WHITLEY COUNTY
 LAWRENCE HODGE, FORMER SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended December 31, 2010
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2010-02 The Former Sheriff Lacked Adequate Internal Controls Over Overtime And Holiday Pay

During our testing of payroll we noted the following:

- For the pay period tested, six out of thirteen (6 of 13) deputies did not sign their timesheets.
- Full time employees were treated as salaried workers and received the same wages each pay period regardless of hours worked. Time sheets did not document lunch periods or additional hours for holidays worked.
- Auditors were not provided a complete set of timesheets for full time deputies. Timesheets for full time deputies were provided for January through August of 2010 only. Although timesheets for office personnel were on file for the entire year, many of these were not signed by either the employees or the employees' supervisor.

The former Sheriff previously stated that he followed the Whitley County Personnel Policy Manual. The County personnel policy manual states, "full time employees that are scheduled to work on News Years, Thanksgiving Day, Christmas Eve, and Christmas Day shall receive their regular rate of pay and Holiday Pay for these holidays."

Per the former Sheriff's bookkeeper, office employees and deputies took working lunches and additional hours or days off when they worked overtime or holidays. However, the former Sheriff did not maintain any evidence to support that statement. Since no evidence was available and since a complete set of time sheets were not made available, auditors could not determine if overtime or holiday wages were properly calculated.

Former Sheriff's Response: No Response.

2010-03 The Former Sheriff Paid Unused Vacation Benefits Which Are Questionable

The former Sheriff paid four employees for unused vacation time. This is allowable per the county personnel policy manual. Per the manual, the amount of vacation time per employee is determined by the number of years of continuous service and employees are to be paid for unused vacation days at the first pay period of the following year. However, as discussed in comment 2010-2, auditors were not provided a complete set of time sheets for full time deputies and many of the timesheets for office personnel were not signed by either the employees or the employees' supervisor. Therefore, auditors could not be certain how much pay for unused vacation time these employees were actually entitled to.

In addition, two of the four employees paid for unused vacation time received payment for more time than they would have been entitled to even if they did not use any vacation time during the year. Per the county's personnel policy manual full time employees with continuous service will be credited vacation days as follows:

WHITLEY COUNTY
 LAWRENCE HODGE, FORMER SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended December 31, 2010
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2010-03 The Former Sheriff Paid Unused Vacation Benefits Which Are Questionable
 (Continued)

1-2 years	48 hours
3-4 years	96 hours
5-6 years	112 hours
7-8 years	128 hours
9-10 years	144 hours
11+ years	160 hours

On December 10, 2010, one deputy was paid for 128 hours of unused vacation time. This deputy was hired in August of 2004 and would have had Six (6) years and four (4) months of continuous service as of December 10, 2010. Based on the county's personnel policy manual, this deputy should have only been paid for a maximum of 112 hours of unused vacation time.

On January 6, 2011, one office employee was paid for 96 hours of unused vacation time. This employee was hired in October of 2008 and would have had two (2) years and three (3) months of continuous service. Based on the county's manual, this employee should have been paid for a maximum of 48 hours of unused vacation time.

We recommend the former Sheriff consult with the fiscal court to determine if these payments were proper. If the court deems these overpayments improper, they will become disallowed expenditures subject to reimbursement by the former Sheriff personally. The disallowed amount would then be turned over to the fiscal court as additional excess fees.

Former Sheriff's Response: No Response.

2010-04 The Former Sheriff Did Not Properly Account For Vehicle Repair And Maintenance Expenditures

The former Sheriff did not properly account for vehicle repairs and maintenance disbursements. The following was noted during testing of the invoices:

- One (1) invoice totaling \$164 showed repair and maintenance performed on a vehicle which had been sold in 2004. This invoice did have a deputy's signature approving the service order.
- Auditors noted one unusual payment of \$275. The check for this disbursement was hand written whereas all other checks were typed. This check was made payable to an individual for cleaning and detailing the vehicles assigned to the former Sheriff and former chief deputy. Additionally, this disbursement did not have any supporting documentation. As a result, this expense has been disallowed.

WHITLEY COUNTY
 LAWRENCE HODGE, FORMER SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended December 31, 2010
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2010-04 The Former Sheriff Did Not Properly Account For Vehicle Repair And Maintenance Expenditures (Continued)

- Based on the invoice dates, the majority of the payments were not made within thirty days but the company did not charge any finance charges.

In Funk v. Milliken, 317 S. W. 2d 499 (Ky.1958), Kentucky's highest court ruled that county fee officials' expenditures of public funds will be allowed only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not primarily personal in nature.

We recommend the former Sheriff personally deposit \$275 to the 2010 fee account for the expenditure disallowed due to lack of documentation. We also recommend the former Sheriff consult with the fiscal court to determine if the \$164 payment for repairs to the vehicle sold in 2004 was proper. If the fiscal court deems this expenditure improper, it will become a disallowed expenditure subject to reimbursement by the former Sheriff personally. The disallowed amount would then be turned over to the fiscal court as excess fees.

Former Sheriff's Response: No Response.

2010-05 The Former Sheriff Should Have Provided Adequate Oversight For All Fuel Purchases Made With Credit Cards

During the test of credit card fuel purchases, auditors were provided copies of statements from the vendor which details each employee's name along with their purchases including time, amount and odometer reading, from which payments were made. The former Sheriff previously stated he required deputies to retain the original invoices for fuel purchases. However, for the months tested, there were several charges not substantiated. For the month of October 2010, there were forty-five (45) unsubstantiated fuel charges totaling \$1,886. For the Month of February, 2010 there were twenty-two (22) unsubstantiated fuel charges totaled \$733. These fuel purchases were made by nine (9) deputies and the former Sheriff.

Auditors also noted there were several unusual charges. For example, on October 10, at 16:13 (4:13pm), a deputy's card was used to purchase 17 gallons of fuel, then three minutes later was used to purchase seven gallons of fuel. On February 10, one deputy's card was used four times to purchase a total of fifty (50) gallons of fuel: at 16:05 (4:05 pm), eight gallons of fuel were purchased, and twelve minutes later 14 gallons of fuel were purchased, then two minutes later another 17 gallons of fuel were purchased, then four hours later another 11 gallons of fuel were purchased. On February 12, at 21:27 (9:27pm), a deputy purchased 15 gallons of fuel, then ten minutes later purchased another 15 gallons of fuel. Only the first purchase of 15 gallons of fuel was documented. No explanation was found for any of the multiple purchases above.

Auditors also found that several deputies would note the fuel was for another individual on the fuel ticket. However, the individual named was not a paid deputy at the time of the fuel purchase.

Former Sheriff's Response: No Response.

WHITLEY COUNTY
LAWRENCE HODGE, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2010
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2010-06 The Former Sheriff's Office Lacked Adequate Segregation Of Duties Over Accounting Functions

During review of internal controls, we noted the former Sheriff's bookkeeper received and recorded cash, opened and processed mail, prepared daily checkout sheets, made daily bank deposits, prepared and posted disbursement checks (including payroll), reconciled bank records to the ledgers and prepared all monthly reports. The former Sheriff did not provide oversight or any type of compensating controls to offset this.

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

- The Former Sheriff Did Not Maintain Accurate Accounting Records
- The Former Sheriff Did Not Maintain Timesheets For All Employees
- The Former Sheriff Paid Unused Vacation Benefits Which Are Questionable
- The Former Sheriff Did Not Maintain Proper Documentation For Receipts And Disbursements of The Drug And Alcohol Account

A segregation of duties over the various accounting functions or the implementation of strong compensating controls when 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.

Former Sheriff's Response: No Response.

2010-07 All Whitley County Assets Should Be Titled In The Name Of The County

During our review of prior year audit findings, auditors noted that vehicles purchased were titled in the name of the Whitley County Sheriff. According to the Automated Vehicle Identification System (AVIS) in the County Clerk's office, 14 of the 28 vehicles insured by the Fiscal Court were registered to the Whitley County Sheriff's Department. In addition to the previously mentioned vehicles, we found 19 additional vehicles, 14 vehicles registered to the Whitley County Sheriff's Department and five registered to the Whitley County Fiscal Court, which were not insured during 2009. Auditors were able to determine that 16 of the cars that were not insured were wrecked. The other three were old and are presumed junked since the Sheriff's Department or Fiscal Court had no documentation for these.

The Whitley County Fiscal Court maintained automotive insurance on the Sheriff's Department vehicles. In addition, the Fiscal Court contributed a substantial amount of funds to the former Sheriff's office. Without those contributions, the vehicle purchases would not have been possible. Therefore, we consider these vehicles as being purchased with county funds. All purchases made with county funds should be held in the name of the Whitley County Fiscal Court.

WHITLEY COUNTY
LAWRENCE HODGE, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2010
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2010-07 All Whitley County Assets Should Be Titled In The Name Of The County (Continued)

The former Sheriff should have titled vehicles, and any other property, purchased with county funds in the name of the county.

Former Sheriff's Response: No Response.

2010-08 The Former Sheriff Expended Seized Assets Prior To Forfeiture By The Court And Has Not Paid Amounts Due To Others From Forfeitures

As of December 31, 2009, the former Sheriff's drug and alcohol account had a cash balance of \$3,553. During calendar year 2010, the former Sheriff earned \$1 in interest and expended \$3,554 from the drug and alcohol account, resulting in a cash balance of \$0 in the account as of December 31, 2010.

Based on prior year audits, as of December 31, 2010, this account had uncollected receivables of \$350 and \$1,400 due from the 2005 and 2007 tax accounts respectively, and unpaid liabilities totaling \$5,442 (\$5,407 due to the Office of the Attorney General for the County Attorney's portion of the sale of forfeited assets and \$35 due to a defendant). If the former Sheriff had transferred all amounts due from other accounts and paid all known liabilities, he would have had a deficit of \$3,692 in his drug and alcohol account at December 31, 2010. However, there should have been at least \$1,494 left in the account for funds seized in 2009 but not yet adjudicated.

Per KRS 218A.415(2)(a) and (b), the Sheriff may take custody of and remove property seized to an appropriate location for disposition in accordance with the law. Once the seized property is forfeited by court order, the Sheriff may retain the assets for official use or sell that which is not required to be destroyed by law.

We recommend the former Sheriff transfer \$350 from the 2005 tax account, \$1,400 from the 2007 tax account, and deposit personal funds of \$3,250 for calendar year 2010 disallowed expenditures (See Comment 2010-09). In addition, we recommend the former Sheriff deposit additional personal funds of \$13,543 for disallowed expenditures as determined by prior year audits (See Comment 2010-10) and pay amounts due others (\$5,442) as noted above. The remaining balance of \$13,101 should then be transferred to the new Sheriff. It should be noted that we cannot be certain that all funds seized have been properly deposited and accounted for.

Former Sheriff's Response: No Response.

WHITLEY COUNTY
LAWRENCE HODGE, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2010
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2010-09 The Former Sheriff Did Not Maintain Proper Documentation For Receipts And Disbursements Of The Drug And Alcohol Account

During calendar year 2010, the former Sheriff did not maintain adequate documentation for receipts and disbursements of the drug and alcohol account. The former bookkeeper stated that the former Sheriff had implemented the guidelines and forms to be utilized for Sheriffs' record keeping systems adopted by the Kentucky Sheriffs Association as recommended in the prior year audits. However, this information was not made available to auditors. Copies of sheets provided to the auditors as documentation for "drug buy" expenditures were not legible and no other documentation was made available.

We noted a total of eight (8) checks totaling \$3,250 issued to the former Sheriff from the drug and alcohol account. Five (5) of these checks totaling \$2,500 were cashed at local banks or businesses to be used for undercover operations, such as payments to informants or making drug and alcohol buys. Three (3) of these checks totaling \$750 were also cashed at a local bank and included a memo indicating that they were for reimbursement of buy money used for three different cases. No signed documentation was made available to auditors to show that any of these checks cashed were actually used for these purposes. In addition, no receipts ledger was maintained for the drug and alcohol account. As a result, we have disallowed \$3,250 of undocumented drug and alcohol account disbursements discussed above.

We recommend the former Sheriff reimburse the drug and alcohol account \$3,250 in personal funds.

Former Sheriff's Response: No Response.

2009-10 The Former Sheriff Should Deposit Personal Funds To The Drug And Alcohol Account For All Current and Prior Year Disallowed Expenditures

As of December 31, 2010, the former Sheriff had not deposited any personal funds to reimburse the drug and alcohol account for disallowed expenditures as determined by prior year audits. For calendar years 2005, 2006, 2007, 2008, and 2009, we recommended the former Sheriff deposit personal funds of \$1,115, \$1,900, \$3,240, \$162, and \$7,126 respectively due to a lack of documentation for expenditures made from the drug and alcohol account. In addition the former Sheriff should deposit personal funds of \$3,250 for 2010 disallowed expenditures (See comment 2010-09).

We recommend the former Sheriff deposit a total of \$16,793, which includes \$3,250 mentioned in comment 2010-09, to the drug and alcohol account from personal funds. The Sheriff should then collect from and pay amounts due others as noted in comment 2010-08.

Former Sheriff's Response: No Response.

WHITLEY COUNTY
LAWRENCE HODGE, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2010
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2010-11 The Former Sheriff Did Not Take Corrective Action For Prior Year Findings

During the 2010 fee audit we followed up on the prior year audit findings to determine whether the former Sheriff had deposited all deficit amounts from personal funds, collected all receivables, and paid all liabilities of the accounts. We obtained and reviewed bank statements for the 2005, 2006, 2007, 2008, and 2009 fee accounts from the dates the audits were completed through February 28, 2011. We noted the following:

- As of February 28, 2011, the former Sheriff's 2005 fee account had a balance of \$8,746. This balance included additional interest of \$43 earned on the account balance since the 2005 fee audit was completed which should be paid to the fiscal court as additional excess fees. Based on our follow-up of the 2005 audit, receivables of \$1,971 remained uncollected and liabilities totaling \$13,477 had not been paid. Included in these unpaid liabilities is \$13,363 in excess fees due to the fiscal court. In addition, the former Sheriff had not deposited personal funds to eliminate the reported known deficit of \$2,803.
- As of February 28, 2011, the former Sheriff's 2006 fee account had a balance of \$2,035. This balance included \$10 in additional interest earned on the account balance since the 2006 fee audit was completed which should be paid to the fiscal court as additional excess fees. Based on our follow-up of the 2006 audit, receivables of \$19,546 remained uncollected and liabilities totaling \$62,195 had not been paid. In addition, the former Sheriff had not deposited personal funds to eliminate the reported known deficit of \$40,624.
- The former Sheriff used the same bank account to account for the 2007 and 2008 fees. As of February 28, 2011, this account had a balance of \$6,979. This balance included additional interest of \$10 earned on the account balance since the 2007 and 2008 fee audits were completed which should be paid to the fiscal court as additional excess fees. We also noted that the former Sheriff had subsequently deposited a state refund of \$51 for overpayment of 2008 taxes and an unidentified U.S. Treasury payment in the amount of \$1,535 to this account in error. These payments should be transferred to the 2008 tax and 2010 fee accounts respectively. Based on our follow-up of the 2007 and 2008 fee audits, receivables of \$169,070 had not been transferred or collected and liabilities totaling \$191,978 had not been paid. Included in the liabilities was a total of \$180,489 in excess fees due to the fiscal court. In addition, the former sheriff had not deposited personal funds to eliminate the reported known deficit of \$15,054. The former Sheriff paid an additional \$2,471 from the account for payroll withholdings which should have been paid personally by a former employee increasing the known deficit to a total of \$17,525.

WHITLEY COUNTY
LAWRENCE HODGE, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2010
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2010-11 The Former Sheriff Did Not Take Corrective Action For Prior Year Findings
(Continued)

- As of February 28, 2011, the former Sheriff's 2009 fee account had a balance of \$8,085. This balance included \$7 in additional interest earned on the account since the 2009 audit was completed. This additional interest should be paid to the fiscal court as additional excess fees. Based on our follow-up of the 2009 audit, receivables of \$14,266 remained uncollected and a liability of \$22,344 had not been paid. The liability represents the balance of excess fees due to the fiscal court.

We recommend the former Sheriff take action to close all prior year fee accounts by depositing personal funds for all deficit amounts, making all appropriate transfers between accounts, collecting all other receivables, and paying all liabilities.

Former Sheriff's Response: No Response.

2010-12 The Former Sheriff Should Submit Additional Excess Fees To The Fiscal Court

On February 15, 2011, the former Sheriff's bookkeeper presented his annual settlement to the fiscal court for approval. Excess fees per this annual settlement were \$63,274 and the former Sheriff made a partial payment of \$35,071 with a check dated February 13, 2011. The former Sheriff's financial statement included uncollected receivables and unpaid obligations that would account for the difference of \$28,203 between the amount due the fiscal court and the amount paid.

However, based on our audit, known excess fees for calendar year 2010 totaled \$132,865 instead of \$63,274 as explained further in the comment. We determined that one (1) payment received from the fiscal court in the amount of \$55,000 was counted as a loan and was subsequently repaid to the fiscal court. In addition, one (1) delinquent tax payment to the former Sheriff's office from the county clerk in the amount of \$12,414 was incorrectly received and deposited by the fiscal court. This payment was not refunded to the former Sheriff's office. Since the fiscal court is not allowed to loan funds to the Sheriff's office and since the delinquent tax payment should have gone to the former Sheriff's office, we have adjusted the former Sheriff's receipts ledger to include these payments as operating receipts and also excess fee payments. Therefore, additional excess fees of \$30,380 are due to the fiscal court for calendar year 2010 as determined by the audit.

As stated in comment 2010-01, the former Sheriff's accounting records were not accurate. We have adjusted the 2010 fee receipts and disbursements ledgers for known errors but cannot be certain that all receipts and disbursements have been properly accounted for.

We recommend the former Sheriff collect all receivables, including amounts due from other accounts, pay all obligations due others, and then pay the additional excess fee of \$30,380 to the fiscal court.

Former Sheriff's Response: No Response.

