# REPORT OF THE AUDIT OF THE MUHLENBERG COUNTY SHERIFF

**For The Year Ended**
**December 31, 2002**


**EDWARD B. HATCHETT, JR.**
**AUDITOR OF PUBLIC ACCOUNTS**
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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Debra Eucker, Commissioner, Department of Law, Revenue Cabinet
Honorable Rodney Kirtley, Muhlenberg County Judge/Executive
Honorable Jerry D. Mayhugh, Muhlenberg County Sheriff
Members of the Muhlenberg County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the statement of receipts, disbursements, and excess fees of the Sheriff of Muhlenberg County, Kentucky, for the year ended December 31, 2002.

We engaged Ross & Company PLLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Ross & Company, PLLC evaluated the Muhlenberg County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure

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# REPORT OF THE AUDIT OF THE MUHLENBERG COUNTY SHERIFF

**For The Year Ended**
**December 31, 2002**

**ROSS & COMPANY, PLLC**
**Certified Public Accountants**
**800 Envoy Circle**
**Louisville, KY 40299**
**Telephone (502) 499-9088**
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**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE**
**MUHLENBERG COUNTY SHERIFF**

**For The Year Ended**
**December 31, 2002**

Ross and Company, PLLC, has completed the Muhlenberg County Sheriff's audit for the year ended December 31, 2002. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

Excess fees decreased by $78,578 from the prior calendar year, resulting in excess fees of $384,566 as of December 31, 2002. Revenues increased by $70,282 from the prior year and disbursements increased by 8,296.

**Report Comments:**

- The Sheriff Should Have Required Depository Institutions to Pledge Or Provide Additional Collateral Of $761,207 To Protect Deposits
- Lacks Adequate Segregation Of Duties

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Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Sheriff of Muhlenberg County, Kentucky, for the year ended December 31, 2002. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Sheriff for the year ended December 31, 2002, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated November 12, 2003, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Debra Eucker, Commissioner, Department of Law, Revenue Cabinet
Honorable Rodney Kirtley, Muhlenberg County Judge/Executive
Honorable Jerry D. Mayhugh, Muhlenberg County Sheriff
Members of the Muhlenberg County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Have Required Depository Institutions to Pledge Or Provide Additional Collateral Of $761,207 To Protect Deposits
- Lacks Adequate Segregation Of Duties

Respectfully submitted,

Ross and Company, PLLC

Audit fieldwork completed -
November 12, 2003

MUHLENBERG COUNTY
JERRY D. MAYHUGH, COUNTY SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Year Ended December 31, 2002

| Receipts | | |
|---|---|---|
| State Fees For Services: | | |
| Finance and Administration Cabinet | | $ 17,352 |
| Circuit Court Clerk: | | |
| Sheriff Security Service | $ 17,213 | |
| Fines and Fees Collected | 6,080 | 23,293 |
| Fiscal Court | | 74,118 |
| County Clerk - Delinquent Taxes | | 3,626 |
| Commission On Taxes Collected | | 235,283 |
| Fees Collected For Services: | | |
| Auto Inspections | $ 19,020 | |
| Accident and Police Reports | 326 | |
| Serving Papers | 33,189 | |
| Carrying Concealed Deadly Weapon Permits | 8,445 | 60,980 |
| Other: | | |
| Transporting Prisoners and Patients | $ 20,254 | |
| Sheriff's Fees | 46,634 | |
| Reimbursements | 29 | 66,917 |
| Interest Earned | | 908 |
| Total Receipts | | $ 482,477 |

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

MUHLENBERG COUNTY
JERRY D. MAYHUGH, COUNTY SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
For The Year Ended December 31, 2002
(Continued)

Disbursements

| | | | | |
|---|---|---|---|---|
| Operating Disbursements: | | | | |
| Other Charges- | | | | |
| Mileage and Transporting Fees | $ | 17,666 | | |
| Carrying Concealed Deadly Weapon Permits | | 5,605 | | |
| Reimbursements and Refunds | | 80 | | |
| Miscellaneous | | 444 | $ | 23,795 |
| Total Disbursements | | | $ | 23,795 |
| Net Receipts | | | $ | 458,682 |
| Less: Statutory Maximum | $ | 71,153 | | |
| Training Incentive Benefit | | 2,963 | | 74,116 |
| Excess Fees | | | $ | 384,566 |
| Excess Fees Due County for 2002 | | | $ | 384,566 |
| Payments to County Treasurer - Monthly | | | | 384,566 |
| Balance Due at Completion of Audit | | | $ | 0 |

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

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2002.

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 County 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).

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 multiple-employer public retirement system that covers all eligible full-time employees. 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 6.41 percent for the first six months of the year and 6.34 percent for the last six months of the year.

Note 2. Employee Retirement System (Continued)

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.

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.

Note 3. Deposits:

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and 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. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of December 9, 2002, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving $761,207 of public funds uninsured and unsecured.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of December 9, 2002.

| | Bank Balance |
|---|---|
| FDIC insurance | $ 100,000 |
| Collateralized with securities held by pledging depository institution in the county official's name | 4,749,606 |
| Uncollateralized and uninsured | 761,207 |
| Total | $ 5,610,813 |

Note 4: Fee Pooling

The Muhlenberg County Sheriff participates in a fee-pooling arrangement with the county. Presently money collected each month is taken to the County Judge/Executive's office and the Finance Officer issues a receipt to the Sheriff's office. The Muhlenberg County Fiscal Court, in turn, handles most disbursements for the Sheriff's Department.

Note 5: Drug Fund

The Sheriff's office maintains a drug fund consisting of confiscated funds. The beginning balance for this fund on January 1, 2002 was $43,449. Receipts for the year were $40,169, interest earned was $454, and disbursements were $12,918. The balance on December 31, 2002 was $71,154.

# COMMENTS AND RECOMMENDATIONS

MUHLENBERG COUNTY
JERRY D. MAYHUGH, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2002

STATE LAWS AND REGULATIONS:

The Sheriff Should Have Required Depository Institutions to Pledge Or Provide Additional Collateral Of $761,207 To Protect Deposits

On December 9, 2002, $761,207 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

*County Sheriff's Response:*

*None.*

INTERNAL CONTROL - MATERIAL WEAKNESSES:

Lacks Adequate Segregation Of Duties

Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. The Sheriff has assigned one deputy to perform all of the accounting functions of the office. We recommend that the Sheriff or someone else periodically review this work in order to create compensating controls to offset this internal control weakness. Examples of compensating controls are: 1) comparing source documents to the receipts and disbursements ledgers and then to the monthly reports; 2) having deposits compared to the receipts ledger; and 3) comparing checks to invoices and claims before they are mailed.

*County Sheriff's Response:*

*None.*

PRIOR YEAR FINDING:

The following comment has been corrected.

- The Sheriff And The Fiscal Court Should Review Its Policies On Paying Overtime And Mileage To Deputies Of The Sheriff's Office

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# REPORT ON COMPLIANCE
# AND ON INTERNAL CONTROL OVER FINANCIAL
# REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
# PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of receipts, disbursements, and excess fees of the Muhlenberg County Sheriff for the year ended December 31, 2002, and have issued our report thereon dated November 12, 2003. 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.

Compliance

As part of obtaining reasonable assurance about whether the Muhlenberg County Sheriff's financial statement for the year ended December 31, 2002, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Sheriff Should Have Required Depository Institutions to Pledge Or Provide Additional Collateral Of $761,207 To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Muhlenberg County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition.

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

Internal Control Over Financial Reporting (Continued)

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comments and recommendations.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

Ross and Company, PLLC

Audit fieldwork completed -
November 12, 2003