# REPORT OF THE AUDIT OF THE CARLISLE COUNTY SHERIFF

**For The Year Ended**
**December 31, 2003**


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CRIT LUALLEN
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To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable John Roberts, Carlisle County Judge/Executive
Honorable Steve McChristian, Carlisle County Sheriff
Members of the Carlisle County Fiscal Court

The enclosed report prepared by Peercy and Gray, PSC, Certified Public Accountants, presents the statement of revenues, expenditures, and excess fees of the County Sheriff of Carlisle County, Kentucky, for the year ended December 31, 2003.

We engaged Peercy and Gray, PSC to perform the audit of this statement. We worked closely with the firm during our report review process; Peercy and Gray, PSC evaluated the Carlisle County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Crit Luallen
Auditor of Public Accounts

Enclosure

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# REPORT OF THE AUDIT OF THE CARLISLE COUNTY SHERIFF

**For The Year Ended**
**December 31, 2003**

**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE**
**CARLISLE COUNTY SHERIFF**

**For The Year Ended**
**December 31, 2003**

Peercy and Gray, PSC has completed the Carlisle County Sheriff's audit for the year ended December 31, 2003. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting described in Note 1.

**Financial Condition:**

There were no excess fees in the prior and current audits. There was a deficit of $10 in the Sheriff's office at December 31, 2003. Revenues increased by $21,343 from the prior year and expenditures increased by $21,353.

**Report Comments:**

- The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of $141,843 To Protect Deposits
- The Sheriff Did Not Publish The Annual Settlement Within Sixty Days After The Close Of The Calendar Year In Accordance With KRS 424.220 (6)
- The County Sheriff Is Prohibited By Law From Receiving A Gift Or Donation From A Nongovernmental Entity
- Lacks Adequate Segregation Of Duties

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*Kevin P. Peercy, CPA*

*Linda Gray, CPA*

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***Members of the Kentucky Society of Certified Public Accountants***

The Honorable John Roberts, Carlisle County Judge/Executive
Honorable Steve McChristian, Carlisle County Sheriff
Members of the Carlisle County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Sheriff of Carlisle County, Kentucky, for the year ended December 31, 2003. 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 regulatory basis of accounting that demonstrates compliance with the 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 revenues, expenditures, and excess fees of the County Sheriff for the year ended December 31, 2003, in conformity with the regulatory basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated November 24, 2004, 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.

The Honorable John Roberts, Carlisle County Judge/Executive
Honorable Steve McChristian, Carlisle County Sheriff
Members of the Carlisle 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 $141,843 To Protect Deposits
- The Sheriff Did Not Publish The Annual Settlement Within Sixty Days After The Close Of The Calendar Year In Accordance With KRS 424.220 (6)
- The County Sheriff Is Prohibited By Law From Receiving A Gift Or Donation From A Nongovernmental Entity
- Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Sheriff and Fiscal Court of Carlisle 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,

Peercy and Gray, PSC

Peercy and Gray, PSC

Audit fieldwork completed -
November 24, 2004

CARLISLE COUNTY
STEVE MCCHRISTIAN, COUNTY SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2003

| Revenues | | | | |
|---|---|---|---|---|
| State - Kentucky Law Enforcement Foundation Program Fund | | | $ | 3,035 |
| State Fees For Services: | | | | |
| Finance and Administration Cabinet | $ | 7,190 | | |
| Security Fees | | 3,170 | | |
| Refunds | | 2,288 | | 12,648 |
| Circuit Court Clerk: | | | | |
| Fines and Fees Collected | | | | 1,140 |
| Fiscal Court | | | | 43,036 |
| County Clerk - Delinquent Taxes | | | | 821 |
| Commission On Taxes Collected | | | | 40,358 |
| Fees Collected For Services: | | | | |
| Auto Inspections | $ | 2,100 | | |
| Accident and Police Reports | | 322 | | |
| Serving Papers | | 3,180 | | |
| Carrying Concealed Deadly Weapon Permits | | 1,050 | | |
| 10% Add-on Fees and Advertising Fees | | 5,281 | | |
| Transporting Prisoners | | 34 | | 11,967 |
| Other: | | | | |
| Pictures | $ | 64 | | |
| Donations | | 1,985 | | |
| Deputy Support | | 8,550 | | |
| Miscellaneous | | 679 | | 11,278 |
| Interest Earned | | | | 14 |
| Borrowed Money: | | | | |
| State Advancement | | | | 12,300 |
| Total Revenues | | | $ | 136,597 |

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

CARLISLE COUNTY
STEVE MCCHRISTIAN, COUNTY SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2003
(Continued)

Expenditures

| | | |
|---|---|---|
| Operating Expenditures and Capital Outlay: | | |
| Personnel Services- | | |
| Deputies' Salaries | $ 18,720 | |
| Part-Time Salaries | 880 | |
| Other Salaries | 16,500 | |
| Kentucky Law Enforcement Foundation Program | 3,035 | |
| Contracted Services- | | |
| Advertising | 705 | |
| Computer Service | 249 | |
| Materials and Supplies- | | |
| Office Materials and Supplies | 1,667 | |
| Pictures | 335 | |
| Auto Expense- | | |
| Mileage | 15,442 | |
| Other Charges- | | |
| Cell Phone | 420 | |
| Dues | 300 | |
| Transporting Prisoners | 1,026 | |
| Postage | 107 | |
| Carrying Concealed Deadly Weapon Permits | 850 | |
| Miscellaneous | 62 | |
| Capital Outlay- | | |
| Office Equipment | 1,774 | |
| Debt Service: | | |
| State Advancement | 12,300 | |
| Total Expenditures | | $ 74,372 |
| Net Receipts | | $ 62,225 |
| Less: Statutory Maximum | | 59,199 |
| Excess Fees | | $ 3,026 |
| Less: Training Incentive Benefit | | 3,036 |
| Balance Due Sheriff at Completion of Audit | | $ (10) |

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

CARLISLE COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2003

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

Kentucky Revised Statute (KRS) 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Sheriff as determined by the audit. KRS 134.310 requires the County 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 2003 services
- Reimbursements for 2003 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2003

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 6.34 percent for the first six months of the year and 7.34 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.

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 11, 2003, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving $141,843 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 11, 2003.

| | Bank Balance |
|---|---|
| FDIC insured | $ 100,000 |
| Collateralized with securities held by pledging depository institution in the county official's name | 353,483 |
| Uncollateralized and uninsured | 141,843 |
| Total | $ 595,326 |

Note 4. Drug Fund

The Sheriff's Office established a Drug Fund on January 16 1990 with a contribution from the Carlisle County Fiscal Court. On January 1 2003, the balance was $2,654. During 2003, receipts totaled $20, leaving a balance of $2,674 as of December 31, 2003.

Note 5. STOPP Fund

The Sheriff's Office established a STOPP Fund on January 25, 2000 with a payment from the Circuit Clerk's Office authorized by the courts for the prevention of drug abuse in Carlisle County. On January 1, 2003, the balance was $441. During the calendar year 2003, there were no receipts and $441 was transferred to the fee account, leaving a balance of $0 as of December 31, 2003.

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# COMMENTS AND RECOMMENDATIONS

CARLISLE COUNTY
STEVE MCCHRISTIAN, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2003

STATE LAWS AND REGULATIONS:

The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of $141,843 To Protect Deposits

On December 11, 2003, $141,843 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.

*Sheriff's Response: None.*

The Sheriff Did Not Publish The Annual Settlement Within Sixty Days After The Close Of The Calendar Year In Accordance With KRS 424.220 (6)

KRS 424.220 (6) requires the publication of the annual settlement within 60 days of the close of the calendar year. The settlement was never published. We recommend the Sheriff publish the annual settlement within sixty days of the close of the calendar year.

*Sheriff's Response: None.*

The County Sheriff Is Prohibited By Law From Receiving A Gift Or Donation From A Nongovernmental Entity

The County Sheriff received gifts or donations from nongovernmental entities in the amount of $1,985. KRS 61.310 prohibits a Sheriff, as a peace officer, from receiving gifts and donations. The Sheriff should follow the action outlined in OAG 82-433 in order to comply with the law. We recommend the Sheriff consult with the County Attorney to implement the necessary corrective actions.

*Sheriff's Response: Due to grant funds that ended, donations were taken from county area people who were willing to donate cash to keep a deputy. We did not realize the proper procedures to accept donations. We have taken measures to remedy this for 2005. We will have the same write up for 2004, since we just found out about it through the 2003 audit.*

INTERNAL CONTROL - MATERIAL WEAKNESSES:

Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of 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. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically recount and deposit the daily receipts and compare the bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He could document this by initialing the bank deposit, daily checkout sheet, and receipts ledger.

CARLISLE COUNTY
STEVE MCCHRISTIAN, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2003
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES: (Continued)

Lacks Adequate Segregation Of Duties (Continued)

- The Sheriff should perform reconciliations of monthly reports to sourced documents and receipt and disbursement ledgers for accuracy. Any differences should be reconciled. The Sheriff could document this by initialing the monthly reports.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.

*Sheriff's Response: None.*

PRIOR YEAR:

The Sheriff had two comments in the prior audit that were not corrected. The annual settlement was not published and his office had a lack of segregation of duties. These findings are repeated in the current audit.

# 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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Honorable Steve McChristian, Carlisle County Sheriff
Members of the Carlisle County Fiscal Court

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 revenues, expenditures, and excess fees - regulatory basis of the Carlisle County Sheriff for the year ended December 31, 2003, and have issued our report thereon dated November 24, 2004. This was a special report on the County Sheriff's financial statement prepared in accordance with a basis of accounting other than generally accepted accounting principles. 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 Carlisle County Sheriff's financial statement for the year ended December 31, 2003, 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 instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of $141,843 To Protect Deposits
- The Sheriff Did Not Publish The Tax Settlement Within Sixty Days After The Close Of The Tax Year In Accordance With KRS 424.220 (6)
- The County Sheriff Is Prohibited By Law From Receiving A Gift Or Donation From A Nongovernmental Entity

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Carlisle 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.

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)

However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 parties.

Respectfully submitted,

Peercy and Gray, PSC

Peercy and Gray, PSC

Audit fieldwork completed -
November 24, 2004