REPORT OF THE AUDIT OF THE LESLIE COUNTY SHERIFF

For The Year Ended
December 31, 2009

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The Honorable Jimmy Sizemore, Leslie County Judge/Executive
The Honorable Paul Howard, Leslie County Sheriff
Members of the Leslie County Fiscal Court

The enclosed report prepared by Morgan-Franklin, LLC, presents the financial statement of revenues, expenditures, and excess fees - regulatory basis of the Leslie County Sheriff for the year ended December 31, 2009.

We engaged Morgan-Franklin, LLC to perform the audit of this financial statement. We worked closely with the firm during our report review process; Morgan-Franklin, LLC evaluated the Leslie 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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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE
LESLIE COUNTY SHERIFF

For The Year Ended
December 31, 2009

The Auditor of Public Accounts has completed the Leslie County Sheriff's audit for the year ended December 31, 2009. 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.

Financial Condition:

There were no excess fees reported for the years ended December 31, 2008 and 2009. Revenues increased by $78,342 from the prior year and expenditures increased by $82,076.

Report Comments:

2009-01 The Sheriff Should Not Have A Negative Balance In His Fee Account
2009-02 The Sheriff Should Not Spend Fee Monies On Disallowed Expenditures And Should Not Commingle Donation, Forfeiture, And Fee Account Monies
2009-03 The Sheriff's Office Lacks Adequate Controls Over Cell Phone Usage
2009-04 The Sheriff Does Not Have Adequate Controls Over Revenues
2009-05 The Sheriff Should Eliminate The Remaining Deficit Of $8,085 In The Prior Year
2009-06 The Sheriff's Office Lacks Adequate Segregation Of Duties
2009-07 The Sheriff Should Comply With KRS 68.210 By Strengthening Internal Controls Over Disbursements
2009-08 The Fourth Quarter Report Should Agree To Backup Documentation
2009-09 The Sheriff Should Eliminate The $10,800 Deficit In His Official 2009 Fee Account
2009-10 The Sheriff Should Comply With KRS 186A.115(1)(c) By Collecting Additional Fees For Offsite Vehicle Inspections
2009-11 The Sheriff Should Properly Account For Donations
2009-12 The Sheriff Should Maintain A Separate Bank Account For Drug Forfeiture Funds
2009-13 The Sheriff Paid Employees $10,000 In Bonuses At The End Of 2009
2009-14 The Sheriff Should Properly Account For The County Administration Fee
2009-15 The Sheriff Should Not Expend Monies From Any Fund Except In Accordance With His Approved Budget

Deposits:

The Sheriff's deposits as of December 11, 2009 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured $667,171

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

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The Honorable Jimmy Sizemore, Leslie County Judge/Executive
The Honorable Paul Howard, Leslie County Sheriff
Members of the Leslie County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Leslie County, Kentucky, for the year ended December 31, 2009. This financial statement is the responsibility of the 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 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 Sheriff for the year ended December 31, 2009, in conformity with the regulatory basis of accounting described in Note 1.

Our audit was conducted for the purpose of forming an opinion on the financial statement referred to in the first paragraph. 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. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

The Honorable Jimmy Sizemore, Leslie County Judge/Executive
The Honorable Paul Howard, Leslie County Sheriff
Members of the Leslie County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated July 25, 2011 on our consideration of the Leslie 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.

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

2009-01	The Sheriff Should Not Have A Negative Balance In His Fee Account
2009-02	The Sheriff Should Not Spend Fee Monies On Disallowed Expenditures And Should Not Commingle Donation, Forfeiture, And Fee Account Monies
2009-03	The Sheriff's Office Lacks Adequate Controls Over Cell Phone Usage
2009-04	The Sheriff Does Not Have Adequate Controls Over Revenues
2009-05	The Sheriff Should Eliminate The Remaining Deficit Of $8,085 In The Prior Year
2009-06	The Sheriff's Office Lacks Adequate Segregation Of Duties
2009-07	The Sheriff Should Comply With KRS 68.210 By Strengthening Internal Controls Over Disbursements
2009-08	The Fourth Quarter Report Should Agree To Backup Documentation
2009-09	The Sheriff Should Eliminate The $10,800 Deficit In His Official 2009 Fee Account
2009-10	The Sheriff Should Comply With KRS 186A.115(1)(c) By Collecting Additional Fees For Offsite Vehicle Inspections
2009-11	The Sheriff Should Properly Account For Donations
2009-12	The Sheriff Should Maintain A Separate Bank Account For Drug Forfeiture Funds
2009-13	The Sheriff Paid Employees $10,000 In Bonuses At The End Of 2009
2009-14	The Sheriff Should Properly Account For The County Administration Fee
2009-15	The Sheriff Should Not Expend Monies From Any Fund Except In Accordance With His Approved Budget

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

Morgan - Franklin, LLC

Morgan-Franklin, LLC

July 25, 2011

LESLIE COUNTY
PAUL HOWARD, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2009

Revenues		
Federal Grants		$ 16,107
State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)		10,658
Camp		2,540
State Fees For Services:		
Finance and Administration Cabinet	$ 12,148	
Telecommunications Tax	3,074	15,222
Circuit Court Clerk:		
Sheriff Security Service	852	
Fines and Fees Collected	500	
Court Ordered Payments	2,930	4,282
Fiscal Court		
Election Commissioner	5,795	
Contribution for Salaries	38,012	43,807
County Clerk - Delinquent Taxes		2,910
Commission On Taxes Collected		194,665
Fees Collected For Services:		
Auto Inspections	563	
Accident and Police Reports	328	
Mental Transports	1,740	
Serving Papers	16,831	
Carrying Concealed Deadly Weapon Permits	1,860	21,322
Other:		
Add-On Fees Collected on Taxes	35,866	
Miscellaneous	249	36,115
Interest Earned		47

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

LESLIE COUNTY
PAUL HOWARD, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2009
(Continued)

Revenues (Continued)

Borrowed Money:			
State Advancement			$ 90,000
Total Revenues			437,675

Expenditures

Operating Expenditures and Capital Outlay:			
Personnel Services-			
Deputies' Salaries	$ 218,409		
KLEFPF Gross Salaries	11,834	$ 230,243	
Contracted Services-			
Contracted Services	3,633		
Vehicle Maintenance and Repairs	310	3,943	
Materials and Supplies-			
Office Materials and Supplies	9,631		
Data Entry	3,438		
Equipment	2,665		
Uniforms	7,921		
Lab Testing	66		
Cell Phones	5,108		
Reimbursement	117		
Postage	521	29,467	
Other Charges-			
Dues	369		
Forfeiture	400		
Camp Expenditures	3,989		
Vehicle Expense	8,205		
Miscellaneous	246	13,209	

LESLIE COUNTY
PAUL HOWARD, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2009
(Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)		
Capital Outlay-		
Vehicles	$ 9,289	
Debt Service:		
State Advancement	90,000	
Total Expenditures		$ 376,151
Less: Disallowed Expenditures		
Forfeiture	400	
Expenditure - Adequate Documentation Not Maintained	150	
Bank Overdraft Fees	51	
Camp Expense in Excess of Revenues	1,450	2,051
Total Allowable Expenditures		374,100
Net Revenues		63,575
Less: Statutory Maximum		72,324
Excess Allowable Expenditures Over Receipts		$ (8,749)

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2009

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 2009 services
- Reimbursements for 2009 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2009

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).

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 13.5 percent for the first six months and 16.16 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.

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 Leslie 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 Leslie 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, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of December 11, 2009, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured $667,171

Note 4. Federal Grants

A. The Leslie County Sheriff's Department and the Leslie County Fiscal Court entered into a grant agreement with the U.S. Army Corp of Engineers for the period beginning April 10, 2009 and ending September 30, 2009. The purpose of the grant was to provide law enforcement services at Buckhorn Lake. The Sheriff received a total of $15,108 for salary reimbursements.

B. The Leslie County Sheriff received a grant from the Kentucky Transportation Cabinet for the Click It or Ticket Enforcement Mobilization for the period May 18, 2009 through May 31, 2009. The Sheriff received $1,000 in reimbursement for salaries.

Note 5. Donation

The Sheriff received $2,540 of donations from various local businesses for use during the Drug Awareness Camp. The Sheriff did not establish a separate bank account for these donations. The sheriff received $2,540 and spent $3,989. Expenditures exceeded donations by $1,449.

Note 6. Related Party Transactions

The Sheriff routinely does business with a company, LEDS & ETC, which is owned by a deputy. The Sheriff paid $310 for vehicle equipment to the company.

A member of the Sheriff's family stuffs envelopes and cleans the Sheriff's Office, and was paid $2,160 during the 2009 calendar year.

Note 7. Excess Fees Paid In Error

In April 2010, excess fees of $2,930 were paid to the fiscal court for calendar year 2009. This money is due back to the 2009 fee account because the sheriff's expenditures exceeded revenues by $8,749 and there actually were no excess fees for calendar year 2009.

Note 8. Deficit

The sheriff's total deficit of $10,800 consists of the following:

- Disallowed expenditures of $2,051.
- Expenditures exceeding revenues by $8,749 for the year.

The sheriff will be personally responsible for $10,800 after all receivables noted in the "Schedule of Excess of Liabilities Over Assets – Regulatory Basis" are collected.

LESLIE COUNTY
PAUL HOWARD, SHERIFF
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS - REGULATORY BASIS

December 31, 2009

Assets		
Cash in Bank		$ 27,205
Deposits in Transit		7,033
Receivables:		
Collected		68,491
Uncollected		
From Fiscal Court - 2009 Excess Fees Paid In Error		2,930
From 2008 Fee Account - Commonwealth Attorney (Due Per Court Order)		1,239
From 2008 Fee Account - 2009 Fee Paid 2008 Expenditures		1,950
From 2008 Fee Account - Telecommunication Tax (January)		256
From 2008 Fee Account - Erroneous Transfer		249
From 2010 Fee Account - Telecommunication Tax (December)		256
Total Assets		109,609
Liabilities		
Paid Obligations:		
Outstanding Checks	$ 3,664	
Paid Liabilities	98,730	
Total Paid Obligations		102,394
Unpaid Obligations:		
Due To 2008 Fee For Excess Fees Used For 2009 Payroll	4,491	
Due To 2010 Fee For 2009 Expenditures Paid From 2010 Fees	454	
Due To 2010 Fee For 2009 Expenditures Paid From 2010 Fees	1,343	
Due To 2010 Fee Account For Reimbursement Of 2009 Payroll	2,627	
Due To 2010 Fee Account For Reimbursement Of 2009 Payroll	9,100	
Total Unpaid Obligations		18,015
Total Liabilities		120,409
Total Fund Deficit as of December 31, 2009		$ (10,800)

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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

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The Honorable Paul Howard, Leslie County Sheriff
Members of the Leslie 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 have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Leslie County Sheriff for the year ended December 31, 2009, and have issued our report thereon dated July 25, 2011. The Sheriff's financial statement is 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Leslie 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 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 certain deficiencies in internal control over financial reporting that we consider to be material weaknesses 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 deficiencies described in the accompanying comments and recommendations as items 2009-04 through 2009-09, to be material weaknesses.

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 2009-01, 2009-02, and 2009-03 to be significant deficiencies.

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)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Leslie County Sheriff's financial statement 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 as items 2009-10 through 2009-15.

The Leslie County Sheriff's responses to the findings identified in our audit are described 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 Leslie 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,

Morgan - Franklin, LLC

Morgan-Franklin, LLC

July 25, 2011

COMMENTS AND RECOMMENDATIONS

LESLIE COUNTY
PAUL HOWARD, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2009

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES:

2009-01 The Sheriff Should Not Have A Negative Balance In His Fee Account

Condition: On February 3, 2009, November 10, 2009 and November 12, 2009 the Sheriff had a negative balance in his 2009 Fee Account.

Criteria: Per Funk vs. Milliken, 317 S.W.2d 499 (KY. 1958), Kentucky's highest court reaffirmed the rule that county fee officials' expenditures of public funds will be allowable only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not personal expenses.

Cause: Lack of controls over bank reconciliations.

Effect: The 2009 fee account incurred service charges for the balance falling below zero and overdraft charges of $51. $51 of overdraft fees will be disallowed expenditures.

Recommendation: We recommend the Sheriff strengthen the internal controls of his office to ensure timely reconciliation of his official bank accounts. Timely reconciliations will ensure bank accounts do not have a negative balance and subsequently do not incur overdraft charges. Furthermore the Sheriff should deposit $51 of personal funds for this disallowed expenditure.

Sheriff's Response: We have contacted our bank and they have stated all fees will be re-applied to our account.

2009-02 The Sheriff Should Not Spend Fee Monies On Disallowed Expenditures And Should Not Commingle Donation, Forfeiture, And Fee Account Monies

Condition: During the audit auditors noted the following instances where the Sheriff spent monies on disallowed expenditures:

Forfeiture	$ 400
Expenditure – Adequate Documentation Not Maintained	150
Bank Overdraft Fees (Comment 2009-01)	51
Camp Expenses in Excess of Revenues	1,450
Total	$ 2,051

Criteria: In Funk vs. Milliken, 317 S.W.2d 499 (KY. 1958), Kentucky's highest court reaffirmed the rule that county fee officials' expenditures of public funds will be allowable only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not personal expenses. Additionally, KRS 134.160 and KRS 68.210, requires the Sheriff to comply with the uniform system of accounts. Expenditures that do not comply with statutes are subject to being disallowed.

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES (Continued):

2009-02 The Sheriff Should Not Spend Fee Monies On Disallowed Expenditures And Should Not Commingle Donation, Forfeiture, And Fee Account Monies (Continued)

Cause: The Sheriff does not have adequate internal control policies in place in order to prevent payments on disallowed expenditures. The sheriff commingled funds, didn't keep track of revenues and expenditures and this, in turn, allowed for the expenditure of funds in excess of revenues for the forfeiture and camp disbursements.

Effect: Disallowed expenditures in the amount of $2,051.

Recommendation: We recommend that the Sheriff implement proper internal controls in order to prevent payments on disallowed expenditures in the future. We also recommend that the Sheriff doesn't commingle funds in the future. Separate bank accounts should be maintained for receipts and expenditures of forfeiture and camp donations.

Sheriff's Response: We have opened a camp account and funds are no longer co-mingled.

2009-03 The Sheriff's Office Lacks Adequate Controls Over Cell Phone Usage

Condition: During the test of expenditures, we noted the Sheriff's office provides a cell phone for the part-time office manager/bookkeeper. The September cell phone payment, which was haphazardly chosen for testing, included four (4) cell phones totaling $275 with $187 being charged to the part-time office manager/bookkeeper. The invoice only had the payment stub and no detail of what was being spent on each phone. After the bookkeeper contacted AT&T, a detail of the payment was mailed to the Sheriff's Office and given to auditors.

The phone that was provided to the part-time office manager/bookkeeper received the most additional charges; $187 during September. These charges included answer tones, push-to-talk, data unlimited with navigator, directory assistance, text messaging, ring tones, games, graphics or photos, and two fanbox alerts totaling $85.

Criteria: Per Funk vs. Milliken, 317 S.W.2d 499 (KY. 1958), Kentucky's highest court reaffirmed the rule that county fee officials' expenditures of public funds will be allowable only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not personal expenses.

Cause: Failure to monitor cell phone use.

Effect: Excessive expenditures for cell phones.

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES (Continued):

2009-03 The Sheriff's Office Lacks Adequate Controls Over Cell Phone Usage (Continued)

Recommendation: We recommend the Sheriff adequately document all cell phone expenditures by including the entire monthly statement and the call detail for each cell phone. Since we are questioning the reasonableness of the cell phone charges for the part time employee, we are referring this finding to the Fiscal Court and County Attorney to determine if these expenditures are a necessary expense of the Sheriff's office. If cell phone charges are ultimately deemed unnecessary, they will become a disallowed expense subject to personal payment by the Sheriff as excess fees to the Fiscal Court.

Sheriff's Response: We will comply.

INTERNAL CONTROL - MATERIAL WEAKNESSES:

2009-04 The Sheriff Does Not Have Adequate Controls Over Revenues

Condition: The Sheriff's Clerks are not comparing receipts to the daily cash log or utilizing pre-numbered receipt books properly.

During our audit we noted the following:

- During the month of September three receipt books were utilized.
- Receipts written on 9/4/09 did not agree to the daily cash log or deposit.

Criteria: It is a good internal control policy to compare the daily receipts to the daily cash logs and deposit slips in order to determine that all revenues have been properly accounted for. Pre-numbered receipts should be used in sequential order. The same receipt book should be used until all receipts in the book have been used.

Also per the Instructional Guide for County Budget Preparation and State Local Finance Officer Policy Manual, the minimum requirement for handling public funds pursuant to KRS 68.210 for all local government officials and employees is **"**Pre-numbered three-part receipt forms should be issued for ***all receipts***. Original to be given to payor, copy to be attached in sequential order to daily cash check-out or daily deposit record, and copy to remain in file".

Cause: Lack of internal controls over revenues.

Effect: Misappropriation of receipts could occur and not be corrected or detected in a timely manner.

Recommendation: We recommend the Sheriff strengthen the internal controls of his office by having office staff compare the daily receipts to the daily cash logs and deposit slips, utilizing one receipt book, and issuing receipts in numerical order.

Sheriff's Response: We have complied during 2010.

LESLIE COUNTY
PAUL HOWARD, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2009
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES (Continued):

2009-05 The Sheriff Should Eliminate The Remaining Deficit Of $8,085 In The Prior Year

Condition: As noted in the audit, the Sheriff had a known deficit of $8,680 from the prior year. The Sheriff did not spend the monies of the office in compliance with applicable guidelines, statutes and agreements. He also commingled fee, donation, evidence and forfeiture funds; therefore, the following was disallowed:

Camp Expenditures Exceeding Donations	$	1,479
Wii game systems		233
Funeral Flowers		212
Cigarettes		4
Duplicate Gas Reimbursement		25
Expenses in Excess of Meal Allowance		104
Cash Disbursement (check #356)		250
Un-Allowable Forfeiture Expenditures		306
Bank Account Overdraft Fees		137
Cameras & Accessories		243
Total Known Disallowed Expenditures - 2008 Fee Account		2,993
Excess Expenditures Over Revenues		3,187
Total 2008 Fee Account Deficit		6,180
Disallowed Donation Expenditures		2,500
Total Deficit	$	8,680
Less: Payments Made on Disallowed Exp.		
Funeral Flowers		(212)
Cigarettes		(4)
Duplicate Gas Reimbursement		(25)
Expenses in Excess of Meal Allowance		(104)
Cash Disbursement (check #356)		(250)
Total Payments on Disallowed Expenditures	$	(595)
Total Deficit Remaining As Of June 25, 2011	$	8,085

INTERNAL CONTROL - MATERIAL WEAKNESSES (Continued):

2009-05 The Sheriff Should Eliminate The Remaining Deficit Of $8,085 In The Prior Year (Continued)

Criteria: KRS 134.160(2) requires the Sheriff shall keep an accurate account of all moneys received by him, and all disbursements made by him. Arranging and keeping his books so that the amounts received of separate and distinct appropriations shall be in separate and distinct accounts.

Per Funk v. Milliken, 317 S.W.2d 499(KY1958), 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.

Cause: Commingling of fee monies with other public funds.

Effect: When fee monies are comingled with other public funds the possibility of overspending all funds increases. By expending more funds than awarded or expending funds on disallowed expenditures; the reports submitted by the Sheriff for external purposes are inaccurate. Additionally, 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 expenditures.

Recommendation: We recommend the Sheriff deposit personal funds of $8,085 to cover the remaining deficit, with $5,585 deposited to the 2008 official fee account and $2,500 deposited to a donation account. We further recommend the Sheriff take immediate steps to ensure all monies spent are for allowable expenditures only.

Sheriff's Response: We are working with Fiscal Ct. and Co. Attorney to take care of unallowed expenses.

2009-06 The Sheriff's Office Lacks Adequate Segregation Of Duties

Condition: The Sheriff's office lacks adequate segregation of duties since one employee, the part-time office manager/bookkeeper, is responsible for posting daily checkout sheets to the ledger, preparing and posting disbursements to the ledger, preparing monthly bank reconciliations and preparing quarterly reports. Additionally, the Sheriff did not require dual signatures on checks issued.

Criteria: A segregation of duties over accounting functions or implementation of strong compensating controls when limited by number of office staff is essential to providing protection from asset misappropriation and/or inaccurate reporting. The risk of misappropriation and/or human error increases when one individual is given complete authority over all accounting processes. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

INTERNAL CONTROL - MATERIAL WEAKNESSES (Continued):

2009-06 The Sheriff's Office Lacks Adequate Segregation Of Duties (Continued)

Cause: Failure to segregate duties or implement compensating controls.

Effect: Misappropriation of assets or error could occur and not be detected in a timely manner.

Recommendation: We recommend the Sheriff segregate duties or institute strong compensating controls including, but not limited to:

- The Sheriff should require two (2) signatures on all disbursement checks.
- The Sheriff should periodically recount and deposit cash receipts. This could be documented by initialing the daily checkout sheet and deposit ticket.
- An individual other than the bookkeeper should compare the daily checkout sheets and check register to the receipts and disbursements ledger for accuracy. This could be documented by the reviewer's initials on the ledgers.
- The Sheriff should receive the bank statements unopened and review the statements for any unusual items prior to giving them to the individual responsible for reconciliations.
- An individual other than the bookkeeper should reconcile bank records with another employee reviewing them for accuracy. The preparer and reviewer could document by initialing the reconciliation.
- The Sheriff should periodically review bank reconciliation and compare to the balance in the ledger. Any differences should be reconciled. This could be documented by his initials on the bank reconciliation and the ledger.
- The Sheriff should review monthly and quarterly reports for accuracy. This could be documented by his initials on the reports and ledgers.

Sheriff's Response: We will comply.

INTERNAL CONTROL - MATERIAL WEAKNESSES (Continued):

2009-07 The Sheriff Should Comply With KRS 68.210 By Strengthening Internal Controls Over Disbursements

Condition: During the test of disbursements we tested 13 expenditures and found the following discrepancies:

- One instance where a check written on 4/20/10 didn't clear until 8/4/10.
- One instance where a cell phone bill did not have the total bill attached.
- Two instances where items purchased included tax; total amount of tax was $2.82 and $2.84.
- One instance where an invoice did not have adequate documentation in order to easily determine what was paid.

We also noted that checks did not have dual signatures and checks were written to cash.

While performing other procedures we noted the following:

- One instance where a check in the amount of $150 was written to cash and no backup documentation was kept.
- One instance where a check written to Hyden Citizens Bank in the amount of $600 and endorsed by the Sheriff had documentation of two invoices totaling $553. On 6/16/11 after auditors asked for backup documentation on the $600 check, the Sheriff's office manager, deposited $53 into the 2009 fee account and stated this was for the difference between the invoices and the check written and also for the taxes charged on the two invoices found during the disbursement testing. ($600-$553=$47+$2.82+$2.84=$52.66)
- One instance where an invoice for contract labor was prepared by the Sheriff's Office.

Criteria:

- The Sheriff should insure that checks are remitted to vendors timely.
- Adequate documentation should be maintained for all disbursements.
- The Sheriff should not reimburse tax on disbursements.
- The Kentucky Department for Local Government (DLG), pursuant to KRS 68.210 and section 3 of the Kentucky Constitution, prohibits the prepayment of goods and services.
- When the Sheriff's Office writes a check to employees and there is a refund due back to the Sheriff's Office, this refund should be given immediately to the Sheriff's Office.
- Contract labor personnel should sign off on invoices prepared by the Sheriff's Office.

INTERNAL CONTROL - MATERIAL WEAKNESSES (Continued):

2009-07 The Sheriff Should Comply With KRS 68.210 By Strengthening Internal Controls Over Disbursements (Continued)

Cause:

- A check that doesn't clear timely is an indication that the Sheriff is holding the check.
- The Sheriff is not requiring dual signatures and requiring that proper documentation be maintained with each invoice.
- By issuing a cash advance, the Sheriff prepaid for goods and/ or services.
- Lack of adequate controls over disbursements.

Effect: The lack of proper accounting of disbursements allowed the Sheriff to expend fee monies for disallowed expenditures. The Sheriff is at risk for duplicate payments and purchases of items not intended for the Sheriff's office.

Recommendation: We recommend the Sheriff comply with KRS 68.210 and the Kentucky Constitution by refraining from issuing cash advances, assuring that invoices are original and maintaining complete documentation of all disbursements. We further recommend the Sheriff strengthen the internal controls over disbursements by requiring two signatures on checks, requiring that each invoice is reviewed completely before payment is issued, and by effectively documenting and keeping invoices in a way that makes it easy to determine what was paid with each check. For instance when a copy of a check written for $150 is stapled to invoices (the Sheriff's Office staff does this to cancel invoices), office staff should ensure that all the invoices attached agree to the amount on the check. This is an effective way to ensure duplicate payments are not made. We also recommend that if the Sheriff's Office prepares invoices for contract labor payments they should have the person performing the contract labor to sign off on these invoices, validating the costs.

Sheriff's Response: We will comply.

2009-08 The Fourth Quarter Report Should Agree To Backup Documentation

Condition: During our audit, we noted that the backup documentation provided for the Fourth Quarter Report did not agree.

Criteria: The fourth quarter report should agree to the profit and loss printed from the accounting software.

Cause: Managements failure to ensure the fourth quarter report agreed to the profit and loss from the accounting software.

Effect: Misappropriation of funds may occur and misstated financial statements were submitted to the Department for Local Government.

INTERNAL CONTROL - MATERIAL WEAKNESSES (Continued):

2009-08 The Fourth Quarter Report Should Agree To Backup Documentation (Continued)

Recommendation: We recommend that management ensure that receipts and disbursements per accounting software agrees to the fourth quarter report before presenting it to the fiscal court and DLG in the future.

Sheriff's Response: We will comply.

2009-09 The Sheriff Should Eliminate The $10,800 Deficit In His Official 2009 Fee Account

Condition: As noted in the audit, the Sheriff had a known deficit of $10,800 in his 2009 Fee Account. The fee account deficit resulted from disallowed expenditures of $2,051 (Comment 2009-02) and expenditures exceeding revenues by $8,749. The Sheriff did not spend the monies of the office in compliance with applicable guidelines, statutes and agreements. He also commingled fee, donation, and forfeiture funds. The following schedule explains the deficit:

Forfeiture	$ 400
Expenditure – Adequate Documentation Not Maintained	150
Bank Overdraft Fees	51
Camp Expenses in Excess of Revenues	1,450
Total	2,051
Excess Expenditures Over Revenues	8,749
Total Deficit	$ 10,800

Criteria: KRS 134.160(2) requires the Sheriff shall keep an accurate account of all moneys received by him, and all disbursements made by him.

Per Funk v. Milliken, 317 S.W.2d 499(KY1958), 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.

Cause: Commingling of fee monies with other public funds, failing to maintain documentation supporting necessity and reasonableness, spending in excess of revenues.

Effect: When fee monies are commingled with other public funds the possibility of overspending all funds increases. By expending more funds than awarded or expending funds on disallowed expenditures; the reports submitted by the Sheriff for external purposes are inaccurate. Additionally, the Sheriff is required to deposit personal funds to cover these expenditures.

Recommendation: We recommend the Sheriff deposit personal funds of $10,800 to cover the known deficit in the 2009 official fee account. We further recommend the Sheriff take immediate steps to ensure all monies spent are for allowable expenditures only.

INTERNAL CONTROL - MATERIAL WEAKNESSES (Continued):

2009-09 The Sheriff Should Eliminate The $10,800 Deficit In His Official 2009 Fee Account (Continued)

Sheriff's Response: Camp expenses, forfeiture funds, and bank overdraft fees will be repaid. The $8,749 over expenditures of budget was approved by fiscal court when they approved settlement total.

Auditor's Response: There was no evidence that budget amendments were presented or approved by the fiscal court. However, the $8,749 had nothing to do with the budget. The Sheriff did not have enough funds to cover his 2009 expenditures and used 2008 and 2010 monies to cover the difference.

NONCOMPLIANCES:

2009-10 The Sheriff Should Comply With KRS 186A.115(1)(c) By Collecting Additional Fees For Offsite Vehicle Inspections

Condition: The Sheriff is not collecting the correct fees for vehicle inspections performed at the owner's residence or business.

Criteria: KRS 186A.115(1)(c) states "There shall be an additional fee of ten dollars ($10) per trip when it becomes necessary for the certified inspector to travel to the site of the vehicle rather than bringing the vehicle to the sheriff's inspection area."

Cause: Office staff was not aware that the extra fee was to be charged.

Effect: Additional revenues are not being collected.

Recommendation: We recommend the Sheriff comply with KRS 186A.115(1)(c) by collecting the correct fees.

Sheriff's Response: We will comply.

2009-11 The Sheriff Should Properly Account For Donations

Condition: The Sheriff did not properly account for donations solicited for a drug awareness youth camp. Rather than open a separate bank account, the Sheriff deposited the donations into his fee account. The Sheriff solicited and received $2,540 in donations from local entities to be used for a drug awareness youth camp. A total of $3,989 was expended for camp expenses resulting in $1,449 excess of expenditures over receipts. (Comment 2009-02) Because the Sheriff did not separate donations from normal fee account activity and because he spent more than collected in donations, the Sheriff used fee monies for the camp.

Criteria: Kentucky Department for Local Government requires all donations received be deposited into a separate bank account and any unexpended funds will roll forward and not be included as excess fees paid to the fiscal court.

NONCOMPLIANCES (Continued):

2009-11 The Sheriff Should Properly Account For Donations (Continued)

Cause: The Sheriff did not maintain a separate bank account for donations.

Effect: The Sheriff used $1,449 of fee monies for the camp.

Recommendation: We recommend the Sheriff deposit future donations into a separate bank account and not expend more than is received for the donation. Furthermore, we recommend the Sheriff deposit personal funds of $1,449 to replace expenditures improperly paid with 2009 fee account revenues.

Sheriff's Response: We have complied.

2009-12 The Sheriff Should Maintain A Separate Bank Account For Drug Forfeiture Funds

Condition: During calendar year 2009 the Sheriff didn't seize any cash, however, the sheriff spent $400 out of the 2009 fee account for a drug buy. The Sheriff also disbursed $1,239 out of the 2009 fee account to the Commonwealth Attorney for seized funds received during 2008 but not awarded to the Sheriff's Office until 2009.

Criteria: The Kentucky Department for Local Government requires that the Sheriff maintain a separate bank account for Forfeiture Funds.

Cause: The Sheriff utilized $400 of fee monies for drug purchases and disbursed $1,239 out of the 2009 fee account that should have been paid out of the 2008 fee account.

Effect: The 2009 fee account is due $1,639 ($1,239 and $400).

Recommendation: We recommend that after the Sheriff deposits $8,680 of personal funds into the 2008 fee account to alleviate the 2008 deficit (per the prior year audit report) $1,239 be paid to the 2009 fee account. We also recommend that the Sheriff deposit $400 (Comment 2009-02) of personal funds into the 2009 fee account to offset the money spent on drug purchases.

Sheriff's Response: We have complied.

NONCOMPLIANCES (Continued):

2009-13 The Sheriff Paid Employees $10,000 In Bonuses At The End Of 2009

Condition: The Sheriff paid employees bonuses in the amount of $10,000 on December 16, 2009. When inquiring about the bonuses auditors were told that part-time personnel received $800 and full-time personnel received $1,200. Upon further investigation we noted that one part-time employee did not receive any bonus and another part-time employee received $1,200.

Criteria: According to the Department for Local Government's budget manual under section labeled "Handling Public Funds, Minimum Requirements Pursuant To KRS 68.210, for all Local Government Officials (And Employees)", bonuses, prepayment for goods or services, nor any other contributions are NOT an appropriate expense of the government unless the fee official has implemented an incentive program under the guidelines of the administrative code. However, there was no evidence that these payments were for any extra effort or extra duties performed by these employees. It appears that these payments may have been made as bonuses.

Cause: Management's disregard of KRS 68.210.

Effect: $10,000 worth of excess fees could have been turned over to the fiscal court if bonuses were not paid to employees, instead the Sheriff ended the year in a deficit and used 2010 fees to cover 2009 expenditures.

Recommendation: We recommend that the Sheriff's office discontinue this practice in order to be in compliance with the Department for Local Government's budget manual.

Sheriff's Response: These were not bonus but were one-time pay adjustment for underpaid employees. We know now that it must state in our Admin. Code that this is allowable before we do it.

Auditor's Response: Employees were paid their hourly rate throughout the year. No underpayment was noted.

2009-14 The Sheriff Should Properly Account For The County Administration Fee

Condition: During the review of the prior year exit, we noted the Sheriff was not consistently collecting the ten dollar ($10) county administration fee for papers served. Auditors requested the papers served completed and turned in by the deputies and were told that these documents were no longer available. Therefore, no test on these fees could be completed. However, we did inquire of the bookkeeper if these administration fees were being applied during our year and she said they were not.

Criteria: The sheriff should collect the $10 administration fee for papers served.

Cause: Managements lack of controls over fees being charged.

Effect: Revenues are not being collected.

LESLIE COUNTY
PAUL HOWARD, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2009
(Continued)

NONCOMPLIANCES (Continued):

2009-14 The Sheriff Should Properly Account For The County Administration Fee (Continued)

Recommendation: We recommend the Sheriff strengthen the internal controls of his office by consistently collecting the county administration fee on served papers and ensuring that all served papers are properly listed on the schedule.

Sheriff's Response: These fees are being collected and paid to fiscal ct. as per our audit.

2009-15 The Sheriff Should Not Expend Monies From Any Fund Except In Accordance With His Approved Budget

Condition: The Sheriff over expended his budgeted amounts.

Criteria: No sheriff shall expend any monies from any fund, except in accordance with a budget ordinance.

Cause: Lack of adequate internal controls over budgeting.

Effect: The sheriff expended more on various line item expenditures than was budgeted and the budget in total was over expended.

Recommendation: The Sheriff should only expend monies in compliance with his budget and should amend the budget as deemed necessary.

Sheriff's Response: It was explained to the Sheriff's Dept. that when you prepare a Budget and it is approved by FC it is a line item Budget and by having the F.C. approved the settlement as line items, your Budget becomes the same as the settlement. Staff will consult with DLG for clarification. We will have fiscal court approve budget amendments