

**REPORT OF THE AUDIT OF THE
LEWIS COUNTY
SHERIFF**

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

**ROSS & COMPANY, PLLC
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The Honorable Steve Applegate, Lewis County Judge/Executive
Honorable William D. Lewis, Lewis County Sheriff
Members of the Lewis 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 Lewis County, Kentucky, for the year ended December 31, 2007. 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, 2007, in conformity with the regulatory basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated December 31, 2008, on our consideration of the Lewis County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Honorable Steve Applegate, Lewis County Judge/Executive
Honorable William D. Lewis, Lewis County Sheriff
Members of the Lewis County Fiscal Court

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

- The Sheriff's Office Has A Lack Of Adequate Segregation Of Duties

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

A handwritten signature in cursive script that reads "Ross and Company".

Ross and Company, PLLC
Certified Public Accountants

December 31, 2008

LEWIS COUNTY
WILLIAM D. LEWIS, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2007

Revenues

| | | |
|--|--------|---------|
| State - Kentucky Law Enforcement Foundation Program Fund | \$ | 13,461 |
| State Fees For Services: | | |
| Finance and Administration Cabinet | \$ | 56,609 |
| Sheriff Security Service | 17,024 | 73,633 |
| | | |
| Circuit Court Clerk: | | |
| Fines and Fees Collected | | 3,708 |
| Fiscal Court | | 68,930 |
| County Clerk - Delinquent Taxes | | 2,642 |
| Commission On Taxes Collected | | 146,494 |
| Other Fees Collected On Taxes | | 22,746 |
| Fees Collected For Services: | | |
| Auto Inspections | 4,870 | |
| Accident and Police Reports | 427 | |
| Serving Papers | 13,314 | |
| Carrying Concealed Deadly Weapon Permits | 1,305 | 19,916 |
| | | |
| Other: | | |
| Transports | 3,780 | |
| Miscellaneous | 3,019 | 6,799 |
| | | |
| Interest Earned | | 288 |
| Borrowed Money: | | |
| State Advancement | | 26,668 |
| | | |
| Total Revenues | | 385,285 |

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

LEWIS COUNTY
 WILLIAM D. LEWIS, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2007
 (Continued)

Expenditures

Operating Expenditures/Capital Outlay :

| | | |
|--|------------|---------|
| Personnel Services- | | |
| Deputies' Salaries | \$ 104,275 | |
| Part-Time Salaries | 56,019 | |
| Other Salaries | 40,020 | 200,314 |
| <hr/> | | |
| Contracted Services- | | |
| Advertising | | 1,029 |
| Materials and Supplies- | | |
| Office Materials and Supplies | 11,170 | |
| Postage | 1,317 | |
| Uniforms | 7,997 | 20,484 |
| <hr/> | | |
| Auto Expense- | | |
| Gasoline | 15,043 | |
| Maintenance and Repairs | 13,617 | 28,660 |
| <hr/> | | |
| Other Charges- | | |
| Training | 1,267 | |
| Dues | 340 | |
| Interest On Debt | 497 | |
| Carrying Concealed Deadly Weapon Permits | 270 | |
| Prisoner Transports | 60 | |
| Bond | 415 | |
| Miscellaneous | 6,586 | 9,435 |
| <hr/> | | |
| Capital Outlay | | |
| Computer Equipment | 10,043 | |
| Vehicles | 9,965 | 20,008 |
| <hr/> | | |

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

LEWIS COUNTY
 WILLIAM D. LEWIS, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2007
 (Continued)

Expenditures: (Continued)

| | |
|--|-----------|
| Debt Service: | |
| State Advancement | \$ 26,668 |
| | <hr/> |
| Total Expenditures | 306,598 |
| Net Revenues | 78,687 |
| Less: Statutory Maximum | 71,484 |
| | <hr/> |
| Excess Fees | 7,203 |
| Less: Training Incentive Benefit | 3,387 |
| | <hr/> |
| Excess Fees Due County For 2007 | 3,816 |
| Payments to Fiscal Court- April 11, 2008 | 3,816 |
| | <hr/> |

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

LEWIS COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

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

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

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the 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 2007 services
- Reimbursements for 2007 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2007

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the 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).

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

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.19 percent for the first six months and 16.17 percent for the last six months of the year.

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. 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 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, 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 Sheriff does not have a deposit policy for custodial risk credit but rather follows the requirements of KRS 41.240(4). As of December 31, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Drug Enforcement Account

On September 1, 2003, the Lewis County Sheriff's Department received a grant from the United States Department of Justice to combat illegal drug usage in Lewis County. As of January 1, 2007 the balance in this account was \$9,201. Receipts for the year were \$36. During the year from this account, the Sheriff expended \$2,815 for office equipment and supplies. The ending balance as of December 31, 2007 was \$6,422.

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

Note 5. Asset and Forfeiture Account

During calendar year 2007 the Lewis County Sheriff's Department was awarded funds from an order of forfeiture from Lewis County Circuit Court and The United States District Court after defendants pled guilty to illegal drug trafficking and forfeited the currency used in the illegal acts. The balance as of January 1, 2007 was \$2,642. Receipts for the year were \$7,584. During the year from this account, the Sheriff expended \$3,852. The ending balance as of December 31, 2007 was \$6,374.

**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 Steve Applegate, Lewis County Judge/Executive
Honorable William D. Lewis, Lewis County Sheriff
Members of the Lewis 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 Lewis County Sheriff for the year ended December 31, 2007, and have issued our report thereon dated December 31, 2008. 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 Lewis County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be significant a deficiency in internal control over financial reporting.

- The Sheriff's Office Has A Lack Of Adequate Segregation Of Duties

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

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of internal control over financial reporting was for limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Lewis County Sheriff's financial statement for the year ended December 31, 2007, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Lewis County Sheriff's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the Sheriff's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Lewis County Fiscal Court, and the Department for Local Government, and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Ross and Company, PLLC
Certified Public Accountants

December 31, 2008

COMMENT AND RECOMMENDATION

LEWIS COUNTY
WILLIAM D. LEWIS, SHERIFF
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2007

INTERNAL CONTROL – MATERIAL WEAKNESS:

The Sheriff's Office Has A Lack Of 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. Currently, one person is responsible for the financial operations of the office. We are recommending that the following segregation of duties and/or compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare a daily 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 deposit, and receipts ledger.
- The Sheriff should reconcile monthly reports to source documents and receipts and disbursements ledgers.
- 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.
- The Sheriff should approve all disbursements and sign all checks.

We recommend that the Sheriff make every effort possible to implement procedures in order to gain better internal control and segregation of duties over his office.

Sheriff's Response: It is difficult in a small agency as ours, to have segregation of duties due to a lack of manpower.