

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

**For The Year Ended
December 31, 2008**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
LEWIS COUNTY SHERIFF**

**For The Year Ended
December 31, 2008**

The Auditor of Public Accounts has completed the Lewis County Sheriff's audit for the year ended December 31, 2008. 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:

Excess fees increased by \$9,095 from the prior year, resulting in excess fees of \$12,911 as of December 31, 2008. Revenues increased by \$13,818 from the prior year and expenditures increased by \$4,723.

Report Comment:

- The Sheriff's Office Should Improve Internal Control Procedures

Deposits:

The Sheriff's deposits as of November 7, 2008 and December 31, 2008 were exposed to custodial credit risk as follows:

- | | |
|---|-----------|
| • Uncollateralized and Uninsured on November 7, 2008 | \$388,120 |
| • Uncollateralized and Uninsured on December 31, 2008 | \$339,307 |

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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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Steve Applegate, Lewis County Judge/Executive
The 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, 2008. 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, 2008, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated July 13, 2009 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
The 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 Should Improve Internal Control Procedures

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 black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

July 13, 2009

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

For The Year Ended December 31, 2008

Revenues

State - Kentucky Law Enforcement Foundation Program Fund	\$	10,263
State Fees For Services:		
Finance and Administration Cabinet	\$	47,489
Sheriff Security Service	<u>8,186</u>	55,675
Circuit Court Clerk:		
Fines and Fees Collected	5,365	
Court Ordered Payments	<u>100</u>	5,465
Fiscal Court		99,968
County Clerk - Delinquent Taxes		775
Commission On Taxes Collected		143,596
Other Fees Collected On Taxes		33,812
Fees Collected For Services:		
Auto Inspections	5,045	
Accident and Police Reports	277	
Serving Papers	15,895	
Carrying Concealed Deadly Weapon Permits	<u>1,460</u>	22,677
Other:		
Transporting Prisoners	849	
Miscellaneous	<u>2,466</u>	3,315
Interest Earned		222
Borrowed Money:		
State Advancement		<u>23,335</u>
Total Revenues		399,103

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, 2008
(Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-		
Deputies' Salaries	\$	103,328
Part-Time Salaries		52,204
Other Salaries		42,007
Contracted Services-		
Advertising		678
Vehicle Maintenance and Repairs		13,400
Materials and Supplies-		
Office Materials and Supplies		10,573
Uniforms		3,905
Auto Expense-		
Gasoline		14,712
Maintenance and Repairs		4,710
Other Charges-		
Training		2,149
Dues		352
Postage		1,685
Bond		413
Prisoner Transports		78
Miscellaneous		1,521
Capital Outlay-		
Office Equipment		15,547
Vehicles		18,050
		<u>18,050</u>
	\$	285,312
Debt Service:		
State Advancement		<u>23,335</u>
Total Expenditures		<u>308,647</u>

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, 2008
(Continued)

Net Revenues	\$ 90,456
Less: Statutory Maximum	<u>74,020</u>
Excess Fees	16,436
Less: Training Incentive Benefit	<u>3,525</u>
Excess Fees Due County for 2008	12,911
Payment to Fiscal Court - February 12, 2009	<u>12,820</u>
Balance Due Fiscal Court	<u>\$ 91</u>

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

LEWIS COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2008

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 2008 services
- Reimbursements for 2008 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2008

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).

LEWIS COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2008
 (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 16.17 percent for the first six months and 13.50 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 Lewis 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 Lewis County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). On November 7, 2008 and December 31, 2008, the Sheriff's bank balances 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 on November 7, 2008 | \$388,120 |
| • Uncollateralized and Uninsured on December 31, 2008 | \$339,307 |

LEWIS COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2008
(Continued)

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, 2008 the balance in this account was \$6,422. There were no receipts for the year. During the year from this account, the Sheriff expended \$2,893 for office equipment and supplies. The ending balance as of December 31, 2008 was \$3,529.

Note 5. Asset and Forfeiture Account

During calendar year 2008 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, 2008 was \$6,374. Receipts for the year were \$21,755. During the year from this account, the Sheriff expended \$16,793. The ending balance as of December 31, 2008 was \$11,336.

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



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Steve Applegate, Lewis County Judge/Executive
The 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, 2008, and have issued our report thereon dated July 13, 2009. 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 a 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 a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Should Improve Internal Control Procedures



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

Internal Control Over Financial Reporting (Continued)

A 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 the internal control over financial reporting was for the 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 do not 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, 2008, 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 these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

July 13, 2009

COMMENT AND RECOMMENDATION

LEWIS COUNTY
WILLIAM D. LEWIS, SHERIFF
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2008

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

The Sheriff's Office Should Improve Internal Control Procedures

The Sheriff's office needs to strengthen internal controls over receipts and disbursements. Most employees of the Sheriff's office collect receipts. The bookkeeper prepares the daily bank deposit and posts items to the receipts ledger. The bookkeeper prepares the quarterly financial report and bank reconciliations that are agreed to the receipts and disbursements ledgers. The bookkeeper also prepares checks for all disbursements, signs checks, and posts to the disbursements ledger. The Sheriff does not require dual signatures on checks. Good internal controls dictate that the same employee should not handle, record, and reconcile receipts and disbursements. The Sheriff should implement and document that he is performing the following steps to strengthen internal controls:

- The Sheriff should periodically compare the daily bank deposit to the receipts ledger. Any differences noted should be reconciled. The Sheriff should document this by initialing the bank deposit and receipts ledger.
- The Sheriff should review the quarterly financial report and compare amounts reported to the receipts and disbursements ledger.
- The Sheriff should periodically complete the bank reconciliation.
- Dual signatures should be required on all checks, with the Sheriff being one of the required check signers.

Sheriff's Response: Procedures are presently being enacted to correct this issue.

