

**REPORT OF THE AUDIT OF THE  
OWEN COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2011**



**ADAM H. EDELEN  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE OWEN COUNTY SHERIFF**

**For The Year Ended  
December 31, 2011**

The Auditor of Public Accounts has completed the Owen County Sheriff's audit for the year ended December 31, 2011. 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 decreased by \$21,907 from the prior year, resulting in excess fees of \$51,574 as of December 31, 2011. Revenues increased by \$52,215 from the prior year and expenditures increased by \$74,122.

#### **Debt Obligations:**

A capital lease agreement totaled \$44,179 as of December 31, 2011. Future payments of \$44,179 are needed to meet this obligation.

#### **Report Comment:**

2011-01 The Sheriff Should Batch And Deposit Receipts Daily

2011-02 The Sheriff's Office Has A Lack Of Segregation Of Duties Related To Bank Reconciliations

#### **Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities.



CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT.....	1
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS .....	3
NOTES TO FINANCIAL STATEMENT.....	5
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 .....	11
COMMENTS AND RECOMMENDATIONS.....	15





**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Carolyn Keith, Owen County Judge/Executive  
The Honorable Zemer Hammond, Owen County Sheriff  
Members of the Owen 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 Owen County, Kentucky, for the year ended December 31, 2011. 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, 2011, 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 December 27, 2012 on our consideration of the Owen 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 Carolyn Keith, Owen County Judge/Executive  
The Honorable Zemer Hammond, Owen County Sheriff  
Members of the Owen County Fiscal Court

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

2011-01 The Sheriff Should Batch And Deposit Receipts Daily

2011-02 The Sheriff's Office Has A Lack Of Segregation Of Duties Related To Bank Reconciliations

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Owen 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 "Adam H. Edelen", written in a cursive style.

Adam H. Edelen  
Auditor of Public Accounts

December 27, 2012

OWEN COUNTY  
ZEMER HAMMOND, SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2011

Revenues

State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)	\$	16,678
State Fees For Services:		
Finance and Administration Cabinet	\$	1,898
Cabinet for Health and Family Services		39
House Bill 452 Payments		<u>4,985</u>
		6,922
Circuit Court Clerk:		
Fines and Fees Collected		5,009
Fiscal Court		700
County Clerk - Delinquent Taxes		12,935
Commission On Taxes Collected		230,452
Fees Collected For Services:		
Auto Inspections	2,495	
Accident and Police Reports	556	
Serving Papers	27,305	
Carrying Concealed Deadly Weapon Permits	<u>3,930</u>	34,286
Other:		
Add On Fees	32,854	
Miscellaneous	1,171	
Supplemental Salary-Event Pay	3,000	
Restitution	<u>925</u>	37,950
Interest Earned		454
Borrowed Money:		
State Advancement		<u>80,000</u>
Total Revenues		425,386

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

OWEN COUNTY  
 ZEMER HAMMOND, SHERIFF  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2011  
 (Continued)

Expenditures

Operating Expenditures:

Personnel Services-

Deputies' Salaries \$ 124,699

Special Event Salaries 3,000

KLEFPF Salaries 16,678

Contracted Services-

Advertising 1,371

Vehicle Maintenance and Repairs 3,135

Materials and Supplies-

Office Materials and Supplies 17,329

Uniforms 327

Auto Expense-

Gasoline 23,467

Other Charges-

Conventions and Travel 1,263

Dues 370

Postage 4,662

Computer 692

Miscellaneous 671 \$ 197,664

Debt Service:

State Advancement 80,000

Vehicles Lease 15,226 95,226

Total Expenditures \$ 292,890

Net Revenues 132,496

Less: Statutory Maximum 77,243

Excess Fees 55,253

Less: Training Incentive Benefit 3,679

Excess Fees Due County for 2011 51,574

Payments to Fiscal Court - January 25, 2012 51,574

Balance Due Fiscal Court at Completion of Audit \$ 0

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

OWEN COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2011

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 2011 services
- Reimbursements for 2011 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2011

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).

OWEN COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2011  
 (Continued)

Note 2. Employee Retirement System

The county official 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, which 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 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 16.93 percent for the first six months and 18.96 percent for the last six months.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 33.25 percent for the first six months and 35.76 percent for the last six months.

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 credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

<b>Years of Service</b>	<b>% paid by Insurance Fund</b>	<b>% Paid by Member through Payroll Deduction</b>
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

OWEN COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2011  
(Continued)

Note 2. Employee Retirement System (Continued)

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Hazardous employees whose participation began on or after July 1, 2003, earn fifteen dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Owen 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 Owen 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, 2011, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Lease

The Office of the Sheriff was committed to a capital lease agreement with Magnolia Bank for two vehicles. The agreement requires an annual payment of \$14,276 for four years to be completed on December 31, 2014. The total remaining balance of the agreement was \$44,179 as of December 31, 2011.

OWEN COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2011  
(Continued)

Note 5. Drug Account

The Sheriff's office maintains drug account for the receipt and expenditure of funds resulting from drug related seizures and forfeitures. Expenditures from the account are for law enforcement activities. The balance in the account as of January 1, 2011 was 1,289. There were \$750 in receipts and \$638 in expenditures during the calendar year. The ending balance as of December 31, 2011 was \$1,401.

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





**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Carolyn Keith, Owen County Judge/Executive  
The Honorable Zemer Hammond, Owen County Sheriff  
Members of the Owen 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 Owen County Sheriff for the year ended December 31, 2011, and have issued our report thereon dated December 27, 2012. 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**

Management of the Owen County Sheriff's office is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the 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 a deficiency in internal control over financial reporting that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

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 statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comments and recommendations as item 2011-01 to be a material weakness.



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 *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 deficiency described in the accompanying comments and recommendations as item 2011-02 to be a significant deficiency.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Owen County Sheriff's financial statement for the year ended December 31, 2011, 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 one instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations as item 2011-01.

The Owen County Sheriff's responses to the findings identified in our audit are included 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 Owen 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,



Adam H. Edelen  
Auditor of Public Accounts

December 27, 2012

COMMENTS AND RECOMMENDATIONS



OWEN COUNTY  
ZEMER HAMMOND, SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2011

FINANCIAL STATEMENT FINDINGS:

2011-01 The Sheriff Should Batch And Deposit Receipts Daily

During the review of receipts, the auditor noted that receipts were not being batched daily, posted to a daily checkout sheet, and deposited daily. The Department for Local Government (DLG) has established minimum requirements pursuant to KRS 68.210 for all local government officials handling public funds. These requirements include batching receipts daily, posting to a daily checkout sheet, and depositing daily into a federal insured banking institution. When receipts are not batched, accounted for and deposited daily, the risk of errors in financial reporting significantly increases due to the errors or fraud. We recommend the Sheriff implement procedures to ensure receipts are batched daily, posted to a daily checkout sheet, and deposited within three business days in order to meet the requirements established by DLG.

*Sheriff's Response: At present time, all receipts are batched daily, and money is deposited within three business days.*

2011-02 The Sheriff's Office Has A Lack Of Segregation Of Duties Related To Bank Reconciliations

During the review of controls, we determined that the bookkeeper posts entries to the receipts and disbursements ledgers and completes the bank reconciliations. The bank reconciliations are not reviewed by any other employee.

We recommend the Sheriff perform the bank reconciliations, have another employee other than the bookkeeper perform them, or have the bank reconciliations reviewed by another employee or review them himself, evidencing the review by initials.

*Sheriff's Response: Entries to ledgers are reviewed on a monthly basis. Bank reconciliations are reviewed by Sheriff or additional staff by signing and initialing reports.*

