

**REPORT OF THE AUDIT OF THE
MORGAN COUNTY
SHERIFF**

**For The Year Ended
December 31, 2013**



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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MORGAN COUNTY SHERIFF

**For The Year Ended
December 31, 2013**

The Auditor of Public Accounts has completed the Morgan County Sheriff's audit for the year ended December 31, 2013. 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 \$10,220 from the prior year, resulting in excess fees of \$90,419 as of December 31, 2013. Revenues increased by \$9,369 from the prior year and expenditures increased by \$19,589.

- 2013-01 The Sheriff Should Receive 1/12 Of His Salary Each Month
- 2013-02 The Sheriff Did Not Submit His Fourth Quarter Report
- 2013-03 The Sheriff Did Not Make Daily Deposits
- 2013-04 The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

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

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Tim Conley, Morgan County Judge/Executive
The Honorable Mickey Whitt, Morgan County Sheriff
Members of the Morgan County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Sheriff of Morgan County, Kentucky, for the year ended December 31, 2013, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



The Honorable Tim Conley, Morgan County Judge/Executive
The Honorable Mickey Whitt, Morgan County Sheriff
Members of the Morgan County Fiscal Court

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the County Sheriff on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the County Sheriff, as of December 31, 2013, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Sheriff for the year ended December 31, 2013, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 5, 2014 on our consideration of the Morgan 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 solely 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 effectiveness of the Morgan County Sheriff's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control over financial reporting and compliance.

The Honorable Tim Conley, Morgan County Judge/Executive
The Honorable Mickey Whitt, Morgan County Sheriff
Members of the Morgan County Fiscal Court

Other Reporting Required by Government Auditing Standards (Continued)

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

- 2013-01 The Sheriff Should Receive 1/12 Of His Salary Each Month
- 2013-02 The Sheriff Did Not Submit His Fourth Quarter Report
- 2013-03 The Sheriff Did Not Make Daily Deposits
- 2013-04 The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

December 5, 2014

MORGAN COUNTY
 MICKEY WHITT, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2013

Revenues

State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)	\$	7,862
State Fees For Services:		
Finance and Administration Cabinet	\$	50,945
Sheriff Security Service		<u>5,689</u>
		56,634
Circuit Court Clerk:		
Fines and Fees Collected		411
Fiscal Court		200,693
County Clerk - Delinquent Taxes		19,347
Commission On Taxes Collected		127,919
Fees Collected For Services:		
Auto Inspections		2,310
Serving Papers		10,810
Carrying Concealed Deadly Weapon Permits		<u>4,040</u>
		17,160
Other:		
Other Fees From Taxes		14,732
Miscellaneous		<u>154</u>
		<u>14,886</u>
Total Revenues		444,912

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

MORGAN COUNTY
 MICKEY WHITT, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2013
 (Continued)

Expenditures

Operating Expenditures:

Personnel Services-		
Deputies' Salaries	\$	156,532
Other Salaries		6,200
Employee Benefits-		
Employer's Share Social Security		17,568
Employer's Share Retirement		9,394
Employer's Share Hazardous Duty Retirement		52,379
Contracted Services-		
Advertising		2,309
Vehicle Maintenance and Repairs		2,881
Materials and Supplies-		
Office Materials and Supplies		6,972
Uniforms		1,317
Other Charges-		
Conventions and Travel		1,390
Dues		1,221
Postage		3,028
Phone/Fax		8,534
		<u>8,534</u>
Total Expenditures	\$	<u>269,725</u>
Net Revenues		175,187
Less: Statutory Maximum		<u>80,916</u>
Excess Fees		94,271
Less: Training Incentive Benefit		<u>3,852</u>
Excess Fees Due County for 2013		90,419
Payment to Fiscal Court - April 3, 2014		<u>73,500</u>
Balance Due Fiscal Court at Completion of Audit	\$	<u><u>16,919</u></u>

*The Sheriff presented a check to the fiscal court for excess fees in the amount of \$16,000 on October 9, 2014.

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

MORGAN COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2013

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 134.192 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 special purpose framework. 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 2013 services
- Reimbursements for 2013 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2013

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

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).

MORGAN COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2013
 (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 19.55 percent for the first six months and 18.89 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 37.60 percent for the first six months and 35.70 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:

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

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.

MORGAN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2013
(Continued)

Note 2. Employee Retirement System (Continued)

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 Morgan 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 Morgan 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, 2013, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

**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 Tim Conley, Morgan County Judge/Executive
The Honorable Mickey Whitt, Morgan County Sheriff
Members of the Morgan 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**

Independent Auditor's Report

We have audited, 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, the statement of revenues, expenditures, and excess fees - regulatory basis of the Morgan County Sheriff for the year ended December 31, 2013, and the related notes to the financial statement and have issued our report thereon dated December 5, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Morgan County Sheriff's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Morgan County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Morgan County Sheriff's internal control.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comments and recommendations, we identified a certain deficiency in internal control that we consider to be a material weakness.

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 comment and recommendation as item 2013-04 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)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Morgan 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 2013-01, 2013-02, and 2013-03.

County Sheriff's Responses to Findings

The Morgan County Sheriff's responses to the findings identified in our audit is are described in the accompanying comments and recommendations. The County Sheriff's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

December 5, 2014

COMMENTS AND RECOMMENDATIONS

MORGAN COUNTY
MICKEY WHITT, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2013

STATE LAWS AND REGULATIONS:

2013-01 The_Sheriff Should Receive 1/12 Of His Salary Each Month

The Sheriff receives \$1,400 of compensation each pay period (two weeks) and then receives a lump sum payment to achieve the salary maximum of \$80,916 in December. KRS 64.535 requires the Sheriff to receive his annual salary in equal installments that represent 1/12 of the total allocated amount each month. The Sheriff has several options available that would allow him to receive his correct salary of 1/12 per month. These options include using the State Advancement program and requesting Fiscal Court supplement the Sheriff's salary. We recommend the Sheriff discuss this issue with Fiscal Court and determine the best way to resolve this issue to become compliant with KRS 64.535.

Sheriff's Response: The Sheriff receives a smaller amount monthly to help allow the office to have more funds to operate on throughout the year.

2013-02 The Sheriff Did Not Submit His Fourth Quarter Report

The Sheriff has not submitted his quarterly financial report to the Department for Local Government for the quarter ending December 31, 2013. This report is due by the 30th day of the month following the end of the quarter. We recommend the Sheriff ensure that his quarterly reports are submitted timely in the future.

Sheriff's Response: All reports were done by our office and will be submitted to DLG.

2013-03 The Sheriff Did Not Make Daily Deposits

The Sheriff did not make daily deposits. The Uniform System of Accounts as adopted under KRS 68.210, gives the State Local Finance Officer the authority to establish minimum accounting procedures, which includes depositing receipts intact on a daily basis into a federally insured financial institution. The Sheriff failed to comply with the minimum requirements of the Uniform System of Accounts by not depositing receipts intact on a daily basis. We recommend the sheriff comply with KRS 68.210 by making daily deposits to prevent the likelihood of a financial statement misstatement or theft.

Sheriff's Response: In the future we will make daily deposits instead of weekly. We have been depositing weekly because we do not collect every day.

MORGAN COUNTY
MICKEY WHITT, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2013
(Continued)

INTERNAL CONTROL – MATERIAL WEAKNESS:

2013-04 The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties over receipts and disbursements. The Sheriff's bookkeeper collects payments from customers, makes deposits, monthly bank reconciliations, and posts to the receipts and disbursement ledgers. The bookkeeper prepares the payroll checks for the Sheriff to sign, but there is no documentation to prove he verifies the check amounts to payroll records. Adequate segregation of duties would prevent the same person from having a significant role in processing and recording receipts and disbursements which would decrease the risk that the misappropriation of assets and/or inaccurate financial reporting will occur and go undetected. The Sheriff should offset the lack of segregation of duties by implementing compensating controls such as periodically performing surprise cash counts, reviewing the bank reconciliations, and comparing the daily deposits to the daily checkout sheet and the receipts ledger, reconciling any differences.

In addition, the Sheriff could document that he is verifying check amounts to the invoices to ensure the check is written for the proper amount. Compensating controls should be documented by initialing and dating the source documents such as the bank reconciliations, bank deposits, daily collection reports, receipts and disbursements ledgers, invoices, and payroll records.

Sheriff's Response: Our office initially segregates the required duties between our staff and feels that all duties are being done adequately. In the future the Sheriff will implement compensating controls.

