

**REPORT OF THE AUDIT OF THE
CALLOWAY COUNTY
SHERIFF**

**For The Year Ended
December 31, 2016**



**MIKE HARMON
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Larry Elkins, Calloway County Judge/Executive
The Honorable Sam Steger, Jr., Calloway County Sheriff
Members of the Calloway County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the Sheriff of Calloway County, Kentucky, for the year ended December 31, 2016, 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 and budget laws. 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 opinion.



The Honorable Larry Elkins, Calloway County Judge/Executive
The Honorable Sam Steger, Jr., Calloway County Sheriff
Members of the Calloway 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 Calloway 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 Calloway County Sheriff, as of December 31, 2016, 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 receipts, disbursements, and excess fees of the Calloway County Sheriff for the year ended December 31, 2016, 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 November 30, 2017, on our consideration of the Calloway County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 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 Larry Elkins, Calloway County Judge/Executive
The Honorable Sam Steger, Jr., Calloway County Sheriff
Members of the Calloway County Fiscal Court

Other Reporting Required by *Government Auditing Standards* (Continued)

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

- 2016-001 The Calloway County Sheriff's Office Lacks Internal Controls Over Financial Reporting
- 2016-002 The Calloway County Sheriff's Office Lacks Adequate Segregation Of Duties
- 2016-003 The Calloway County Sheriff Overspent His Approved Budget

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal line extending to the right.

Mike Harmon
Auditor of Public Accounts

November 30, 2017

CALLOWAY COUNTY
 SAM STEGER, JR., SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2016

Receipts

Federal Highway Safety Grant	\$	4,805
State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)		61,061
State Fees For Services:		
Finance and Administration Cabinet	\$	141,040
Sheriff Security Service		13,607
		154,647
Circuit Court Clerk:		
Fines and Fees Collected		13,773
Fiscal Court		463,723
County Clerk - Delinquent Taxes		14,931
Commission On Taxes Collected		567,982
Fees Collected For Services:		
Fingerprints		5,590
Auto Inspections		17,960
School Security Service		84,807
Transporting		24,029
Serving Papers		53,281
Carry Concealed Deadly Weapon Permits		19,130
City of Hazel - Patrol Agreement		9,200
		213,997
Other:		
Add-On Fees		50,266
Miscellaneous		53,244
Sale of Surplus Property		3,047
		106,557
Interest Earned		676
Borrowed Money:		
Promissory Notes		28,820
State Advancement		213,000
		241,820
Total Receipts		1,843,972

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

CALLOWAY COUNTY
 SAM STEGER, JR., SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2016
 (Continued)

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-		
Deputies' Salaries	\$ 936,832	
Dispatch Salaries	207,464	
Employee Benefits-		
Employer's Share Social Security	88,120	
Employer's Share KLEFPF Retirement	7,795	
Materials and Supplies-		
Equipment Expense	94,601	
Auto Expense		
Maintenance and Repairs	34,063	
Other Charges-		
Conventions and Travel	8,769	
Postage	1,504	
Miscellaneous	43,323	
County Ordinance #00815B	10,870	
Capital Outlay-		
Vehicles	<u>7,707</u>	\$ 1,441,048
Debt Service:		
State Advancement	213,000	
Promissory Notes - Principal	54,234	
Promissory Notes - Interest	1,010	
Promissory Notes - Processing Fees	<u>55</u>	<u>268,299</u>
Total Disbursements		<u>\$ 1,709,347</u>
Net Receipts		134,625
Less: Statutory Maximum		<u>89,310</u>
Excess Fees		45,315
Less: Training Incentive Benefit		<u>1,984</u>
Excess Fees Due County for 2016		43,331
Payment to Fiscal Court - November 22, 2016		40,000
Payment to Fiscal Court - January 26, 2017		<u>249</u>
Balance Due Fiscal Court at Completion of Audit (See Note 13)		<u>\$ 3,082</u>

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

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2016

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 receipts over disbursements 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 annual settlement with the fiscal court on or before September 1 of each year. KRS 64.830 requires an outgoing sheriff to settle excess fees with the fiscal court of his county by March 15 immediately following the expiration of his term of office.

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, receipts and disbursements 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 2016 services
- Reimbursements for 2016 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2016

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 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 and Other Post-Employment Benefits

The county official and employees have elected to participate, pursuant to KRS 78.530, in the County Employees Retirement System (CERS), which is administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). 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.

CALLOWAY COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2016
 (Continued)

Note 2. Employee Retirement System and Other Post-Employment Benefits (Continued)

The sheriff's contribution for the KLEFPF portion of retirement for calendar year 2014 was \$6,761, calendar year 2015 was \$5,737, and calendar year 2016 was \$7,795.

Nonhazardous

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute six percent of their salary to be allocated as follows: five percent will go to the member's account and one percent will go to the KRS insurance fund.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own accounts. Nonhazardous covered employees contribute five percent of their annual creditable compensation. Nonhazardous members also contribute one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a four percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

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 (member's 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.

The county's contribution rate for nonhazardous employees was 17.06 percent for the first six months and 18.68 percent for the last six months.

Health Insurance Coverage

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%

CALLOWAY COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2016
 (Continued)

Note 2. Employee Retirement System and Other Post-Employment Benefits (Continued)

Health Insurance Coverage (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. 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.

KRS issues a publicly available annual financial report that includes financial statements and required supplementary information on CERS. 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 Calloway 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, 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 Calloway County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of December 31, 2016, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of November 18, 2016, 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 \$1,474,948

Note 4. Notes Payable

- A. The sheriff entered into a secured note payable to Murray Bank in the amount of \$37,122 on September 9, 2015. The purpose of the note was to purchase a vehicle for the sheriff's office. The balance of this note was paid in full as of December 31, 2016.
- B. The sheriff entered into a second secured note payable to Murray Bank in the amount of \$37,122 on September 9, 2015. The purpose of the note was to purchase a vehicle for the sheriff's office. The balance of this note was paid in full as of December 31, 2016.
- C. The sheriff's office entered into a secured note payable to Murray Bank in the amount of \$8,820 on April 22, 2016. The purpose of the note was to purchase a vehicle and computer for the sheriff's office. The balance of this note was paid in full as of December 31, 2016.

CALLOWAY COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2016
 (Continued)

Note 4. Notes Payable (Continued)

- D. The sheriff's office entered into a secured note payable to Murray Bank in the amount of \$20,000 on September 29, 2016. The note was used to provide financing for operating expenses of the sheriff's office. The balance of this note was paid in full as of December 31, 2016.

Note 5. Lease Agreement

The Calloway County Sheriff's office is committed to a lease agreement for a copy machine. According to the agreement, the sheriff's office pays \$12 per month plus a minimum amount per copy. The sheriff was in compliance with the agreement as of December 31, 2016.

Note 6. Special Account

The Calloway County Sheriff maintains a separate account for a calendar program, miscellaneous receipts, and interest earned on the account. The beginning balance of the account was \$2,057. During the calendar year receipts totaled \$1, leaving an ending balance of \$2,058, as of December 31, 2016.

Note 7. Forfeiture Account

The Calloway County Sheriff maintains a separate account for court ordered forfeitures of money and property. The beginning balance of the account was \$1,242. During the calendar year receipts totaled \$7,187 and disbursements totaled \$4,866, leaving an ending balance of \$3,563, as of December 31, 2016.

Note 8. Evidence Holding Account

The Calloway County Sheriff maintains an evidence holding account. Receipts for this account are interest earned on deposits and all monies confiscated from theft or drug arrests. These funds are disbursed only by a court order. The beginning balance of the account was \$7,950. During the calendar year receipts totaled \$38,740 and disbursements totaled \$1,052, leaving an ending balance of \$45,638, as of December 31, 2016.

Note 9. Unrefundable Duplicate Payments And Unexplained Receipts

The sheriff deposited unrefundable duplicate payments and unexplained receipts in an unclaimed property account. The sheriff's escrowed amounts were as follows:

2014	\$ 5,443 (Transferred from former sheriff)
2015	\$ 713
2016	\$ 646

KRS 393.090 states that after three years, if the funds have not been claimed, they are presumed abandoned. Abandoned funds are required to be sent to the Kentucky State Treasurer pursuant to KRS 393.110 and its accompanying regulations.

Note 10. Donations Account

The Calloway County Sheriff maintains a donations account. Receipts for this account are interest earned on deposits and donations made to the sheriff's department. The beginning balance of the account was \$317. During the calendar year receipts totaled \$3,871 and disbursements totaled \$1,871, leaving an ending balance of \$2,317, as of December 31, 2016.

CALLOWAY COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2016
 (Continued)

Note 11. Federal Grants

The Calloway County Sheriff's office received two Federal Highway Safety grants from the Department of Justice applicable from October 2015 to September 2016 and October 2016 to September 2017. During 2016 grant funds in the amount of \$4,805 were received. All funds were expended for their intended purpose.

Note 12. City of Hazel Agreement

The Calloway County Sheriff's contracted with the City of Hazel to provide law enforcement services. The current contract runs from June 1, 2016 to July 1, 2017. The amount received from this agreement during 2016 was \$9,200.

Note 13. Excess Fees Due Fiscal Court

The balance due to the Calloway County Fiscal Court at the completion of the audit consists of the following:

Proceeds from Sale of Surplus Property	\$ 3,047
Overpayment of Sheriff's Statutory Maximum Salary	33
Bank Balance of Fee Account	<u>2</u>
Balance Due Fiscal Court at Completion of Audit	<u>\$ 3,082</u>

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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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Larry Elkins, Calloway County Judge/Executive
The Honorable Sam Steger, Jr., Calloway County Sheriff
Members of the Calloway 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 Receipts, Disbursements, and Excess Fees - Regulatory Basis of the Calloway County Sheriff for the year ended December 31, 2016, and the related notes to the financial statement and have issued our report thereon dated November 30, 2017. The Calloway County Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control 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 Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 deficiencies described in the accompanying Schedule of Findings and Responses as items 2016-001, 2016-002, and 2016-003 to be material weaknesses.



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 Calloway 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2016-003.

Views of Responsible Official and Planned Corrective Action

The Calloway County Sheriff's views and planned corrective action for the findings identified in our audit are included in the accompanying Schedule of Findings and Responses. The Calloway 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,



Mike Harmon
Auditor of Public Accounts

November 30, 2017

SCHEDULE OF FINDINGS AND RESPONSES

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CALLOWAY COUNTY
SAM STEGER, JR., SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2016

FINANCIAL STATEMENT FINDINGS:

2016-001 The Calloway County Sheriff's Office Lacks Internal Controls Over Financial Reporting

This is a repeat finding and was included in the prior year audit report as finding 2015-001. The Calloway County Sheriff's fourth quarter financial report was materially misstated and required multiple audit adjustments. The sheriff has failed to emphasize a strong internal control system; therefore, weak internal controls allowed these misstatements to occur without detection. This required numerous audit adjustments to correct the sheriff's financial statement.

Strong internal controls over receipts and disbursements are essential to ensure that receipts and disbursements ledgers are properly maintained. The sheriff is responsible for the design and implementation of policies and procedures that will ensure receipts and disbursements are recorded properly and that financial reports are prepared accurately.

We recommend the sheriff strengthen internal controls over the recording of receipts and disbursements and financial reporting. Posting receipts and disbursements in appropriate categories will reduce the need for audit adjustments and help ensure the financial statement is accurately stated.

Sheriff's Response: More internal controls have been put in place in 2017 including separating the miscellaneous field into individual categories.

2016-002 The Calloway County Sheriff's Office Lacks Adequate Segregation Of Duties

This is a repeat finding and was included in prior year audit report as Finding 2015-002. In calendar year 2016, the Calloway County Sheriff's office lacked adequate segregation of duties. The bookkeeper is required to perform multiple tasks such as the collection of cash from customers, the bookkeeping function, preparation of the disbursements checks, and the preparation of the monthly and quarterly reports. To offset this lack of segregation of duties, the sheriff has implemented compensating controls including dual signatures and cross-checking procedures; however, these procedures were not sufficient to reduce the risks associated with the lack of segregation of duties. According to the bookkeeper, this lack of segregation of duties is caused by the diversity of operations with a limited number of staff.

A lack of segregation of duties or strong oversight increases the risk of undetected errors. Segregation of duties or the implementation of compensating controls, when limited by the number of staff, is essential for providing protection against the misappropriation of assets and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To adequately protect against the misappropriation of assets and financial reporting, the sheriff should segregate the duties noted above to the extent allowed by budget restrictions. For those duties that could not be segregated due to a limited number staff, strong management oversight by the sheriff or designee could be a cost effective alternative. This oversight should include reviewing monthly bank reconciliations and the receipts and disbursements ledgers. Documentation, such as the sheriff's or a designee's initials or signature, should be provided on those items that were reviewed.

Sheriff's Response: Due to a small staff it is difficult to overcome this issue. To help overcome this, the Sheriff will review monthly bank reconciliations, receipts and disbursement ledgers. The reviews will be documented by initials or signature of the Sheriff or his designee. Random cash counts will also continue to be done.

CALLOWAY COUNTY
SAM STEGER, JR., SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2016
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-003 The Calloway County Sheriff Overspent His Approved Budget

In calendar year 2016, the Calloway County Sheriff overspent his approved budget by \$94,889. A budget amendment was obtained by the sheriff's office, but it did not adequately cover all of the expenses. The sheriff failed to emphasize a strong internal control system; therefore, improper monitoring of disbursements resulted in the sheriff overspending his 2016 budget. The sheriff's failure to monitor the budget properly when making expenditures caused the office to disburse more money than was approved by fiscal court, thus making him noncompliant with KRS 68.210 and the fiscal court was denied additional excess fees of \$94,889.

The state local finance officer requires the fiscal court to approve a calendar year budget for each fee office as a component of the county's budget preparation process by January 15th of each year. KRS 68.210 states that the administration of the county uniform budget system shall be under the supervision of the state local finance officer who may inspect and shall supervise the administration of accounts and financial operations and shall prescribe a system of uniform accounts for all counties and county officials. Additionally, strong internal controls include monitoring disbursements and comparing them to budgeted amounts.

We recommend the Calloway County Sheriff monitor the budget set by fiscal court to ensure that he does not spend more than what is approved. When necessary, the sheriff should make appropriate transfers or obtain a budget amendment from fiscal court before overspending any budget category.

Sheriff's Response: We had to advance some commissions at the beginning of tax season. We did not subtract that amount from the monthly reports. It was an oversight which resulted in our office receiving an excess of \$50,000, which was used for equipment expenses for the year. We will monitor the budget more closely during the year and make proper adjustments.