

**SHERIFF  
HIGHLANDS COUNTY, FLORIDA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED SEPTEMBER 30, 2012**

**PRIOR YEAR**

No findings or recommendations

**CURRENT YEAR**

**2012-01- Internal Service Fund Accounting**

**Criteria:**

Highlands County as a whole chooses to account for compensated absences on the full-accrual basis of accounting so that expenses are recognized as leave is earned by employees. The accounting treatment is accomplished by using an internal service fund. According to GASB guidance, an internal service fund should follow the cost-reimbursement rule by recovering the full-accrual based cost of providing services each year. In the case of the Compensated Absences internal service fund, the fund should record as revenue the amount billed to the governmental fund to fully record the compensated absences liability. Additionally, the governmental funds should record the amount paid to the internal service fund as expenditures.

**Condition:**

In fiscal year 2012, the Sheriff recorded approximately 90% of the compensated absences liability in the internal service fund. In keeping with the accrual basis of accounting, as outlined above, the entire balance of vested accumulated compensated absences should be recorded as a liability in the internal service fund.

**Context:**

Our audit procedures that included reconciliation of the compensated absences liability account to the subsidiary ledger detected that the entire liability balance was not recorded in the internal service fund.

**Cause:**

Management performed an analysis of the compensated absences balance prior to year end. The general fund budget was not able to support the expenditures necessary to fully record the liability; therefore, the decision was made to partially record the amount.

**Effect:**

The liability within the Internal Service Fund was understated by approximately \$167,000. The amount the Internal Service Fund billed the governmental funds did not adequately cover the total liability as of September 30, 2012. Material journal entries were proposed as part of the audit process to correct the balances.

**Recommendation:**

We recommend management periodically track the liability for any significant personnel changes and record the full liability at year-end.

**SHERIFF  
HIGHLANDS COUNTY, FLORIDA  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
YEAR ENDED SEPTEMBER 30, 2012**

**CURRENT YEAR (CONTINUED)**

**2012-01- Internal Service Fund Accounting (Continued)**

**Management Response:**

We do not agree with the finding. Our staff brought the unfunded liability to the attention of the auditors seeking their opinion if partially funding the obligation was allowable. After the auditors rendered their opinion that the liability needed to be fully funded, staff took the appropriate action to fully fund the liability prior to year-end close out. In future years we intend to expense the compensated absence liability monthly, using unfunded budget appropriations in anticipation of adequate fund balance at year-end to cover the expense. We will continue to monitor the compensated absences liability on a bi-weekly basis as has been standard practice since 2005. In past years, the Sheriff's Office has been able to fund this liability from surplus funds at year-end, however, continuing deep budget cutbacks have made it difficult or impossible to continue to do so. In the future, it is anticipated that the Sheriff's Office will no longer be able to depend on any excess funds and funding will have to be an additional line item in annual budget appropriations.

**2012-02 - Revenue Recognition**

**Criteria:**

Under the modified accrual basis of accounting, revenue that is measurable and available should be recorded in the current period. "Available" means that the Sheriff has collected the revenue in the current period or expects to collect it soon enough after the end of the period to use it to pay liabilities in the current period.

**Condition:**

As part of our audit, we proposed an audit adjustment in the Inmate Welfare Fund to accrue September 2012 telephone commissions that were received after year-end.

**Context:**

The September 2012 telephone commissions were recorded in the subsequent fiscal year when they were collected.

**Cause:**

The accrual to record the September revenue was overlooked during the year-end closing process.

**Effect:**

Revenue was understated by approximately \$13,000 for the year ended September 30, 2012.

**Recommendation:**

We recommend management perform a fluctuation analysis at year end as part of the closing procedures. The analysis should include comparing prior year to current year actual numbers to detect any unusual variances. Additionally, revenue sources which typically have a receipt subsequent to year-end should be added to a closing process checklist to ensure all payments for the year have been recorded.

**Management Response:**

We agree with the auditor's findings and will ensure that all revenues will be recorded in the proper accounting year.