

**REPORT OF THE AUDIT OF THE
EDMONSON COUNTY
SHERIFF**

**For The Year Ended
December 31, 2019**



**MIKE HARMON
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Wil Cannon, Edmonson County Judge/Executive
The Honorable Shane Doyle, Edmonson County Sheriff
Members of the Edmonson 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 Edmonson County, Kentucky, for the year ended December 31, 2019, 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 this 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 a 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.

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The Honorable Wil Cannon, Edmonson County Judge/Executive
 The Honorable Shane Doyle, Edmonson County Sheriff
 Members of the Edmonson 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 Edmonson 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 the Edmonson County Sheriff, as of December 31, 2019, 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 Edmonson County Sheriff for the year ended December 31, 2019, 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 15, 2020, on our consideration of the Edmonson 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 Edmonson County Sheriff's internal control over financial reporting and compliance.

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:

- 2019-001 The Edmonson County Sheriff's Office Does Not Have Adequate Segregation Of Duties Over Receipts And Reconciliations
- 2019-002 The Edmonson County Sheriff Failed To Properly Oversee The Activity Of The Official Drug Fund, Which Serves As His State Asset Forfeiture Account

Respectfully submitted,



Mike Harmon
 Auditor of Public Accounts

December 15, 2020

EDMONSON COUNTY
SHANE DOYLE, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2019

Receipts

Federal Fees for Services	\$	14,667
State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)		22,538
State Fees For Services:		
Finance and Administration Cabinet	\$ 41,011	
Sheriff Security Service	1,488	
Cabinet For Health And Family Services	216	42,715
Circuit Court Clerk:		
Fines and Fees Collected	2,560	
Court Ordered Payments	207	2,767
Fiscal Court		102,272
County Clerk - Delinquent Taxes		26,684
Commission On Taxes Collected		223,707
Fees Collected For Services:		
Auto Inspections	2,255	
Accident and Police Reports	543	
Serving Papers	24,800	
Carry Concealed Deadly Weapon Permits	3,885	31,483
Other:		
Add-On Fees	24,215	
Miscellaneous	1,338	
School Resource Contract	61,500	87,053
Interest Earned		73
Total Receipts		553,959

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

EDMONSON COUNTY
 SHANE DOYLE, SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2019
 (Continued)

Disbursements

Operating Disbursements:

Other Charges-		
Charge Back Fee	\$	<u>5</u>
 Total Disbursements		 \$ <u>5</u>
 Net Receipts		 553,954
Less: Statutory Maximum		<u>88,539</u>
 Excess Fees		 465,415
Less: Training Incentive Benefit		<u>8,353</u>
 Excess Fees Due County for 2019		 457,062
Payments to Fiscal Court - Monthly		<u>457,062</u>
 Balance Due Fiscal Court at Completion of Audit		 <u><u>\$ 0</u></u>

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

EDMONSON COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2019

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 is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. This basis 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 2019 services
- Reimbursements for 2019 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2019

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).

EDMONSON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2019
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Fee Pooling

The Edmonson County Sheriff's office is required by the fiscal court to participate in a fee pooling system. Fee officials who are required to participate in fee pooling deposit all funds collected into their official operating account. The fee official is responsible for paying all amounts collected for others. Residual funds are then paid to the county treasurer on a monthly basis. Invoices are submitted to the county treasurer to document operating expenses. The fiscal court pays all operating expenses for the fee official.

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

The sheriff's office has 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.

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 KRS Board of Directors 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 21.48 percent for the first half of the year and 24.06 percent for the second half of the year.

EDMONSON COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2019
 (Continued)

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

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS 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. 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.

Benefits are covered under KRS 161.714 with exception of COLA and retiree health benefits after July 2003.

B. Health Insurance Coverage - Tier 2 and Tier 3 - Nonhazardous

Once members reach a minimum vesting period of 15 years, 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 by 1.5 percent. This was established for Tier 2 members during the 2008 Special Legislative Session by House Bill 1. During the 2013 Legislative Session, Senate Bill 2 was enacted, creating Tier 3 benefits for members.

The monthly insurance benefit has been increased annually as a 1.5 percent cost of living adjustment (COLA) since July 2003 when the law changed. The annual increase is cumulative and continues to accrue after the member's retirement.

Tier 2 member benefits are covered by KRS 161.714 with exception of COLA and retiree health benefits after July 2003. Tier 3 members are not covered by the same provisions.

EDMONSON COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2019
 (Continued)

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

Other Post-Employment Benefits (OPEB) (Continued)

C. Cost of Living Adjustments - Tier 1

The 1996 General Assembly enacted an automatic cost of living adjustment (COLA) provision for all recipients of KRS benefits. During the 2008 Special Session, the General Assembly determined that each July beginning in 2009, retirees who have been receiving a retirement allowance for at least 12 months will receive an automatic COLA of 1.5 percent. The COLA is not a guaranteed benefit. If a retiree has been receiving a benefit for less than 12 months, and a COLA is provided, it will be prorated based on the number of months the recipient has been receiving a benefit.

D. Cost of Living Adjustments - Tier 2 and Tier 3

No COLA is given unless authorized by the legislature with specific criteria. To this point, no COLA has been authorized by the legislature for Tier 2 or Tier 3 members.

E. Death Benefit

If a retired member is receiving a monthly benefit based on at least 48 months of service credit, KRS will pay a \$5,000 death benefit payment to the beneficiary designated by the member specifically for this benefit. Members with multiple accounts are entitled to only one death benefit.

KRS Annual Financial Report and Proportionate Share Audit Report

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.

KRS also issues proportionate share audit reports for both total pension liability and other post-employment benefits for CERS determined by actuarial valuation as well as each participating county's proportionate share. Both the Schedules of Employer Allocations and Pension Amounts by Employer and the Schedules of Employer Allocations and OPEB Amounts by Employer reports and the related actuarial tables are available online at <https://kyret.ky.gov>. The complete actuarial valuation report, including all actuarial assumptions and methods, is also available on the website or can be obtained as described in the paragraph above.

Note 3. Deposits

The Edmonson 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.

EDMONSON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2019
(Continued)

Note 3. Deposits (Continued)

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 Edmonson 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, 2019, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of November 29, 2019, 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 \$432,448

Note 4. Drug Account

The Edmonson County Sheriff's office maintained a drug account that is used for the purpose of drug enforcement. The beginning balance in this fund was \$5,427. Receipts totaled \$28,208 and expenditures totaled \$25,799. The total fund balance was \$7,836 as of December 31, 2019.

Note 5. Donation Account

The Edmonson County Sheriff's office maintained a donation account for related receipts and disbursements. The beginning balance in this fund was \$605. Receipts totaled \$1,647 and expenditures totaled \$2,070. The total fund balance was \$182 as of December 31, 2019.

Note 6. On Behalf Payments

The Edmonson County Sheriff's office is required by the fiscal court to participate in a fee pooling system. Since the sheriff is fee pooling, the Edmonson County Fiscal Court pays the sheriff's statutory maximum and training incentive benefit as reflected on the sheriff's financial statement. For the year ended December 31, 2019, the Edmonson County Fiscal Court's contributions recognized by the Edmonson County Sheriff included the amounts that were based on the statutory maximum as required by KRS 64.5275. The Edmonson County Sheriff recognized receipts from the fiscal court and disbursements for the statutory maximum of \$88,539 and training incentive benefit of \$8,353 for the year ended December 31, 2019.

Note 7. Federal Fees For Services

The Edmonson County Sheriff's office contracted with the United States Army Corps of Engineers to provide patrols and law enforcement services around Nolin River Lake from May 1, 2019 through April 30, 2020. The amount received under the contract during calendar year 2019 was \$14,667.

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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 Wil Cannon, Edmonson County Judge/Executive
The Honorable Shane Doyle, Edmonson County Sheriff
Members of the Edmonson 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 Edmonson County Sheriff for the year ended December 31, 2019, and the related notes to the financial statement and have issued our report thereon dated December 15, 2020. The Edmonson 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 Edmonson 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 Edmonson County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Edmonson County Sheriff's internal control.

Our consideration of internal control was for the limited purpose described in the preceding 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 2019-001 and 2019-002 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 Edmonson 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 are required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2019-002.

Views of Responsible Official and Planned Corrective Action

The Edmonson 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 Edmonson 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

December 15, 2020

SCHEDULE OF FINDINGS AND RESPONSES

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EDMONSON COUNTY
SHANE DOYLE, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2019

FINANCIAL STATEMENT FINDINGS:

2019-001 The Edmonson County Sheriff's Office Does Not Have Adequate Segregation Of Duties Over Receipts And Reconciliations

The Edmonson County Sheriff's office does not have adequate segregation of duties over receipts and reconciliations. The sheriff's bookkeeper collects payments from customers and prepares daily checkout sheets and deposits. The bookkeeper is also responsible for posting transactions to the receipts ledger, reconciling the bank account, and preparing monthly and quarterly reports. The sheriff has implemented compensating controls, such as the preparer and reviewer initial the daily checkout sheets and deposits. Also, the sheriff reviews monthly bank reconciliations and signs the monthly and quarterly reports. However, these controls were deemed insufficient. During daily checkout testing for the week of January 14 to January 18, 2019, we noted the following:

- The receipts of January 17 were combined with the receipts of January 18 in the same checkout sheet.
- The total collected on the daily checkout sheets included the cash collected from the tax account.
- On two daily checkouts sheets, tax account cash was reported instead of fee account cash. Moreover, the reviewer initials the daily checkouts sheets without detecting the errors.

The sheriff indicated that this condition is a result of a limited budget, which restricts the number of employees the sheriff can hire or delegate duties to.

A lack of oversight could result in undetected misappropriation of assets or inaccurate financial reporting to external agencies such as Department for Local Government. By not making daily deposits, the risk of misappropriation of cash, which is the asset most susceptible to possible theft is increased. Also, by including tax account cash into the fee account checkout sheet, the county official cannot guarantee that fee receipts are being accounted for properly.

Proper segregation of duties over various accounting functions such as preparing daily checkout sheets and deposits, and preparing reconciliations and reports, or the implementation of compensating controls is essential for providing protection from asset misappropriation or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. Also, it is a good internal control policy to compare the daily receipts to the ledger in order to determine that revenues have been properly accounted for.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Pursuant to KRS 68.210, the state local finance officer has prescribed minimum accounting and reporting standards in the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual*. The manual requires deposits to be made daily and intact into a federally insured banking institution. Good internal control dictates that the sheriff's office should account for fee account cash and tax account cash separately.

We recommend the sheriff's office implement the following:

- Segregate duties over receipts and reconciliations. If segregation of duties is not feasible due to lack of staff, the sheriff should strength the implementation of compensating controls over receipts and reconciliations to offset this deficiency.
- Make daily deposits to ensure compliance with the Department for Local Government.
- Account for fee account cash and tax account cash separately, so the total collected matches the total fees collected on the daily checkout sheet and on the deposit ticket.

EDMONSON COUNTY
 SCHEDULE OF FINDINGS AND RESPONSES
 December 31, 2019
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-001 The Edmonson County Sheriff's Office Does Not Have Adequate Segregation Of Duties Over Receipts And Reconciliations (Continued)

Sheriff's Response: As has been explained in previous years, budget constraints and lack of funding prevent our office from hiring enough office help to segregate the duties that are placed upon us. We have implemented compensating controls to deal with any concerns and for six years, our office has had clean audits. Although we are human and will make errors from time to time, all money has been accounted for.

2019-002 The Edmonson County Sheriff Failed To Properly Oversee The Activity Of The Official Drug Fund, Which Serves As His State Asset Forfeiture Account

This is a repeat finding and was included in the prior year audit report as finding 2018-001. The sheriff had the following deficiencies related to his drug fund:

- A cash deposit of \$6,732 was made into the drug fund from unknown sources.
- Funds totaling \$1,850 from the sale of deputy fire arms were deposited into the drug fund.
- Unsupported payments of \$8,400 were made to a deputy.
- Fifteen percent from the sale of forfeited properties was not paid to the county attorney.
- A deposit of \$3,225 was made into the drug fund from the sale of 3 abandoned properties.
- A deposit of \$727 was made into the drug fund from the sale of various electronic and tools (42 items).

The sheriff made a cash deposit of \$6,732 into the drug account without any supporting documentation. No court orders were available to determine if the amounts deposited should have been placed into the drug account. Additionally, the sheriff made deposits into the drug fund totaling \$1,850 from selling six firearms to deputies. There was no documentation as to how the guns were originally obtained.

The sheriff made four payments of \$2,100, totaling \$8,400, from the drug account during calendar year 2019 to a deputy without any supporting documentation. These lump sum payments were to be used for operating a DARE program at the local schools. The sheriff's office originally received these funds from the local Agency for Substance Abuse Policy office. No supporting documentation, such as time worked, expense reimbursements for the program, or any other valuation of payment was included for any of the sheriff's disbursements to the deputy. None of the funds paid to the deputy were included on a W-2 or 1099.

The sheriff received \$6,900 from the sale of 3 forfeited properties. The orders called for the funds to be distributed as follows: 85% to the sheriff's office and 15% to the commonwealth attorney's office. There was no payment made to the commonwealth attorney's office.

The sheriff deposited \$3,225 into the drug fund from the sale of 3 abandoned properties without enlisting the county attorney to determine what should happen with the funds collected from the sale of the abandoned properties. Additionally, the sheriff deposited \$727 into the drug fund from the sale of various electronic and tools (42 items). There was no documentation as to how these items were obtained.

The sheriff failed to implement internal controls over drug fund activity and failed to implement guidance over seizure activity in accordance with applicable KRS's. Additionally the sheriff failed to keep adequate records over sources of funds that were being deposited into the sheriff's drug fund.

EDMONSON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2019
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-002 The Edmonson County Sheriff Failed To Properly Oversee The Activity Of The Official Drug Fund,
Which Serves As His State Asset Forfeiture Account (Continued)

Cash deposited in the drug fund from unknown sources may be due to other entities. Since the sheriff was unable to provide documentation as to where the cash deposit came from, it could not be determined if the cash should have been deposited into the drug fund, an evidence fund, the sheriff's official fee account, escheated to the state, or returned to an original source. Those funds may not be eligible for use in the sheriff's drug fund. Additionally, the unsupported payments of \$8,400 from the drug fund are not allowable expenses and are due back to the sheriff's drug fund. Funds from the sale of guns may be due back to the sheriff's fee account or to the fiscal court depending on the original source of the guns.

The implementation of effective internal controls is instrumental to the successful oversight of the sheriff's official drug fund. Effective internal controls help protect the assets of the drug fund and prevent ineligible uses from occurring. KRS 218A.420 provides authoritative guidance on the proper procedures for cash seizures related to drug offenses. KRS Chapter 393A provides guidance for unclaimed property, when the sheriff is unable to determine the source of funds found in the sheriff's office. KRS 65.041 discusses the requirements for the disposition of firearms by a local government. KRS 218A.420(4) provides guidance on the distribution of the proceeds from the sale of forfeited property.

We recommend the sheriff research where the \$6,732 cash deposit came from and enlist the county attorney to determine what should happen with those funds. We also recommend the sheriff maintain required court orders or other supporting documentation for drug account deposits. Further, we recommend that the sheriff ensure procedures required per KRS 218A.420 are followed for all seized assets.

We recommend the sheriff require funds from the sale of firearms to deputies are used in accordance with KRS 65.041. The source of the original purchase would dictate where those funds should be deposited and then used for the purchase of body armor meeting or exceeding National Institute of Justice standards, firearms, ammunition, or range facilities, or a combination thereof.

The sheriff should have remitted \$8,400 into a DARE account. We recommend DARE account activity be maintained separately from the sheriff's drug fund, and only used to support the DARE program. Additionally, the deputy who received these funds should have a corrected W-2 issued to him in order to properly report the payments made to him.

We recommend the sheriff make a payment to the commonwealth attorney's office in the amount of \$1,035 in order to be in compliance with Edmondson County Circuit Court orders

We recommend the sheriff enlist the county attorney to determine what should happen with the funds collected from the sale of the abandoned properties. Additionally, the sheriff should deposit \$727 into the fee account since no supporting documentation was found for the sale of the electronics and tools.

Sheriff's Response: Deposit of \$6,732: In a glaring error on my part, I made one single deposit of this dollar amount without properly documenting the origin of the funds, and it's a mistake I won't make again. All deposits are now individualized, and are accompanied by supporting documentation or court orders.

Funds of \$1,850 from sale of Dept. owned firearms: Our office was purchasing new firearms for issuance to our law enforcement staff. Because these weapons were being purchased from the Drug Fund, I (wrongfully) assumed that proceeds from the sale of retiring firearms could be used to offset that cost in the drug fund. This error won't occur again.

EDMONSON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2019
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-002 The Edmonson County Sheriff Failed To Properly Oversee The Activity Of The Official Drug Fund,
Which Serves As His State Asset Forfeiture Account (Continued)

Sheriff's Response: (Continued) Unsupported payments of \$8,400 made to deputy: I have acquired the supporting documents from the school system that shows that services were rendered to the school for the reported payments, and I am actively working with the county treasurer to issue corrected W-2 forms and properly account for the payments made. All of the \$8,400 has a clear path from origin to final payment, and why the payments were made. I was told by the school system that they weren't allowed to pay the deputy directly, and that the payments must be made to another governmental agency. It was absolutely my mistake to assume that I could simply take the money from the school using the drug fund as a pass-through for the deputy's DARE instruction, however, nothing nefarious was at heart and no monies are unaccounted for. This won't happen again.

Fifteen percent of sale of forfeited properties weren't made to County (sic) Attorney: These payments will be issued to our Commonwealth Attorney upon information from the county treasurer indicating the amount required to be paid.

Deposit of \$3,225 into drug fund for sale of 3 abandoned properties and Deposit of \$727 from sale of various electronics: I will enlist the help of the county attorney to assist me in determining what should happen with the proceeds from the sale of abandoned properties. I have court orders showing that all of the electronics were forfeited to the sheriff's office, but no way to show a nexus between the orders and the actual items because those items weren't listed individually on the sale list. If the Fiscal court requires it, I will remit payment to them in the amount of \$727.