

**REPORT OF THE AUDIT OF THE
GRAYSON COUNTY
SHERIFF**

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



**MIKE HARMON
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Kevin Henderson, Grayson County Judge/Executive
The Honorable Norman Chaffins, Grayson County Sheriff
Members of the Grayson 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 Grayson 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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AN EQUAL OPPORTUNITY EMPLOYER M / F / D



The Honorable Kevin Henderson, Grayson County Judge/Executive
 The Honorable Norman Chaffins, Grayson County Sheriff
 Members of the Grayson 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 Grayson 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 Grayson 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 Grayson 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 November 19, 2020, on our consideration of the Grayson 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 Grayson 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 Sheriff's Office Lacked Adequate Segregation Of Duties And Did Not Implement Compensating Controls
- 2019-002 The Sheriff's Fourth Quarter Financial Report Was Materially Misstated

Respectfully submitted,



Mike Harmon
 Auditor of Public Accounts

November 19, 2020

GRAYSON COUNTY
NORMAN CHAFFINS, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2019

Receipts

Federal:

Fees For Services - Lake Patrol	\$	21,996
Highway Safety Grant		7,972

State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)		46,878
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State Fees For Services:

Finance and Administration Cabinet	\$ 84,337	
Sheriff Security Service	14,623	98,960

Circuit Court Clerk:

Fines and Fees Collected		8,143
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Fiscal Court		92,114
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County Clerk - Delinquent Taxes		21,451
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Commission On Taxes Collected		529,713
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Fees Collected For Services:

Auto Inspections	10,115	
Accident and Police Reports	385	
Serving Papers	56,557	
Carry Concealed Deadly Weapon Permits	7,030	
Carry Concealed Deadly Weapon Photos	1,150	
Elizabethtown Community & Technical College Security	50,000	125,237

Other:

Add-On Fees	51,732	
Miscellaneous	6,493	
Copies	566	
Fingerprints	50	
Transporting Prisoners	166	
GHC Narcotics Reimbursement	18,480	77,487

Interest Earned		45
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Borrowed Money:

State Advancement		300,000
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Total Receipts		1,329,996
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The accompanying notes are an integral part of this financial statement.

GRAYSON COUNTY
 NORMAN CHAFFINS, SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2019
 (Continued)

Disbursements

Operating Disbursements:

Personnel Services-

Deputies' Salaries	\$ 430,075	
KLEFPF	35,718	
Bailiffs	106,585	
Clerks	98,143	

Contracted Services-

Advertising	30	
Vehicle Maintenance and Repairs	20,359	

Materials and Supplies-

Office Materials and Supplies	27,172	
Uniforms	4,669	

Auto Expense-

Gasoline	41,862	
K9	521	
Lake Patrol	28	
Service	1,890	

Other Charges-

Conventions and Travel	1,170	
Dues	836	
Postage	10,142	
Bond	5,329	
Miscellaneous	6,944	
Insufficient Funds Checks	40	
Computer Lease and Services	8,730	
Lab Work	523	
Cell Phone and Telephone	<u>5,334</u>	\$ 806,100

Debt Service:

State Advancement	300,000	
Vehicle Lease - Principal	30,400	
Vehicle Lease - Interest	<u>3,317</u>	<u>333,717</u>

Total Disbursements \$ 1,139,817

GRAYSON COUNTY
NORMAN CHAFFINS, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2019
(Continued)

Net Receipts	\$ 190,179
Less: Statutory Maximum	<u>94,863</u>
Excess Fees	95,316
Less: Training Incentive Benefit	<u>4,216</u>
Excess Fees Due County for 2019	91,100
Payment to Fiscal Court - March 3, 2020	<u>88,361</u>
Balance Due Fiscal Court at Completion of Audit*	<u>\$ 2,739</u>

* - The sheriff presented a check to the fiscal court for excess fees on September 3, 2020.

GRAYSON 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).

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

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

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.

Hazardous

Hazardous covered employees are required to contribute eight percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008, are required to contribute nine percent of their salary to be allocated as follows: eight 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. Hazardous members contribute eight percent of their annual creditable compensation and 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.

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

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

Hazardous (Continued)

Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A hazardous member's account is credited with a seven and one-half percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

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.

The county's contribution rate for hazardous employees was 35.34 percent for the first half of the year and 39.58 percent for the second half of the year.

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.

Hazardous employees whose participation began on or after July 1, 2003, earn 15 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, the 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.

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

GRAYSON 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)

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.

C. Health Insurance Coverage - Tier 2 and Tier 3 - Hazardous

Once members reach a minimum vesting period of 15 years, earn fifteen 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. Upon the death of a hazardous employee, the employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. 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 COLA since July 2003 when the law changed. The annual increase is cumulative and continues to accrue after the member's retirement.

D. 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.

E. 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.

F. 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.

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

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

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 Grayson 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 Grayson 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.

Note 4. Short-Term Debt

The Grayson County Sheriff's office borrowed \$300,000 for his Sheriff State Advancement. The loan was repaid December 19, 2019.

	Beginning Balance	Additions	Reductions	Ending Balance
State Advancement	\$	\$ 300,000	\$ 300,000	\$
Total Short-term Debt	\$ 0	\$ 300,000	\$ 300,000	\$ 0

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

Note 5. Lease Agreement

The Grayson County Sheriff's office was committed to a lease agreement for four vehicles. The agreement requires a yearly payment of \$33,717 for four years to be completed on December 31, 2021. The total remaining balance of the agreement was \$62,714 as of December 31, 2019.

Note 6. Drug Eradication Fund

The sheriff's office maintains a drug eradication fund for drug related receipts and disbursements. The balance of the fund on January 1, 2019, was \$6,109. During 2019, receipts of the drug eradication fund were \$26,616 and disbursements were \$29,965. The ending balance was \$2,760, which is not subject to excess fees.

Note 7. Drug Confiscation Fund

The sheriff's office maintains a drug confiscation fund for holding drug related seized funds until a court order for dispensation. The balance of the fund on January 1, 2019, was \$2,992. During 2019, receipts of the drug confiscation fund were \$26,875 and disbursements were \$27,962. The ending balance was \$1,905, which is not subject to excess fees.

Note 8. Federal Highway Safety Grant

The sheriff's office maintains a grant fund to account for Federal Highway Safety Grant receipts and disbursements. During 2019, the sheriff received grant funds of \$7,972 and disbursements were \$7,972. The ending reconciled balance was \$0.

Note 9. K-9 Fund

The sheriff's office maintained a K-9 fund. The balance of the fund on January 1, 2019, was \$0. During 2019, there were no receipts and disbursements were for the K-9 Fund. The K-9 account was closed in August 2019.

Note 10. U.S. Army Corps of Engineers - Lake Patrol Contracts and Lake Patrol Fund

The sheriff's office maintains a lake patrol fund to account for receipts of federal lake patrol contracts. The balance of the fund on January 1, 2019, was \$0. During 2019, lake patrol receipts were \$21,996 and lake patrol disbursements were \$21,996. The ending balance was \$0.

A. Nolin Lake Contract

The Grayson County Sheriff's office contracted with the U.S. Army Corps of Engineers to provide patrols around Nolin Lake project grounds from May 17, 2019 through April 30, 2020. The amount received under this contract during 2019 was \$12,977.

B. Rough River Contract

The Grayson County Sheriff's office contracted with the U.S. Army Corps of Engineers to provide patrols around Rough River project grounds from May 17, 2019 through April 30, 2020. The amount received under this contract during 2019 was \$9,019.

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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 Kevin Henderson, Grayson County Judge/Executive
The Honorable Norman Chaffins, Grayson County Sheriff
Members of the Grayson 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 Grayson County Sheriff for the year ended December 31, 2019, and the related notes to the financial statement and have issued our report thereon dated November 19, 2020. The Grayson 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 Grayson 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 Grayson County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Grayson 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 Grayson 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 matter that is 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 Grayson County Sheriff's views and planned corrective action for the finding identified in our audit are described in the accompanying Schedule of Findings and Responses. The Grayson 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 19, 2020

SCHEDULE OF FINDINGS AND RESPONSES

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GRAYSON COUNTY
NORMAN CHAFFINS, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2019

FINANCIAL STATEMENT FINDINGS:

2019-001 The Sheriff's Office Lacked Adequate Segregation Of Duties And Did Not Implement Compensating Controls

The Grayson County Sheriff's office lacks adequate segregation of duties. The bookkeeper prepares all checks, records receipts and disbursements on ledgers, reconciles accounts, and prepares financial statements with no oversight.

While this condition, according to the sheriff, is caused by the diversity of operations with a limited number of staff, the sheriff failed to implement compensating controls to offset this deficiency in internal controls. The lack of segregation of duties or strong oversight caused a materially misstated financial statement to be submitted to the Department for Local Government.

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.

We recommend the sheriff segregate the duties noted above by allowing different deputies to perform these functions. For those duties that cannot be segregated, strong management oversight and documented review processes should be implemented by the sheriff.

Sheriff's Response: We do the best we can with the staff we have. We will continue to double check our work to ensure accountability and responsibilities.

2019-002 The Sheriff's Fourth Quarter Financial Report Was Materially Misstated

This is a repeat finding and was included in prior year audit report as finding 2018-001. The quarterly financial report for calendar year 2019 was materially misstated. This was due to a combination of receivables and unpaid liabilities not being included on the financial statements. In order to have the quarterly report agree to the receipts and disbursements ledgers, adjustments of \$161,968 were made to the receipts ledger and adjustments of \$65,650 were made to the disbursements ledger due to numerous bookkeeping errors on the quarterly report. In addition, multiple other adjustments were needed in order to reconcile ledger totals to actual receipts and disbursements for the period totaling \$1,575 for receipts and \$9,090 for disbursements.

There was no oversight by the sheriff to ensure accurate financial statement reporting performed by the bookkeeper. Internal controls failed to catch these omissions on the quarterly financial report, resulting in receipts of \$161,968 and \$65,650 in disbursements being omitted from the quarterly report due to error and additional adjustments of \$1,575 to receipts and \$9,090 to disbursements for other items.

Good internal controls promote good business practices providing reasonable assurance that financial records and reports are accurate. The lack of effective internal controls increases the risk that errors and fraud are detected late or possibly remain undetected. KRS 64.100 requires accurate records of receipts.

We recommend the Grayson County Sheriff's office strengthen internal controls in order to ensure accurate financial reporting.

Sheriff's Response: Upon conference with office manager, we will take necessary steps to ensure that receipts and disbursements are properly recorded and placed in the appropriate column on the financial report.