

**REPORT OF THE AUDIT OF THE  
FORMER PENDLETON COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2017**



**MIKE HARMON  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**209 ST. CLAIR STREET  
FRANKFORT, KY 40601-1817  
TELEPHONE (502) 564-5841  
FACSIMILE (502) 564-2912**



CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT ..... 1

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS ..... 4

NOTES TO FINANCIAL STATEMENT ..... 7

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* ..... 13

SCHEDULE OF FINDINGS AND RESPONSES ..... 17

THIS PAGE LEFT BLANK INTENTIONALLY



**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable David Fields, Pendleton County Judge/Executive  
The Honorable Craig Peoples, Former Pendleton County Sheriff  
The Honorable Edwin Quinn, Pendleton County Sheriff  
Members of the Pendleton 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 former Sheriff of Pendleton County, Kentucky, for the year ended December 31, 2017, 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.

209 ST. CLAIR STREET  
FRANKFORT, KY 40601-1817

TELEPHONE 502.564.5841  
FACSIMILE 502.564.2912  
WWW.AUDITOR.KY.GOV

AN EQUAL OPPORTUNITY EMPLOYER M / F / D



The Honorable David Fields, Pendleton County Judge/Executive  
The Honorable Craig Peoples, Former Pendleton County Sheriff  
The Honorable Edwin Quinn, Pendleton County Sheriff  
Members of the Pendleton 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 former Pendleton 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 former Pendleton County Sheriff, as of December 31, 2017, 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 former Pendleton County Sheriff for the year ended December 31, 2017, 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 21, 2018, on our consideration of the former Pendleton 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 former Pendleton County Sheriff's internal control over financial reporting and compliance.

The Honorable David Fields, Pendleton County Judge/Executive  
The Honorable Craig Peoples, Former Pendleton County Sheriff  
The Honorable Edwin Quinn, Pendleton County Sheriff  
Members of the Pendleton 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:

- 2017-001 The Former Pendleton County Sheriff's Office Lacked Adequate Segregation Of Duties Over Receipts And Disbursements
- 2017-002 The Former Pendleton County Sheriff's Office Did Not Batch Receipts Daily Or Make Daily Deposits
- 2017-003 The Former Pendleton County Sheriff Administered A Charitable Account Through His Office That Did Not Serve A Public Purpose Associated With A Regular Function Of The Sheriff's Office
- 2017-004 The Former Pendleton County Sheriff Did Not Maintain Sufficient Documentation For \$7,980 Disbursed From The Asset Forfeiture Account

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 21, 2018

PENDLETON COUNTY  
 CRAIG PEOPLES, FORMER SHERIFF  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2017

Receipts

State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)	\$	23,496
State Fees For Services:		
Finance and Administration Cabinet	\$	65,489
Sheriff Security Service		3,778
Transport Deputies		62,000
		131,267
County Clerk - Delinquent Taxes		31,019
Commission On Taxes Collected		308,765
Fees Collected For Services:		
Auto Inspections		3,838
Accident and Police Reports		435
Serving Papers		26,346
Carry Concealed Deadly Weapon Permits		7,102
		37,721
Other:		
Add-On Fees		26,041
Miscellaneous		6,408
School Resource Officer		28,000
Courthouse General Fund		3,990
Gas for Prisoner Transport		5,887
		70,326
Interest Earned		267
Borrowed Money:		
State Advancement		205,000
Total Receipts		807,861

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



PENDLETON COUNTY  
 CRAIG PEOPLES, FORMER SHERIFF  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2017  
 (Continued)

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-	
Deputies' Salaries	\$ 129,858
Secretary Salaries	32,050
Overtime	31,059
Transport Salaries	54,982
School Resource Officer	39,917
Range Instructor	1,500
Court Security Salary	68,431
KLEFPF	16,461
Irregular Overtime	3,583
Contracted Services-	
Advertising	216
Vehicle Maintenance and Repairs	12,721
Materials and Supplies-	
Office Materials and Supplies	2,759
Uniforms	5,930
Auto Expense-	
Gasoline	25,402
Other Charges-	
Conventions and Travel	7,299
Dues	681
Postage	753
Office Phones	3,040
Miscellaneous	3,463
Mobile Phones	4,125
Computer and Copier	11,856
Radio	627
Courthouse General Fund	3,990
Payments to County Treasurer	5,154
CCDW Fees	1,590

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

PENDLETON COUNTY  
 CRAIG PEOPLES, FORMER SHERIFF  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2017  
 (Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay: (Continued)

Capital Outlay-		
Office Equipment	\$	748
Vehicles		<u>32,000</u>
	\$	500,195
Debt Service:		
State Advancement		<u>205,000</u>
Total Disbursements		<u>\$ 705,195</u>
Net Receipts		102,666
Less: Statutory Maximum		<u>85,085</u>
Excess Fees		17,581
Less: Training Incentive Benefit		<u>4,052</u>
Excess Fees Due County for 2017		13,529
Payment to Fiscal Court - January 19, 2018		<u>13,465</u>
Balance Due Fiscal Court at Completion of Audit	\$	<u>64</u>

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

PENDLETON COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2017

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 2017 services
- Reimbursements for 2017 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2017

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.

PENDLETON COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2017  
(Continued)

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

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 members contribute five 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. 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 18.68 percent for the first six months and 19.18 percent for the last six months.

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. 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.

PENDLETON COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2017  
 (Continued)

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

Hazardous (Continued)

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 31.06 percent for the first six months and 31.55 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:

<b>Years of Service</b>	<b>% Paid by Insurance Fund</b>	<b>% Paid by Member through Payroll Deduction</b>
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.

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.

PENDLETON COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2017  
 (Continued)

Note 3. Deposits

The former Pendleton 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 former Pendleton County Sheriff does not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 66.480(1)(d) and KRS 41.240. As of December 31, 2017, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of October 31, 2017, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the former sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured      \$4,826,350

Note 4. Special Accounts

A. Asset Forfeiture

The former Pendleton County Sheriff's office maintained a drug account for the receipt and expenditure of funds resulting from drug related seizures and forfeitures. This account had a beginning balance of \$21,367. Expenditures from the account are for law enforcement activities. During 2017, there were receipts of \$2,756 and expenditures of \$16,955, leaving a balance of \$7,168 as of December 31, 2017.

B. Pendleton County Cop and Court Account

The former Pendleton County Sheriff's office maintained a cop and court account. This account consists of funds obtained through fundraiser proceeds to be used with the annual shop with a cop program. The beginning balance in the account was \$1,181. Receipts during the year totaled \$5,897 and expenditures totaled \$3,982, leaving a balance of \$3,096 as of December 31, 2017.

C. Drug Court Account

The former Pendleton County Sheriff's office maintained a drug court account. This account consists of funds allotted by the Pendleton County Fiscal Court for the Drug Court program that is administered by the circuit court. The beginning balance in the account was \$4,510. There were \$8 in receipts, and disbursements of \$115 during the year, leaving a balance of \$4,403 in the account as of December 31, 2017.

Note 5. Related Party Transactions

The former Pendleton County Sheriff purchased goods from a business owned by his family member. The total amount spent in calendar year 2017 was \$1,162 for a variety of office supplies necessary to operate the sheriff's office.

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*

THIS PAGE LEFT BLANK INTENTIONALLY





**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable David Fields, Pendleton County Judge/Executive  
The Honorable Craig Peoples, Former Pendleton County Sheriff  
The Honorable Edwin Quinn, Pendleton County Sheriff  
Members of the Pendleton 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 former Pendleton County Sheriff for the year ended December 31, 2017, and the related notes to the financial statement and have issued our report thereon dated November 21, 2018. The former Pendleton 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 former Pendleton 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 former Pendleton County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Pendleton 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, and other deficiencies that we consider to be significant deficiencies.

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 2017-001 and 2017-002 to be material weaknesses.

209 ST. CLAIR STREET  
FRANKFORT, KY 40601-1817

TELEPHONE 502.564.5841  
FACSIMILE 502.564.2912

WWW.AUDITOR.KY.GOV

AN EQUAL OPPORTUNITY EMPLOYER M / F / D



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)

**Internal Control over Financial Reporting (Continued)**

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2017-003 and 2017-004 to be significant deficiencies.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the former Pendleton County Sheriff's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2017-002, 2017-003, and 2017-004.

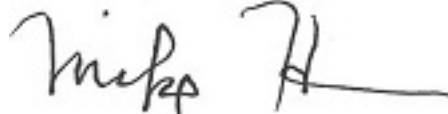
**Views of Responsible Official and Planned Corrective Action**

The former Pendleton County Sheriff's views and planned corrective action for the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The former Pendleton 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 21, 2018

## SCHEDULE OF FINDINGS AND RESPONSES

THIS PAGE LEFT BLANK INTENTIONALLY

PENDLETON COUNTY  
CRAIG PEOPLES, FORMER SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2017

FINANCIAL STATEMENT FINDINGS:

2017-001 The Former Pendleton County Sheriff's Office Lacked Adequate Segregation of Duties Over Receipts And Disbursements

---

This is a repeat comment and was reported in the prior year audit report as finding 2016-001. During our review of internal controls, we discovered the former sheriff's office lacked adequate segregation of duties over receipts and disbursements. All employees of the sheriff's office collect receipts. The office manager prepares the daily bank deposit and daily checkout sheet and then posts items to the receipts ledger. The office manager prepares the quarterly financial report and bank reconciliations that are agreed to the receipts and disbursements ledgers. The office manager prepares checks for all disbursements including payroll and posts to the disbursements ledger. The former sheriff and office manager were the only authorized check signers. The former sheriff did not require dual signatures on checks; however, the office manager generally signed checks.

According to the former sheriff, due to the office having a small staff comprised of three full time employees, it is very difficult to segregate duties over receipts and disbursements.

Lack of segregation of duties over receipts and disbursements creates an opportunity for misappropriation of assets. By having the same employee perform these functions, the risk that errors or fraud could occur and not be detected increases. This could also result in inaccurate financial reporting to external agencies such as the Department for Local Government.

Good internal controls dictate that the same employee should not handle, record, and reconcile receipts and disbursements. If adequate segregation of duties is not possible, compensating controls by means of strong official oversight can be implemented to mitigate risks associated with the weakness. Examples of official oversight are:

- The former sheriff could have periodically compared the daily bank deposit to the daily checkout sheet and then compared the daily checkout sheet to the receipts ledger when prepared by another employee. The former sheriff could have documented this review process by initialing the daily checkout sheets and deposit slips.
- The former sheriff could have reviewed the quarterly financial report and compared amounts reported on the receipts and disbursements ledger.
- Bank statements could be reconciled regularly by another person. If this is not possible, the former sheriff could have reviewed the bank reconciliation and document the review process by dating and initialing the bank statement, along with the reconciliation sheets.

We recommend the sheriff's office implement adequately segregate duties over receipts and disbursements as outlined above. If the sheriff's office cannot feasibly separate the processes, we recommend compensating controls to offset this weakness with strong management oversight.

*Former Sheriff's Response: To be addressed by new administration, current sheriff is retiring.*

PENDLETON COUNTY  
 CRAIG PEOPLES, FORMER SHERIFF  
 SCHEDULE OF FINDINGS AND RESPONSES  
 For The Year Ended December 31, 2017  
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-002 The Former Pendleton County Sheriff's Office Did Not Batch Daily Receipts Or Make Daily Deposits

---

This is a repeat comment and was reported in the prior year audit report as finding 2016-002. The former sheriff did not batch receipts daily or make daily deposits. From our sample in January 2017, it was determined that the bookkeeper batched receipts based on deposit date. There was also a \$20 shortage on one day tested, and on two days of our sample the daily checkout sheet did not agree to our recap of receipts.

The sheriff's office has determined that if deposits are small they do not take them daily. A limited staff makes it difficult to take deposits to the bank daily. A lack of oversight could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as Department of Local Government.

KRS 68.210 gives the state local finance officer the authority to determine minimum requirements for local government entities. As such, the Department for Local Government requires local governments to follow guidelines set forth in the *County Budget Preparation and State Local Finance Officer Policy Manual*. This manual requires collections to be deposited intact into a federally insured banking institution on a daily basis. It also requires officials to issue receipts and reconcile daily checkout sheets with daily deposit totals. The checkout sheets should agree to batched receipts, deposits, and the receipts ledger.

We recommend the sheriff's office implement procedures to ensure receipts are batched, posted to a daily checkout sheet, and deposited daily in order to be in compliance with minimum accounting requirements required by the Department for Local Government. We further recommend the sheriff ensure daily checkout sheets detail receipt numbers issued, the amount of cash and/or checks collected, and are attached to the white and yellow copies of receipts.

*Former Sheriff's Response: To be addressed by new administration.*

2017-003 The Former Pendleton County Sheriff Administered A Charitable Account Through His Office That Did Not Serve A Public Purpose Associated With A Regular Function Of The Sheriff's Office

---

This is a repeat comment and was reported in the prior year audit report as finding 2016-003. The former sheriff maintained a county cop and court account that is run through his office for the Shop With A Cop Program. This account does not serve a public purpose associated with the regular function of the sheriff's office. During testing of disbursements, the auditor noted a check written to a deputy from the county cop and court account.

The lack of oversight could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the Department for Local Government.

The former sheriff understood the requirements but wanted all collections to be in an account that would be audited.

Charitable accounts run through the sheriff's office must serve a public purpose associated with a regular function of the sheriff's office, such as drug awareness education through DARE. In addition, to be an allowable charitable activity under KRS 61.310(8), the activities to be performed by the former sheriff or his deputies should relate to a regular function of the office. Good internal controls dictate that disbursements be made by check to ensure that all transactions are allowable, necessary, properly supported, and reviewed by management.

PENDLETON COUNTY  
 CRAIG PEOPLES, FORMER SHERIFF  
 SCHEDULE OF FINDINGS AND RESPONSES  
 For The Year Ended December 31, 2017  
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-003 The Former Pendleton County Sheriff Administered A Charitable Account Through His Office That Did Not Serve A Public Purpose Associated With A Regular Function Of The Sheriff's Office (Continued)

---

We recommend the sheriff's office only accept allowable donations and spend the funds for activities that are for the public purposes of the office. To comply with KRS 61.310, the sheriff's office should conduct any charitable activities that are not part of the official duties either in a personal capacity or through existing charitable organizations rather than through the sheriff's office. We also recommend the sheriff's office discontinue writing checks to deputies from any accounts that are not properly supported. Any expenditure should be made by check to ensure all expenditures are allowable and necessary and properly recorded.

*Former Sheriff's Response: I believe this account needs to be audited.*

2017-004 The Former Pendleton County Sheriff Did Not Maintain Sufficient Documentation For \$7,980 Disbursed From The Asset Forfeiture Account

---

The former Pendleton County Sheriff expended \$7,980 from the asset forfeiture account for drug buys. The checks were written to a deputy with "drug buy" in the memo line only. The former sheriff did not keep a log or any documentation for the withdrawals from the account. An employee of the sheriff's office indicated the funds were received from federal forfeitures, although the lack of documentation prevented the verification of the source of the funds.

A lack of controls relating to how the fund should be managed led to the failure to maintain records. Proper record keeping was not maintained for the forfeiture fund, increasing the risk for misappropriation of assets in the account. Risks are also elevated that these funds will not be used for their intended purpose. The *Guide to Equitable Sharing for State and Local Law Enforcement Agencies* requires a separate revenue account for funds from the Equitable Sharing Program, and also requires records to be kept for all expenditures that are in accordance with the guide.

We recommend the sheriff's office implement procedures for documenting drug buy activity, including maintaining a log for all drug buys and have the deputy receiving the money sign a log for each transaction documenting the receipt of funds. The deputy and/or the sheriff should document any expenditures on a log or detailed spreadsheet.

*Former Sheriff's Response: Documentation exists to verify costs to develop drug cases for paying CI's and buying drugs. Will try to provide auditor's office prior to December 7, 2018.*

Auditor's Reply: No documentation was provided.