

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

**For The Year Ended
December 31, 2021**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
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 <i>GOVERNMENT AUDITING STANDARDS</i>	17
SCHEDULE OF FINDINGS AND RESPONSES	21

THIS PAGE LEFT BLANK INTENTIONALLY



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

Independent Auditor's Report

The Honorable Kevin Henderson, Grayson County Judge/Executive
The Honorable Norman Chaffins, Grayson County Sheriff
Members of the Grayson County Fiscal Court

Report on the Audit of the Financial Statement

Opinions

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, 2021, and the related notes to the financial statement.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the accompanying financial statement presents fairly, in all material respects, the receipts, disbursements, and excess fees of the Grayson County Sheriff for the year ended December 31, 2021, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

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 section of our report, the financial statement 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, 2021, or changes in financial position or cash flows thereof for the year then ended.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Audit Program for County Fee Officials*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statement section of our report. We are required to be independent of the Grayson County Sheriff and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



The Honorable Kevin Henderson, Grayson County Judge/Executive
 The Honorable Norman Chaffins, Grayson County Sheriff
 Members of the Grayson County Fiscal Court

Basis for Opinion (Continued)

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 and budget laws, 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 and pervasive.

Responsibilities of Management 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 Responsibilities for the Audit of the Financial Statement

Our objectives are to obtain reasonable assurance about whether the financial statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statement.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement.
- Obtain an understanding of internal control relevant to the audit 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 Grayson County Sheriff's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statement.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Grayson County Sheriff's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we have identified during the audit.

The Honorable Kevin Henderson, Grayson County Judge/Executive
The Honorable Norman Chaffins, Grayson County Sheriff
Members of the Grayson County Fiscal Court

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2022, 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 effectiveness of 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:

- 2021-001 The Grayson County Sheriff's Fourth Quarter Financial Report Was Materially Misstated
- 2021-002 The Grayson County Sheriff Did Not Follow Proper Bidding Procedures
- 2021-003 The Grayson County Sheriff Did Not Properly Compensate Employees For Overtime
- 2021-004 The Grayson County Sheriff's Office Does Not Have Segregation Of Duties Or Adequate Compensating Controls
- 2021-005 The Grayson County Sheriff Did Not Pay The Balance Of The Promissory Note By The End Of The Calendar Year

Respectfully submitted,

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

Mike Harmon
Auditor of Public Accounts
Frankfort, KY

December 2, 2022

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

For The Year Ended December 31, 2021

Receipts

Federal:

Coronavirus Emergency Supplement Funding Grant	\$ 64,119		
Lake Patrol	25,930		\$ 90,049

State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)			44,334
---	--	--	--------

State Fees For Services:

Finance and Administration Cabinet	\$ 79,239		
Sheriff Security Service	9,324		88,563

Circuit Court Clerk:

Fines and Fees Collected	39,423		39,423
--------------------------	--------	--	--------

Fiscal Court			200,945
--------------	--	--	---------

County Clerk - Delinquent Taxes			17,065
---------------------------------	--	--	--------

Commission On Taxes Collected			572,941
-------------------------------	--	--	---------

Fees Collected For Services:

Auto Inspections	10,249		
Accident and Police Reports	1,312		
Serving Papers	21,790		
Carry Concealed Deadly Weapon Permits	10,560		
CCDW Photo	1,530		45,441

Other:

Add-On Fees	50,833		
Miscellaneous	19,548		70,381

Interest Earned			202
-----------------	--	--	-----

Borrowed Money:

State Advancement	300,000		
Bank Note	118,062		418,062

Total Receipts			1,587,406
----------------	--	--	-----------

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, 2021
 (Continued)

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$ 409,849
Part-Time Salaries	38,978
Other Salaries	101,374
Overtime	143,309

Contracted Services-

Advertising	31
Vehicle Maintenance and Repairs	54,384
Computer/Copier Lease and Repairs	19,115

Materials and Supplies-

Office Materials and Supplies	19,670
Uniforms	25,847

Auto Expense-

Gasoline	54,444
----------	--------

Other Charges-

Dues	887
Postage	2,065
Bond	4,564
Service	730
Miscellaneous	13,922
Lab Work	562
Cell Phone and Telephone	10,949

Capital Outlay-

Vehicles	<u>124,216</u>	\$ 1,024,896
----------	----------------	--------------

Debt Service:

State Advancement	300,000	
Bank Note - Vehicles	29,508	
Interest - Vehicles	<u>2,064</u>	<u>331,572</u>

Total Disbursements		<u>\$ 1,356,468</u>
---------------------	--	---------------------

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, 2021
(Continued)

Net Receipts	\$ 230,938
Less: Statutory Maximum	<u>98,353</u>
Excess Fees	132,585
Less: Training Incentive Benefit	<u>8,686</u>
Excess Fees Due County for 2021	123,899
Payment to Fiscal Court - February 10, 2022	<u>123,896</u>
Balance Due Fiscal Court at Completion of Audit	<u>\$ 3</u>

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

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2021

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 pay to the governing body of the county any fees, commissions, and other income of his or her office, including income from investments, which exceed the sum of his or her maximum salary as permitted by the Constitution and other reasonable expenses, including compensation of deputies and assistants by March 15 of each year. KRS 64.830 requires an outgoing sheriff to make a final settlement 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) as of December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2021 services
- Reimbursements for 2021 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2021

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, 2021
(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 Kentucky Public Pensions Authority (KPPA). 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 CERS 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 CERS 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 24.06 percent for the first six months and 26.95 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 Kentucky Retirement System insurance fund.

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2021
(Continued)

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

Hazardous (Continued)

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.

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 39.58 percent for the first six months and 44.33 percent for the last six months.

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.

GRAYSON COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2021
 (Continued)

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

Other Post-Employment Benefits (OPEB) (Continued)

A. Health Insurance Coverage - Tier 1 (Continued)

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 78.5536.

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

Once members reach a minimum vesting period of 15 years, they 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 78.5536. 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 Kentucky Retirement Systems 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.

GRAYSON COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2021
 (Continued)

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

Other Post-Employment Benefits (OPEB) (Continued)

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.

Kentucky Retirement System Annual Financial Report and Proportionate Share Audit Report

Kentucky Retirement System 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.

Kentucky Retirement System 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 federally insured banking institutions as required by the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*. The DLG Manual strongly recommends perfected pledges of securities covering all public funds except direct federal obligations and funds protected by federal insurance. In order to be perfected 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. These requirements were met.

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 the DLG *County Budget Preparation and State Local Finance Officer Policy Manual*. As of December 31, 2021, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2021
(Continued)

Note 4. Federal Grant - Coronavirus Emergency Supplemental Funding Grant

The Grayson County Sheriff's office received a Coronavirus Emergency Supplemental Funding grant from the Kentucky Justice and Public Safety Cabinet in the amount of \$94,423. Funds totaling \$64,119 were expended and reimbursed during the year. This grant expired December 31, 2021.

Note 5. U.S Corps Of Engineers – Lake Patrol Contracts

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 1, 2021 through September 30, 2021. The amount received under this contract for 2021 was \$17,193.

B. Rough River Lake Contract

The Grayson County Sheriff's Office contracted with the U.S. Army Corps of Engineers to provide patrols around Rough River Lake project grounds from May 1, 2021 through September 30, 2021. The amount received under this contract for 2021 was \$8,737.

Note 6. Short-term Debt

A. Direct Borrowing

The Grayson County Sheriff received a state advancement of funds in the amount of \$300,000 to defray the expenses of the office for calendar year 2021, in accordance with KRS 64.140. State advancements must be paid in full from the fee account in which they are received. The balance was \$0 as of December 31, 2021.

B. Changes in Short-term Debt

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

Note 7. Long-Term Debt

A. Direct Borrowing

The Grayson County Sheriff's office was committed to a lease agreement for four vehicles. The agreement requires a yearly variable payment for four years to be completed on December 30, 2024. The total remaining balance of the agreement was \$88,554 as of December 31, 2021. In the event of default, the bank has the ability to seize the collateral given of the four vehicles purchased. Future principal and interest requirements are:

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2021
(Continued)

Note 7. Long-Term Debt (Continued)

A. Direct Borrowing (Continued)

	Calendar Year Ended	
	December 31	
	Principal	Interest
2022	\$ 29,420	\$ 2,921
2023	29,420	1,951
2024	29,714	985
Totals	<u>\$ 88,554</u>	<u>\$ 5,857</u>

B. Changes In Long-term Debt

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Direct Borrowings	\$	\$ 118,062	\$ 29,508	\$ 88,554	\$ 29,420
Total Long-term Debt	<u>\$ 0</u>	<u>\$ 118,062</u>	<u>\$ 29,508</u>	<u>\$ 88,554</u>	<u>\$ 29,420</u>

Note 8. Drug Eradication Fund

The Grayson County Sheriff's office maintains a drug eradication fund for the deposit of court ordered forfeitures and associated disbursements. The balance of the fund on January 1, 2021 was \$2,841. During 2021, receipts of the drug eradication fund totaled \$1 and there were no disbursements. The ending balance was \$2,482, which is not subject to excess fees.

Note 9. Fiduciary Account - 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, 2021 was \$1,905. During 2021, receipts of the drug confiscation fund were \$7,093 and disbursements were \$0. The ending balance was \$8,998, which is not subject to excess fees.

THIS PAGE LEFT BLANK INTENTIONALLY

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

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

The Honorable Kevin Henderson, Grayson County Judge/Executive
The Honorable Norman Chaffins, Grayson County Sheriff
Members of the Grayson County Fiscal Court

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, 2021, and the related notes to the financial statement and have issued our report thereon dated December 2, 2022. 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) as a basis for designing 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 over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting 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 2021-001 and 2021-002 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)

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 2021-003 and 2021-004 to be significant deficiencies.

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 financial statement. 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 2021-001, 2021-002, and 2021-005.

Views of Responsible Official and Planned Corrective Action

The Grayson 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 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
Frankfort, KY

December 2, 2022

SCHEDULE OF FINDINGS AND RESPONSES

THIS PAGE LEFT BLANK INTENTIONALLY

GRAYSON COUNTY
NORMAN CHAFFINS, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2021

FINANCIAL STATEMENT FINDINGS:

2021-001 The Grayson County Sheriff's Fourth Quarter Financial Report Was Materially Misstated

The Grayson County Sheriff's fourth quarter financial report submitted to the Department for Local Government (DLG) was materially understated. Loan proceeds of \$118,062 from a promissory note and the subsequent purchase of four vehicles with those funds was not included in the financial statement.

In addition, the liabilities section of the fourth quarter financial report includes \$300,000 outstanding for the sheriff's advancement that was paid off in December 2021 and does not include the outstanding balance of \$88,554 for the mentioned promissory note.

This omission was caused by the funds not being deposited or disbursed directly from the sheriff's fee account. The money was given directly from the bank to the car dealer, so the sheriff did not believe it needed to be recorded as part of the fee activity. The errors on the liabilities section were an oversight of the office.

By not including these totals on the quarterly report, the financial statements presented to the DLG and available to the public are materially incorrect and might not present a fair and accurate representation of the financial status of the office.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual* requires officials to submit quarterly reports to the DLG by the 30th day following the close of each quarter. The quarterly report submitted to DLG should be materially accurate.

Good internal controls also dictate that controls be in place to show all financial activities undertaken by the office. This would include any transactions made on behalf of the fee account that might not be processed through the fee bank account. All transactions should be included in the quarterly report to ensure accurate information is being provided to DLG and to the public.

We recommend the sheriff ensure all financial activity related to the fee year is included on the quarterly reports submitted to DLG.

Sheriff's Response: It should be noted that all money was accounted for. This finding occurred because money was paid directly to the car dealership where vehicles were purchases instead of being deposited into our fee account and then dispersed accordingly. We will take the advice of the auditors to prevent this from happening again.

2021-002 The Grayson County Sheriff Did Not Follow Proper Bidding Procedures

This is a repeat finding and was included in the prior year audit report as finding 2020-002. The Grayson County Sheriff purchased four vehicles from a single dealership totaling \$123,834 during the year and purchased \$33,851 of equipment for the vehicles from a single vendor. Neither of these purchases were obtained through the required bidding procedures.

This was partly caused by a misunderstanding of the KRS bidding requirement. The office believed that an individual item needed to be over the \$30,000 limit to be bid. The fourth vehicle purchased was just an oversight by the office.

GRAYSON COUNTY
 NORMAN CHAFFINS, SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2021
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2021-002 The Grayson County Sheriff Did Not Follow Proper Bidding Procedures (Continued)

By not bidding out required items, the elected official cannot guarantee that the money is being spent in the best way. Bidding procedures allow for the official to receive multiple offers for similar items and determine which offer best suits the need while offering transparency over the purchase. By not bidding out these items the sheriff is also in violation of KRS 424.260.

KRS 424.260(1) which states, “[e]xcept where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district, or board or commission of a city or county, or sheriff or county clerk, may make a contract, lease, or other agreement for: (a) Materials; (b) Supplies, except perishable food such as meat, poultry, fish, egg products, fresh vegetables, and fresh fruits; (c) Equipment; or (d) Contractual services other than professional; involving an expenditure of more than thirty thousand dollars (\$30,000) without first making newspaper advertisement for bids.” Also, according to the Grayson County Administration Code section 4.2 (C.), “[w]hen an expenditure exceeds \$30,000.00 in cost, the Judge/Executive and/or designee shall place an advertisement in the newspaper of largest circulation in the county at least once, not less than seven, nor more than twenty-one days, before bid opening.”

Also, strong internal controls require management to monitor disbursements to ensure compliance with bid laws and to keep good records of all bid transactions.

We recommend the sheriff comply with the requirements of KRS 424.260 and the county’s administrative code by making proper advertisements for all applicable expenditures or contracts exceeding \$30,000.

Sheriff’s Response: The vehicles purchased were actually purchased at a cheaper price than the state contract. However, we will ensure that the proper bidding process is followed for future purchases.

2021-003 The Grayson County Sheriff Did Not Properly Compensate Employees For Overtime

During testing of payroll, we found that four deputies’ timesheets documented the employees had worked more than 40 hours in a workweek.

- One employee’s timesheet showed 42 hours worked in a workweek with no overtime or compensatory time paid.
- Two employees’ timesheets showed 60 hours worked in a workweek with no overtime or compensatory time paid.
- One employee’s timesheet showed 56 hours worked in a workweek with no overtime or compensatory time paid.

None of these employees were compensated at time and a half in either overtime pay or compensatory time for the hours in excess of 40.

According to the sheriff, he believed that as long as a deputy does not work over 80 hours in a two week pay period, they are meeting all federal and state guidelines for overtime for law enforcement personnel.

By failing to properly calculate overtime earned on each individual week, some of the sheriff’s employees were not properly compensated for work they performed.

GRAYSON COUNTY
 NORMAN CHAFFINS, SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2021
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2021-003 The Grayson County Sheriff Did Not Properly Compensate Employees For Overtime (Continued)

KRS 337.285(1) states, “[n]o employer shall employ any of his employees for a work week longer than forty (40) hours, unless such employee receives compensation for his employment in excess of (40) hours in a work week at a rate of not less than one and one-half (1-1/2) times the hourly wage rate at which he is employed”. The exemption contained in KRS 337.285(13)(a) does not apply since the Grayson County Sheriff’s office is not a law enforcement department of a consolidated local government organized under KRS Chapter 67C.

We recommend the sheriff compensate employees with required overtime pay for any hours worked in excess of 40 hours in a week or award them compensatory time at time and a half rates for any time worked over 40 hours in accordance with KRS 337.285. If compensatory time is utilized, all guidance in KRS 337.285 should be followed. This matter will be referred to the Kentucky Education and Labor Cabinet, Division of Wages and Hours.

Sheriff’s Response: The Grayson County Sheriff’s Office was under the impression that our office had the authority to utilize an 80-hour two-week period to determine overtime compensation, similar to city police departments, and as authorized by the United States Fair Labor Standard Act Section 7(k), in addition to KRS 337.285(13)(b). Additionally, I sought the advice of a Kentucky Association of Counties attorney who advised me that we could utilize an 80-hour work week. We have been doing this schedule for over 3 years and this is the first finding by the state auditors that we were not in compliance.

The Grayson County Sheriff’s Office now understands that KRS 337.285(13)(b) is modified by KRS 337.285(13)(a) and is only applicable to city police departments despite being allowed under federal law for law enforcement agencies. The Grayson County Sheriff’s Office has discontinued this method of determining overtime for our employees.

2021-004 The Grayson County Sheriff’s Office Does Not Have Segregation Of Duties Or Adequate Compensating Controls

This is a repeat finding and was included in the prior year audit report as finding 2020-001. The Grayson County Sheriff’s office does not have adequate segregation of duties. While the sheriff implemented compensating controls, they were deemed inadequate due to the numerous posting errors. The bookkeeper prepares all checks, records receipts and disbursements on ledgers, reconciles accounts, and prepares financial statements with limited oversight by the sheriff. According to the sheriff, this condition is caused by the diversity of operations with a limited number of staff. The sheriff failed to implement effective compensating controls to offset this deficiency in internal controls. The lack of segregation of duties or strong oversight caused an incorrect 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 strengthen the internal controls 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.

GRAYSON COUNTY
NORMAN CHAFFINS, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2021
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2021-004 The Grayson County Sheriff's Office Does Not Have Segregation Of Duties With Adequate Compensating Controls (Continued)

Sheriff's Response: We hired an additional administrative office specialist and split the tax and fee account duties between two different people. We will continue to double check one another's work and strive to segregate duties among our office staff and deputies.

2021-005 The Grayson County Sheriff Did Not Pay The Balance Of The Promissory Note By The End Of The Calendar Year

On June 11, 2021, the Grayson County Sheriff's office entered into a promissory note in the amount of \$118,062 from a local financial institution for a three year period to purchase vehicles. During the year, the sheriff's office paid \$29,508 of principal leaving an unpaid principal balance of \$88,554. The length of this loan is longer than what is allowable per KRS 65.7707. This was caused by the sheriff not knowing about the restrictions of KRS 65.7707.

By entering into a long-term loan agreement, the sheriff has allocated future years' revenues before having a budget set. The sheriff has no guarantees that these funds will be included in future budgets. While KRS's 65.7701 through 65.7721 allows for governmental agencies to enter into notes under the Short Term Borrowing Act, these statutes also require that these financial obligations be repaid by the end of the fiscal year. KRS 65.7707 states, "[n]otes payable shall mature on a date determined by the governing body which shall be no later than the last day of the fiscal year in which the notes are issued."

We recommend the sheriff follow KRS 65.7707 and not enter into any loans with a maturity date later than December 31 of the current calendar year.

Sheriff's Response: We received approval from the Grayson County Fiscal Court to purchase our fleet vehicles using our local bank. We were under the impression that the vehicles were purchased under a lease agreement and NOT on a promissory note. We will ensure that the fleet vehicles purchased from now on are purchased under a "lease agreement" unless they are paid off within the calendar year.