

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

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



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

**Independent Auditor's Report**

The Honorable Shane Gabbard, Jackson County Judge/Executive  
The Honorable Paul Hays, Former Jackson County Sheriff  
The Honorable Daniel Isaacs, Jackson County Sheriff  
Members of the Jackson 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 former Sheriff of Jackson 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 former Jackson 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 former Jackson 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 former Jackson 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 Shane Gabbard, Jackson County Judge/Executive  
The Honorable Paul Hays, Former Jackson County Sheriff  
The Honorable Daniel Isaacs, Jackson County Sheriff  
Members of the Jackson 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 former Jackson 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 former Jackson 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 former Jackson County Sheriff's ability to continue as a going concern for a reasonable period of time.

The Honorable Shane Gabbard, Jackson County Judge/Executive  
The Honorable Paul Hays, Former Jackson County Sheriff  
The Honorable Daniel Isaacs, Jackson County Sheriff  
Members of the Jackson County Fiscal Court

**Auditor's Responsibilities for the Audit of the Financial Statement (Continued)**

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.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2022, on our consideration of the former Jackson 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 former Jackson 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 findings:

- 2021-001 The Jackson County Sheriff's Office Did Not Have Adequate Segregation Of Duties Over Receipts, Bank Reconciliations, And Disbursements
- 2021-002 The Jackson County Sheriff's Office Did Not Have Internal Controls Over Quarterly Financial Reports Prepared By The Service Organization

Respectfully submitted,



Mike Harmon  
Auditor of Public Accounts  
Frankfort, KY

December 12, 2022

JACKSON COUNTY  
PAUL HAYS, FORMER SHERIFF  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2021

Receipts

Federal Fees For Services - U.S. Department of Agriculture	\$	5,412	
State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)			20,198
State Fees For Services:			
Finance and Administration Cabinet	\$	55,134	
Sheriff Security Service		<u>4,750</u>	59,884
Circuit Court Clerk:			
Fines and Fees Collected		3,775	
Court Ordered Payments		<u>2,575</u>	6,350
Fiscal Court			8,686
County Clerk - Delinquent Taxes			31,846
Commission On Taxes Collected			157,479
Fees Collected For Services:			
Auto Inspections		3,260	
Accident and Police Reports		840	
Serving Papers		21,232	
Carry Concealed Deadly Weapon Permits		4,660	
School Resource Officer		<u>27,850</u>	57,842
Other:			
Add-On Fees		13,700	
Miscellaneous		<u>2,019</u>	15,719
Interest Earned			78
Borrowed Money:			
State Advancement			<u>85,000</u>
Total Receipts			448,494

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



JACKSON COUNTY  
 PAUL HAYS, FORMER SHERIFF  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2021  
 (Continued)

Disbursements

Operating Disbursements:

Personnel Services-

Deputies' Gross Salaries	\$ 118,162
Part Time Gross Salaries	8,123
Other Gross Salaries - KLEFPF	17,870
Court Security Salaries	86,734

Employee Benefits-

Employer's Share Retirement - KLEFPF	4,292
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Contracted Services-

Vehicle Maintenance and Repairs	4,445
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Materials and Supplies-

Office Materials and Supplies	9,681
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Auto Expense-

Gasoline	12,606
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Other Charges-

Vehicle Expense	400
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Miscellaneous	<u>638</u>	\$ 262,951
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Debt Service:

State Advancement	<u>85,000</u>
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Total Disbursements	<u>\$ 347,951</u>
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Net Receipts	100,543
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Less: Statutory Maximum	<u>91,856</u>
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Excess Fees	8,687
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Less: Training Incentive Benefit	<u>8,686</u>
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Excess Fees Due County for 2021	1
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Payment to Fiscal Court - February 15, 2022	<u>1</u>
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Balance Due Fiscal Court at Completion of Audit	<u>\$ 0</u>
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The accompanying notes are an integral part of this financial statement.

JACKSON 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).

JACKSON 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.

The sheriff's contribution for calendar year 2019 was \$3,731, calendar year 2020 was \$3,930, and calendar year 2021 was \$4,292.

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.

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:

JACKSON 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)

<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.

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. 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.

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

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

JACKSON 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. 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 former Jackson 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 former Jackson County Sheriff did not have a deposit policy for custodial credit risk, but rather followed 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.

Note 4. U.S. Department of Agriculture Fees for Service

The Jackson County Sheriff's office entered into an agreement with the U.S. Department of Agriculture in the amount of \$5,412 to provide patrol services at Daniel Boone National Forest recreation area for the period of April 1, 2021 through September 30, 2021. The sheriff's office received \$5,412 during calendar year 2021.

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

Note 5. Forfeiture Account

The Jackson County Sheriff's office maintains an account funded by proceeds from the confiscation, surrender, or sale of real personal property involved in drug related convictions. The balance was \$2,978 on January 1, 2021. During calendar year 2021, the sheriff deposited \$7,688 and expended \$8,935, leaving a balance of \$1,731 as of December 31, 2021. The use of these funds is determined by court order granting forfeiture funds to the sheriff's office; thus, they are not included as part of excess fees.

Note 6. Donation Account

The Jackson County Sheriff's office maintains a donation account to collect private and public donations to the sheriff's office. On January 1, 2021, the balance was \$8,749. During calendar year 2021, the sheriff's office deposited \$1,000 in donations to be used exclusively for public purposes of the office. The sheriff's office expended \$5,384 of the donations for law enforcement purposes. The balance in the account was \$4,365 as of December 31, 2021.

Note 7. Donation Account #2

The Jackson County Sheriff's office maintains a second donation account for donations to be used in drug investigations. On January 1, 2021, the account balance was \$4,146. During calendar year 2021, the sheriff's office deposited \$10,200 and expended \$7,237. The balance of the second donation account was \$7,109 as of December 31, 2021.

Note 8. K-9 Account

The Jackson County Sheriff's office maintains a K-9 donation account for the purchase and upkeep of a drug detection dog. On January 1, 2021, the balance was \$823. During calendar year of 2021, the sheriff's office deposited \$55 and expended \$864. The balance in the account was \$14 as of December 31, 2021.

Note 9. Short-term Debt

A. Direct Borrowings

1. State Advancement

During calendar year 2021, the sheriff's office received \$85,000 under the state advancement program to defray necessary official expenses and to apply to the payment of the salaries of the sheriff or the sheriff's deputies and assistants from County Fees Systems Branch, Division of Local Government Services, Kentucky Finance and Administration Cabinet (Cabinet) under KRS 64.140(1). Principal was due on or before January 15, 2022, at zero percent interest. In the event of default, the Cabinet may obtain payment from the sheriff, his sureties, and the sheriff in his official capacity. The balance of the state advancement was paid in full from the 2021 fee account as of December 31, 2021.

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

Note 9. Short-term Debt (Continued)

B. Changes in Short-term Debt

	Beginning Balance	Additions	Reductions	Ending Balance
Direct Borrowings	\$	\$ 85,000	\$ 85,000	\$
Total Short-term Debt	\$ 0	\$ 85,000	\$ 85,000	\$ 0

Note 10. Fiduciary Accounts – Sheriff’s Evidence Holding Account

The Jackson County Sheriff’s office deposited cash evidence into a custodial bank account. These funds are held until a resolution in the form of a court order is received. The funds are then remitted in accordance with the court order. On January 1, 2021, the account had a balance of \$0. During calendar year 2021, the sheriff’s office deposited \$25,982 in seized monies and the account earned \$17 in interest. The sheriff’s office disbursed \$22 per court order and transferred \$7,688 to the forfeiture account for calendar year 2021. The account balance was \$18,289 as of December 31, 2021.

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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**

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 Shane Gabbard, Jackson County Judge/Executive  
The Honorable Paul Hays, Former Jackson County Sheriff  
The Honorable Daniel Isaacs, Jackson County Sheriff  
Members of the Jackson 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 former Jackson 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 12, 2022. The former Jackson 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 Jackson 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 former Jackson County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Jackson 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.

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)

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the former Jackson 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**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,

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

Mike Harmon  
Auditor of Public Accounts  
Frankfort, KY

December 12, 2022

## SCHEDULE OF FINDINGS AND RESPONSES

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JACKSON COUNTY  
PAUL HAYS, FORMER SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2021

INTERNAL CONTROL - MATERIAL WEAKNESSES:

2021-001    The Jackson County Sheriff's Office Did Not Have Adequate Segregation Of Duties Over Receipts, Bank Reconciliations, And Disbursements

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This is a repeat finding and was included in the prior year audit report as finding 2020-001. The former sheriff's office bookkeeper was responsible for collecting receipts, preparing deposits, preparing daily checkout sheets, posting to ledgers, and performing bank reconciliations. The former sheriff or another employee did not document oversight of bank reconciliations. The former sheriff's bookkeeper was also responsible for preparing purchase orders, preparing checks, and signing checks. The former sheriff had implemented compensating controls, including having a service organization review monthly ledgers and bank statements and the former sheriff dual signing all deposits and checks after comparison to daily checkout sheets and invoices. However, these controls do not address the lack of segregation of duties of the same employee collecting receipts, making deposits, posting to ledgers, preparing purchase orders, and preparing checks.

According to the former sheriff, the lack of segregation of duties was a result of a limited budget, which restricted the number of employees he could hire and delegate responsibilities to. A lack of segregation of duties increases the risk of misappropriation of assets, errors, and inaccurate financial reporting to external agencies, such as the Department for Local Government.

The segregation of duties over various accounting functions such as preparing deposits, preparing daily checkout sheets, and issuing cash receipts is essential for providing protection from asset misappropriation and inaccurate financial reporting. Good internal controls further dictate that duties of preparing purchase orders, preparing checks, signing checks, posting to ledgers, and reconciliations of ledgers to bank accounts be segregated. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the sheriff's office segregate duties over receipts, bank reconciliations, and disbursements. If segregation of duties is not feasible due to lack of staff, the sheriff's office should continue with, and strengthen established compensating controls to help mitigate any weakness.

*Former Sheriff's Response: The official did not provide a response.*

2021-002    The Jackson County Sheriff's Office Did Not Have Internal Controls Over Quarterly Financial Reports Prepared By The Service Organization

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The former sheriff used a tax service company to prepare the quarterly financial reports. The tax service company is considered to be a service organization. The former sheriff's bookkeeper processed and recorded all transactions in the computer system. At the end of each quarter, she sent a detail of deposits and disbursements from the computer system and bank statements to the tax service company to compile the quarterly financial reports. The tax service company grouped amounts together by category to compile the financial report. The sheriff's office did not review the quarterly financial reports before submitting to the fiscal court and the Department for Local Government.

The former sheriff relied on the service organization to compile this information and prepare the quarterly reports. No review process was implemented. The lack of internal controls over the reporting process increased the risk that material misstatements will not be prevented or detected on a timely basis. Numerous reclassifications to the fourth quarter report for calendar year 2021 were necessary. These reclassifications were material to the financial statement.

JACKSON COUNTY  
PAUL HAYS, FORMER SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended December 31, 2021  
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES: (Continued)

2021-002 The Jackson County Sheriff's Office Did Not Have Internal Controls Over Quarterly Financial Reports Prepared By The Service Organization (Continued)

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Effective internal controls over the financial reporting process are essential in preventing and detecting errors in financial reporting. The risk of using a service organization for an outsourced service should be assessed and addressed.

We recommend the sheriff's office implement internal controls over work performed by the service organization to ensure the quarterly financial reports are accurate and complete.

*Former Sheriff's Response: The official did not provide a response.*