

**REPORT OF THE AUDIT OF THE  
BREATHITT COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2016**



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

The Honorable John Lester Smith, Breathitt County Judge/Executive  
The Honorable Ray Clemons, Breathitt County Sheriff  
Members of the Breathitt County Fiscal Court

Independent Auditor's Report

**Report on the Financial Statement**

We have audited the accompanying Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the Sheriff of Breathitt County, Kentucky, for the year ended December 31, 2016, 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 the 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 the financial statement that is free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Audit Guide for County Fee Officials* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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AN EQUAL OPPORTUNITY EMPLOYER M / F / D



The Honorable John Lester Smith, Breathitt County Judge/Executive  
 The Honorable Ray Clemons, Breathitt County Sheriff  
 Members of the Breathitt 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 Breathitt 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 Breathitt County Sheriff, as of December 31, 2016, 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 Breathitt County Sheriff for the year ended December 31, 2016, 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 January 11, 2018, on our consideration of the Breathitt 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 entity'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:

- 2016-001 The Sheriff Has \$4,565 In Disallowed Disbursements In His 2016 Fee Account
- 2016-002 The Sheriff Will Need To Deposit Personal Funds Of \$15,095 To Settle His 2016 Fee Account
- 2016-003 The Sheriff's 2015 Fee Account Deficit Totaling \$36,426 Remains Unpaid
- 2016-004 The Sheriff's State Advancement In His 2015 Fee Account Remains Unpaid
- 2016-005 The Sheriff Had \$5,982 In Disallowed Disbursements In His 2015 Fee Account That Remain Unpaid
- 2016-006 Election Board Payments Were Not Deposited Into The Official's Fee Account
- 2016-007 The Sheriff Had \$4,375 In Disallowed Disbursements In His 2009 Fee Account That Remain Unpaid

The Honorable John Lester Smith, Breathitt County Judge/Executive  
The Honorable Ray Clemons, Breathitt County Sheriff  
Members of the Breathitt County Fiscal Court

**Other Reporting Required by *Government Auditing Standards* (Continued)**

- 2016-008 The Sheriff Had \$339 In Disallowed Disbursements In His 2012 Fee Account That Remain Unpaid
- 2016-009 The Sheriff Lacks Internal Controls Over Disbursements
- 2016-010 The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

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

Mike Harmon  
Auditor of Public Accounts

January 11, 2018

BREATHITT COUNTY  
 RAY CLEMONS, SHERIFF  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2016

Receipts

State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)	\$	4,682
State Fees For Services:		
Sheriff Security Service	\$	61,252
Cabinet For Health And Family Services		<u>7,068</u>
		68,320
Circuit Court Clerk:		
Fines and Fees Collected		2,571
Fiscal Court		183,325
County Clerk - Delinquent Taxes		27,941
Commission On Taxes Collected		153,242
Fees Collected For Services:		
Auto Inspections		65
Accident and Police Reports		355
Serving Papers		12,570
Carry Concealed Deadly Weapon Permits		<u>3,500</u>
		16,490
Other:		
Add-On Fees		18,372
Miscellaneous		3,816
Transports		5,518
Telecommunications		<u>1,616</u>
		29,322
Interest Earned		<u>287</u>
Total Receipts		486,180

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



BREATHITT COUNTY  
 RAY CLEMONS, SHERIFF  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2016  
 (Continued)

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-		
Deputies' Salaries	\$	28,639
Part-Time Salaries		56,921
Other Salaries		76,058
Overtime		3,176
Employee Benefits-		
Employer's Share Social Security		17,780
Employer's Share Retirement		22,358
Employer's Share Hazardous Duty Retirement		35,449
Employer's Workers Compensation		11,477
Employer's Unemployment Insurance		6,428
Employer Paid Health Insurance		34,309
Contracted Services-		
Advertising		393
Vehicle Maintenance and Repairs		16,744
Bookkeeping		10,500
Materials and Supplies-		
Office Materials and Supplies		6,724
Uniforms		6,709
Auto Expense-		
Gasoline		25,772
Vehicle Insurance		10,278
Law Enforcement Liability		2,000
Other Charges-		
Telephone		9,679
Dues		430
Postage		7
Computer		2,546
Training		1,005
Bond		2,921
Miscellaneous		3,932
	\$	<u>392,235</u>

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

BREATHITT COUNTY  
 RAY CLEMONS, SHERIFF  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2016  
 (Continued)

Disbursements (Continued)

Debt Service:		
2015 State Advancement	\$	5,080
Total Disbursements		<u>\$ 397,315</u>
Less: Disallowed Disbursements		
2015 State Advancement		5,080
Inadequate Documentation		<u>4,565</u>
		<u>9,645</u>
Total Allowable Disbursements		<u>387,670</u>
Net Receipts		98,510
Less: Statutory Maximum		<u>83,357</u>
Excess Fees Due Fiscal Court at Completion of Audit		<u>\$ 15,153</u>

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

BREATHITT COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2016

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 2016 services
- Reimbursements for 2016 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2016

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.

BREATHITT COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2016  
(Continued)

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

The sheriff's contribution for calendar year 2014 was \$59,065, calendar year 2015 was \$63,638, and calendar year 2016 was \$57,807.

Nonhazardous

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute six percent of their salary to be allocated as follows: five percent will go to the member's account and one percent will go to the KRS insurance fund.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own accounts. Nonhazardous covered employees contribute five percent of their annual creditable compensation. Nonhazardous members also contribute one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the 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 17.06 percent for the first six months and 18.68 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.

BREATHITT COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2016  
 (Continued)

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

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 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 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 32.95 percent for the first six months and 31.06 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.

BREATHITT COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2016  
(Continued)

Note 3. Deposits

The Breathitt 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 Breathitt County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of December 31, 2016, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of December 6, 2016, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured      \$331,712

Note 4. Asset Forfeiture Account

The Breathitt County Sheriff's office received forfeiture proceeds from a court order and established an asset forfeiture account. These funds are to be used for law enforcement expenses. The beginning balance in the asset forfeiture account was \$189. The sheriff received \$20,895 and expended \$10,864. As of December 31, 2016, the balance in this account was \$10,220.

Note 5. Drug Informant Account

The Breathitt County Sheriff's office maintains a drug informant account. The purpose of this account is for undercover operations dealing with illegal drugs. The beginning balance in the drug informant account was \$1,753. The sheriff received \$1,367 and expended \$2,399. As of December 31, 2016, the balance in this account was \$721.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

The Honorable John Lester Smith, Breathitt County Judge/Executive  
The Honorable Ray Clemons, Breathitt County Sheriff  
Members of the Breathitt 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 Breathitt County Sheriff for the year ended December 31, 2016, and the related notes to the financial statement and have issued our report thereon dated January 11, 2018. The Breathitt 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 Breathitt 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 Breathitt County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Breathitt County Sheriff's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2016-001, 2016-002, 2016-003, 2016-007, 2016-008, 2016-009, and 2016-010 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 Breathitt 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 2016-001, 2016-002, 2016-003, 2016-004, 2016-005, 2016-006, 2016-007, and 2016-008.

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

The Breathitt County Sheriff's views and planned corrective action for the findings identified in our audit are included in the accompanying Schedule of Findings and Responses. The 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

January 11, 2018

SCHEDULE OF FINDINGS AND RESPONSES

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BREATHITT COUNTY  
RAY CLEMONS, SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2016

FINANCIAL STATEMENT FINDINGS:

2016-001 The Sheriff Has \$4,565 In Disallowed Disbursements In His 2016 Fee Account

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The sheriff has \$4,565 in disallowed disbursements for calendar year 2016. The first disallowed disbursement was \$1,500 for the purchase of two computers and an air conditioning unit. Auditors contacted the vendor listed on the invoice, but the vendor had no such transaction or invoice on file. It appears a false invoice was created to support the disbursement. Auditors also noted the cancelled check for this transaction had been altered in the sheriff's files. The cancelled check on file at the bank listed a different payee than the sheriff's files. Due to the discrepancies noted, we were unable to determine the validity of this transaction.

The second disallowed disbursement totaled \$200 for preparing tax bills. No supporting documentation for this disbursement could be located. The third disallowed disbursement totaled \$2,865 for computer repairs. The invoice was dated for 2017 but paid out of the 2016 fee account. Also, a computer that was repaired could not be located and no one has any knowledge of its existence.

The lack of oversight by the sheriff allowed the bookkeeper to purchase items without proper supporting documentation. The sheriff was aware that his office lacked adequate segregation of duties; however, he did not implement compensating controls to address the risk associated with inadequate segregation of duties or perform sufficient supervisory review to prevent or detect errors, misstatements, and fraud.

Due to lack of proper support and weak internal controls, taxpayer funds have been used for purposes that are not allowable and these amounts must be personally paid back by the sheriff.

In Funk v. Milliken, 317 S.W.2d 499 (Ky. 1958), Kentucky's highest court reaffirmed the rule that county fee officials' disbursements of public funds will be allowable only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not personal in nature.

In addition, KRS 64.820 states:

(1) The fiscal court shall collect any amount due the county from county officials as determined by the audit of the official conducted pursuant to KRS 43.070 and 64.810 if the amount can be collected without suit. (2) In the event the fiscal court cannot collect the amount due the county from the county official without suit, the fiscal court shall then direct the county attorney to institute suit for the collection of the amount reported by the Auditor or certified public accountant to be due the county within (90) days from the date of receiving the Auditor's or certified public accountant's report.

We recommend the sheriff reimburse the 2016 fee account \$4,565 for disallowed disbursements. This amount should then be turned over to the fiscal court as additional excess fees from 2016. Additionally, we recommend the sheriff monitor his disbursements to ensure all disbursements are allowable and in accordance with the guidelines established in Funk v. Milliken. We will refer this finding to the Kentucky Office of Attorney General and the Kentucky State Police.

*Sheriff's Response: With regard to the \$1500.00 transaction, I was led to believe that we were purchasing two computers and an air conditioner, which were all desperately needed. The payee on the check was altered after I signed the check. I have been in contact with the former Bookkeeper regarding this issue and have secured repayment in the amount of \$1500.00, which has been deposited into the 2016 Fee Account. My office will work and cooperate fully with the appropriate agencies to resolve this matter and pursue the proper course of action, whatever that may be.*

BREATHITT COUNTY  
 RAY CLEMONS, SHERIFF  
 SCHEDULE OF FINDINGS AND RESPONSES  
 For The Year Ended December 31, 2016  
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-002 The Sheriff Will Need To Deposit Personal Funds Of \$15,095 To Settle His 2016 Fee Account

The sheriff will need to collect \$15,095 which consists of the following in order to settle his 2016 fee account.

Prior year state advancement \$5,080  
 Disallowed expenditures \$4,565  
 Election board payments \$5,450

The sheriff owes \$5,080 to his 2016 fee account for the 2015 state advancement that was paid out of the 2016 fee account in error. The sheriff indicated he was not familiar with requirements regarding state advancements and made the payment in error. Second, the sheriff had disallowed disbursements totaling \$4,565 in his 2016 fee account. The sheriff did not have adequate controls in place to ensure all disbursements were allowable. Finally, the sheriff failed to deposit election board payment totaling \$5,450 into his 2016 fee account. The sheriff indicated he was unaware the election board payments were not his personally.

There are uncollected receivables that still exist in the 2016 fee account and the sheriff is personally liable for collecting them. The sheriff is also in violation of statutes related to timely settlement of accounts, election board payments, and salary maximums.

KRS 134.192(1) requires the sheriff to settle his accounts annually with the county, no later than September 1 of each year. KRS 134.192(11) requires a complete statement of funds received and expenditures made from his office. KRS 134.192(12) requires the sheriff to pay the governing body of the county excess fees at the time the annual settlement is filed. Additionally, KRS 64.820 requires the fiscal court to collect any amount due the county from the county officials as determined by the audit and to turn the matter over to the county attorney if the amount due cannot be collected without lawsuit.

We recommend the sheriff deposit personal funds of \$15,095 into the 2016 fee account, which along with the current balance in the account of \$57, should be turned over to the fiscal court as excess fees for calendar year 2016.

*Sheriff's Response: With regard to the account deficit, there are three components that comprise it: Election Board Payments, Payments related to the 2015 State Advancement and expenditures that were disallowed in the opinion of the auditor. Since assuming office in 2007, I have served on the Local Board of Elections, as statute mandates the Sheriff do. Since that time, I have always been under the belief that payment rendered to fee officials was theirs personally, and not due back to their respective fee accounts. Of particular importance, in my opinion, is the fact that these payments, which were issued by the Fiscal Court, were written to me personally, and not the Office Fee Account.*

BREATHITT COUNTY  
 RAY CLEMONS, SHERIFF  
 SCHEDULE OF FINDINGS AND RESPONSES  
 For The Year Ended December 31, 2016  
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-002 The Sheriff Will Need To Deposit Personal Funds Of \$15,095 To Settle His 2016 Fee Account  
 (Continued)

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*Sheriff's Response: (Continued) This has been tradition since I've been Sheriff, and this issue was **never** brought up by the Auditor's Office until a year ago. In July 2015, I applied for and secured a State Advancement loan in the amount of \$50,000.00 in order to supplement revenue and operate my office. I was lead to believe that I would have twelve calendar months from the loan origination date in which to fully repay the loan. Consequently, I made \$5,080 in payments toward the loan in 2016 before being advised that I could not do so, and that the loan should have, in fact, been paid in full by the end of CY 2015. Lastly, there were three expenditures in CY 2016 totaling \$4,565.00 that were disallowable in the opinion of the auditor. As of this time, \$1500.00 of that amount has already been repaid to the 2016 Office Fee Account.*

Auditor's Reply: Election board payments significantly increased in calendar year 2016, which warranted further consideration by auditors. Testing revealed that these payments were not deposited into the fee account as required. In prior periods, the amount for election board payments was much smaller and would not have required additional test procedures. Regarding the state advancement, the state advancement application signed by the sheriff indicated the funds were to be repaid by December 31, 2015. Finally, disallowed disbursements are a matter of judicial precedent as established in Funk v. Milliken, 317 S.W.2d 499 (Ky. 1958).

2016-003 The Sheriff's 2015 Fee Account Deficit Totaling \$36,426 Remains Unpaid

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This is a repeat finding and was reported in the prior year audit report as finding 2015-001. The sheriff's 2015 fee account has a deficit totaling \$36,426. In order to settle the 2015 fee account, the sheriff needs to collect and pay the following:

**Collect:**

Personally from Sheriff -

Election Board Payments	\$ 1,650
Disallowed Disbursement - Meritorious Award	5,958
Fund Deficit as of 12/31/15	<u>36,426</u>

<b>TOTAL TO COLLECT FROM SHERIFF</b>	<b><u>\$ 44,034</u></b>
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**Pay:**

2016 Fee Account for State Advancement	\$ 5,080
State Advancement Balance	<u>38,954</u>

<b>TOTAL AMOUNTS TO PAY</b>	<b><u>\$ 44,034</u></b>
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The sheriff was aware of the receivables and liabilities associated with the 2015 fee account. Due to a lack of oversight and failure to take corrective action, the amounts due per the 2015 fee audit were not collected and paid as directed. There are liabilities that still exist in the 2015 fee account and the sheriff is personally liable for paying them. Failure to settle accounts timely increases the risk that misappropriation of assets or fraud will occur.

BREATHITT COUNTY  
 RAY CLEMONS, SHERIFF  
 SCHEDULE OF FINDINGS AND RESPONSES  
 For The Year Ended December 31, 2016  
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-003 The Sheriff's 2015 Fee Account Deficit Totaling \$36,426 Remains Unpaid (Continued)

KRS 134.192(1) requires the sheriff to settle his accounts annually with the county, no later than September 1 of each year. KRS 134.192(11) requires a complete statement of funds received by and expenditures made from his office. KRS 134.192(12) requires the sheriff to pay the governing body of the county excess fees at the time the annual settlement is filed.

We recommend the sheriff deposit personal funds of \$44,034 to cover the 2015 fee account deficit, disallowed expenditures, and election board payments not deposited. After these funds have been deposited, we recommend the sheriff pay the remaining balance of the state advancement totaling \$38,954, and pay the 2016 fee account \$5,080 for a partial state advancement payment made from the wrong fee account.

*Sheriff's Response: This fund deficit is comprised of three components: Election Board Payments, a Meritorious Award that was disallowed and the unpaid balance of the 2015 State Advancement loan. Since assuming office in 2007, I have served on the Local Board of Elections, as statute mandates the Sheriff do. Since that time, I have always been under the belief that payment rendered to fee officials was theirs personally, and not due back to their respective fee accounts. Of particular importance, in my opinion, is the fact that these payments, which were issued by the Fiscal Court, were written to me personally, and not the Office Fee Account. This has been tradition since I've been Sheriff, and this issue was never brought up by the Auditor's Office until a year ago. With regard to the Meritorious Award, one of my clerical staff was advised by an auditor from the State Auditor's Office in 2013 that it was permissible for fee officials to extend Meritorious Awards to their employees, and that those awards should be structured as a percentage of the employee's gross earnings. Additionally, it was common practice for another County Fee Official to give his employees these same Meritorious Awards in years past. These transactions were audited by the State Auditor's Office and were not disallowed. However, the auditor did choose to disallow a Meritorious Award that I extended to the former Bookkeeper. Lastly, the third component that comprises this deficit is the remaining balance of the 2015 State Advancement loan. In the summer of 2013, the Fiscal Court unanimously approved for my office to apply for a State Advancement loan in the amount of \$50,000.00. Due to this being the first and only time I had ever applied for such a loan, I was erroneously under the impression that I had twelve calendar months in which to fully repay it, when in reality I only had about six months. If I had been aware of the actual repayment terms, I would have never applied for the loan, as the decline in revenue and the unwillingness of the Fiscal Court to assist my office would have made it financially impossible to repay the outstanding balance in a timely fashion.*

Auditor's Reply: Election board payments significantly increased in calendar year 2016, which warranted further consideration by auditors for the calendar year 2015 audit. Testing revealed that these payments were not deposited into the fee account as required. In prior periods, the amount for election board payments was much smaller and would not have required additional test procedures. Regarding the meritorious award, the way the award was structured and the fact that the fee official did not have excess fees available to pay such an award rendered it disallowed. Other officials have given cost of living raises, salary adjustments, and other personnel actions that are not incentive-based and are allowable for fee officials. These type of personnel actions depend on the particular circumstances in each county (e.g. the administrative code the official follows, whether the county is fee pooling, etc.) and comparisons cannot be made without knowledge of the specific situation in each audit. Regarding the state advancement, the state advancement application signed by the sheriff indicated the funds were to be repaid by December 31, 2015.



BREATHITT COUNTY  
 RAY CLEMONS, SHERIFF  
 SCHEDULE OF FINDINGS AND RESPONSES  
 For The Year Ended December 31, 2016  
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-004 The Sheriff's State Advancement For 2015 Remains Unpaid

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This is a repeat finding and was reported in the prior year audit report as finding 2015-002. The sheriff did not pay his calendar year 2015 state advancement in full by year end. The sheriff applied for and received a state advancement totaling \$50,000 for 2015 in accordance with KRS 64.140.

The sheriff's office lacked the funds necessary to pay all year end expenses so the State Advancement was not repaid in full. The sheriff paid \$5,966 from the 2015 fee account and \$5,080 from the 2016 fee account (refer to findings 2016-002 and 2016-003 for more information). State advancements must be paid in full from the fee account in which they are received. Since this was the first time the sheriff had received a state advancement, he indicated he was not aware that the advancement had to be paid in full by year end and that the advancement could not be repaid from other fee accounts. The sheriff did not fully read and understand the terms and conditions of the state advancement contract.

The sheriff is in violation of the state advancement contract. The sheriff personally owes the portion of the state advancement still outstanding, which totals \$38,954, and he owes the 2016 fee account \$5,080 for the portion of the 2015 state advancement that was paid using 2016 funds.

KRS 64.140(3) states, "[i]f the total of fees and commissions paid into the State Treasury by the sheriff for any calendar year is insufficient to match the amount of advancements made to the sheriff, his or her sureties and the sheriff in his or her official capacity shall be liable to the state for any excess of advancements over the total of fees and commission paid into the State Treasury."

We recommend the sheriff ensure all state advancements are paid in full by calendar year end. Further, we recommend the sheriff deposit personal funds to cover the outstanding state advancement and the amount owed to the 2016 fee account (Also see findings 2016-002 and 2016-003).

*Sheriff's Response: At the urging of the County Fiscal Court, I applied for and received a \$50,000.00 State Advancement from the Commonwealth of Kentucky in the summer of 2015 in an effort to provide supplemental revenue for the operation of my office. I was led to believe that I would have twelve calendar months from the loan date in which to fully reimburse the State. However, this was not the case, and instead was later informed that payment in full was required by the calendar year end, which was approximately six months after the loan origination date. As a consequence of a decline in revenue, along with the unwillingness of the County Fiscal Court to assist my office, it was financially impossible for me to make full reimbursement by the end of the calendar year. Prior to securing the State Advancement, I did execute a separate bond through the Western Surety Company that would "stand good" for this loan. I am currently in communication and negotiation with the Western Surety Company in an effort to default payment of the outstanding balance to the bond. Since assuming office in 2007, this is the ONLY occasion in which I have ever attempted to utilize any bond that I have executed for purposes related to my elected position.*

2016-005 The Sheriff Had \$5,982 In Disallowed Disbursements In His 2015 Fee Account That Remain Unpaid

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This is a repeat finding and was reported in the prior year audit report as finding 2015-003. The sheriff paid \$5,982 as a meritorious award to one employee during prior calendar year 2015. This was not an allowable disbursement of the fee account. The administrative code stipulates that the sheriff must have excess fees available for the meritorious award to be paid. Since the sheriff did not pay back his 2015 state advancement, he was in a deficit for calendar year 2015 and no excess fees were available for the meritorious award.

BREATHITT COUNTY  
 RAY CLEMONS, SHERIFF  
 SCHEDULE OF FINDINGS AND RESPONSES  
 For The Year Ended December 31, 2016  
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-005 The Sheriff Had \$5,982 In Disallowed Disbursements In His 2015 Fee Account That Remain Unpaid (Continued)

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In 2015 the sheriff's administrative code stated "Meritorious award shall be allotted to the Tax Clerk when "excess" funds are available. (Not to exceed 10% gross)." However, there is no statutory authorization allowing a fee officer to independently regulate incentive awards to fee officers' employees. A clerk or sheriff cannot create, on their own and without being in the county's personnel system, an incentive award or incentive payments for their deputies. The sheriff was in violation of the administrative code and spent taxpayer funds on incentive payments that are not allowed by statute. This amount must personally be paid back to the 2015 fee account from the sheriff. We recommend the sheriff personally reimburse the 2015 fee account \$5,982 paid erroneously as a meritorious award.

*Sheriff's Response: One of my clerical staff was advised by an auditor from the State Auditor's Office in 2013 that it was permissible for fee officials to extend Meritorious Awards to their employees, and that those awards should be structured as a percentage of the employee's gross earnings. Additionally, it was common practice for another County Fee Official to give his employees these same Meritorious Awards in years past. These transactions were audited by the State Auditor's Office and were not disallowed. However, the auditor did choose to disallow a Meritorious Award that I extended to the former Bookkeeper.*

Auditor's Reply: The meritorious award was disallowed in the prior year because the sheriff did not have excess fees available to pay such an award. The sheriff's own administrative code required excess fees to be available before this award was permitted. Auditors informed the sheriff that an incentive based award (such as the meritorious award) is not allowable for fee officials unless they follow a county administrative code that allows for such awards in order to prevent such an error in the future. Other officials have given cost of living raises, salary adjustments, and other personnel actions that are not incentive based and are allowable for fee officials. These type of personnel actions depend on the particular circumstances in each county (e.g. the administrative code the official follows, whether the county is fee pooling, etc.) and comparisons cannot be made without knowledge of the specific situation in each audit.

2016-006 Election Board Payments Were Not Deposited Into The Official's Fee Account

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This is a repeat finding and was reported in the prior year audit report as finding 2015-004. The sheriff received \$5,450 during calendar year 2016 for his service on the local election board. The election board payments were not deposited into the sheriff's fee account. The sheriff indicated he was not aware that these payments are not his personally and are, if fact, part of his official duties as sheriff. The sheriff is in violation of regulations related to election board payments and salary maximums. KRS 117.035 outlines the regulations applicable to local election boards and KRS 64.5275 established salary maximums for fee officials. We recommend the sheriff personally reimburse \$5,450 to the 2016 fee account for the total amount of payments received as an election board officer.

*Sheriff's Response: Pursuant to statute, I am required to serve on the County Board of Elections, as it is a duty of the County Sheriff. Since assuming office in 2007, it has always been my understanding that payment rendered for the services of fee officials on the Local Board of Elections was due to the official personally, and not their respective Fee Accounts. Of particular importance, in my opinion, is the fact that these payments, which were issued by the Breathitt County Fiscal Court, were made payable to me personally, and not the office Fee Account. Additionally, my office has been audited every year by the State Auditor's Office, and I was never informed of the contrary until recently. In order to comply with applicable statutes, I will personally reimburse the 2015 and 2016 Fee Accounts for these election board payments.*

BREATHITT COUNTY  
 RAY CLEMONS, SHERIFF  
 SCHEDULE OF FINDINGS AND RESPONSES  
 For The Year Ended December 31, 2016  
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-006 Election Board Payments Were Not Deposited Into The Official's Fee Account (Continued)

Auditor's Reply: Election board payments significantly increased in calendar year 2016, which warranted further consideration by auditors. Testing revealed that these payments were not deposited into the fee account as required. In prior periods, the amount for election board payments was much smaller and would not have required additional test procedures.

2016-007 The Sheriff Had \$4,375 In Disallowed Disbursements In His 2009 Fee Account That Remain Unpaid

This is a repeat finding and was reported in the prior year audit report as finding 2015-005. In the prior year audit, it was noted that the sheriff had \$4,375 of disallowed disbursements in his 2009 fee account. During 2009, the sheriff wrote a check in the amount of \$4,375 to a county employee's mother for an accident involving a volunteer deputy, perpetrator, and her vehicle. Since the perpetrator did not have personal vehicle insurance, the sheriff paid the owner the NADA book value of the totaled vehicle. This was not a necessary expense in the operation of the sheriff's office and was disallowed. The sheriff did not have adequate controls in place to ensure all disbursements were necessary, adequately documented, reasonable in amount, beneficial to the public, and not personal in nature. The sheriff paid expenses in direct violation of those outlined as allowable for fee officials. This disallowed disbursement remains unpaid.

In Funk v. Milliken, 317 S.W.2d 499 (Ky. 1958), Kentucky's highest court reaffirmed the rule that county fee officials' expenditures of public funds will be allowable only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not personal in nature.

In addition, KRS 64.820 states:

- (1) The fiscal court shall collect any amount due the county from county officials as determined by the audit of the official conducted pursuant to KRS 43.070 and 64.810 if the amount can be collected without suit.
- (2) In the event the fiscal court cannot collect the amount due the county from the county official without suit, the fiscal court shall then direct the county attorney to institute suit for the collection of the amount reported by the Auditor or certified public accountant to be due the county within (90) days from the date of receiving the Auditor's or certified public accountant's report.

We recommend the sheriff turn over personal funds of \$4,375 to the fiscal court for repayment of the disallowed disbursement. We recommend the sheriff monitor his disbursements to ensure all disbursements are allowable. We will refer this finding to the Breathitt County Attorney.

*Sheriff's Response: As required by law, the Volunteer Deputy who was involved in the incident that led to this expenditure was bonded in his capacity by the CNA Surety Company in the amount of \$10,000.00. I will confer with the CNA Surety Company regarding this issue and the potential applicability of the Deputy's bond with regard to the payment of this disallowed expenditure.*

BREATHITT COUNTY  
 RAY CLEMONS, SHERIFF  
 SCHEDULE OF FINDINGS AND RESPONSES  
 For The Year Ended December 31, 2016  
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-008 The Sheriff Had \$339 In Disallowed Disbursements In His 2012 Fee Account That Remain Unpaid

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This is a repeat finding and was reported in the prior year audit report as finding 2015-006. In the prior year audit, it was noted that the sheriff had \$339 in disallowed disbursements. The sheriff paid for items that were not allowable: \$25 in donations and \$314 in books purchased for students. The sheriff did not have adequate controls in place to ensure all disbursements were necessary, adequately documented, reasonable in amount, beneficial to the public, and not personal in nature. The sheriff paid expenses in direct violation of those outlined as allowable for fee officials by making disbursements that were not necessary for the operation of his office. These disallowed disbursements remain unpaid.

In Funk v. Milliken, 317 S.W.2d 499 (Ky. 1958), Kentucky's highest court reaffirmed the rule that county fee officials' expenditures of public funds will be allowable only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not personal in nature. In addition, KRS 64.820 states:

(1) The fiscal court shall collect any amount due the county from county officials as determined by the audit of the official conducted pursuant to KRS 43.070 and 64.810 if the amount can be collected without suit. (2) In the event the fiscal court cannot collect the amount due the county from the county official without suit, the fiscal court shall then direct the county attorney to institute suit for the collection of the amount reported by the Auditor or certified public accountant to be due the county within (90) days from the date of receiving the Auditor's or certified public accountant's report.

We recommend the sheriff turn over personal funds of \$339 to the fiscal court for repayment of the disallowed disbursement. We recommend the sheriff monitor his disbursements to ensure all disbursements are allowable. We will refer this finding to the Breathitt County Attorney.

*Sheriff's Response: In my opinion, one of the most imperative services that our society can provide to our children and grandchildren is a top-quality education. With that being said, it was my belief at the time of the expenditure that the purchase of books for our County's students was a permissible one. Unfortunately, it was the determination and opinion of the Auditor's Office that the purchase of these educational materials should be disallowed. Because of the intent I had at the time of purchase, and in order to conform to the recommendation of the Auditor, I will gladly reimburse, personally, the 2012 Fee Account.*

Auditor's Reply: Disallowed disbursements are a matter of judicial precedent as established in Funk v. Milliken, 317 S.W.2d 499 (Ky. 1958). In order to be an allowable, a disbursement must be necessary for the operation of the office. It was determined that the donation and book purchases in a prior period are not necessary expenses of a sheriff's office (among other requirements).

2016-009 The Sheriff Lacks Internal Controls Over Disbursements

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The sheriff lacks internal controls over disbursements. There were 62 checks written for carwashes totaling \$6,280 and 18 checks totaling \$6,900 for ammo, guns, and belts. We question the necessity of these disbursements due to lack of detail on invoices and the reasonableness of these transactions due to the volume of such transactions. The sheriff also paid an individual \$10,500 for preparation of property tax settlements,

BREATHITT COUNTY  
RAY CLEMONS, SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended December 31, 2016  
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-009 The Sheriff Lacks Internal Controls Over Disbursements (Continued)

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W-2s, and 1099s. This is an increase of \$4,400 (72%) from the prior year. The tax settlement preparation fees increased \$2,900 (64%) from the prior year. We question if these disbursements are reasonable due to the volume of the transactions. We question if these disbursements are reasonable because these fees have increased significantly from the prior year. Additionally, these amounts are significantly higher than we typically see in other counties.

The sheriff has not established adequate internal control procedures over disbursements or implemented an effective supervisory review/oversight process to prevent and detect errors, misstatements, and fraud. Due to lack of proper invoice detail and weak internal controls, taxpayer funds could have been misspent. Inadequate controls over disbursements increase the risk of undetected fraud, errors, and misstatements. Good internal controls dictate invoices should be present when payment is made and invoices should be sufficiently detailed, including date, description of item purchased/service provided, quantity, etc. Additionally, in Funk v. Milliken, 317 S.W.2d 499 (Ky. 1958), Kentucky's highest court reaffirmed the rule that county fee officials' disbursements of public funds will be allowable only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not personal in nature. We recommend the sheriff monitor and strengthen his internal controls over his disbursements to ensure all disbursements are reasonable, necessary, adequately documented, and beneficial to the public.

*Sheriff's Response: At the time of each transaction, I adamantly feel that the services rendered for each expenditure were legitimate and necessary ones, with regard to the operation of my office. However, I, as much as anyone, have felt the impact of dwindling revenue over the past couple of years. Consequently, I will not only be taking into consideration the legitimacy and necessity of each expenditure moving forward, but also the economic feasibility of each one.*

2016-010 The Sheriff's Office Lacks Adequate Segregation Of Duties

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This is a repeat finding and was reported in the prior year audit report as finding 2015-007. The sheriff's office lacks adequate segregation of duties. The responsibilities of recording, depositing, and reconciling cash are delegated to the same individual. Since only one person performs these functions, there is no assurance that financial transactions are accurate, complete, and free of error/misstatement. The sheriff is aware of the risk associated with inadequate segregation of duties.

However, due to a small staff size and budget constraints, the sheriff has decided to accept these risks and has not implemented compensating controls to offset this weakness.

The functions of receiving, recording, depositing, and reconciling cash should be separated whenever possible in order to decrease the risk of undetected errors, misstatements, and fraud. If duties cannot be adequately segregated due to a small staff size, the sheriff could implement and document compensating controls to reduce the risk of inadequate segregation of duties. Examples of compensating controls include: the sheriff comparing daily checkout sheet to receipts ledger and bank deposit, reviewing bank reconciliations for accuracy, performing surprise cash counts, reviewing invoices prior to payment, and reviewing all financial reports. The sheriff could document his review process by initialing reports and supporting documentation.

BREATHITT COUNTY  
RAY CLEMONS, SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended December 31, 2016  
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-010 The Sheriff's Office Lacks Adequate Segregation Of Duties (Continued)

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We recommend the sheriff segregate the duties of receiving, recording, depositing, and reconciling cash or implement and document compensating controls to offset this control weakness.

*Sheriff's Response: As a direct result of a decline in revenue and the unwillingness of the County Fiscal Court to assist my office, it is financially impossible to hire ample support staff so that financial duties can be sufficiently segregated. In fact, the Fiscal Court slashed my personnel budget by a drastic 76% from CY 2017 to CY 2018, allowing just \$30,000 for the payment of all wages and all fringe benefits for my entire staff for the entire calendar year. Despite these tremendous setbacks, I will, to the best of my ability, implement safeguards in an effort to ensure the accuracy and integrity of all financial transactions.*

Auditor's Reply: Compensating controls, as suggested in this finding, do not require hiring additional staff or additional costs of any kind. It simply requires more management involvement, oversight, and review and appropriate documentation of these procedures.