

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

**For The Year Ended  
December 31, 2020**



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

The Honorable Shane Gabbard, Jackson County Judge/Executive  
The Honorable Paul Hays, Jackson County Sheriff  
Members of the Jackson 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 Jackson County, Kentucky, for the year ended December 31, 2020, and the related notes to the financial statement.

**Management's Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

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

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

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

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The Honorable Shane Gabbard, Jackson County Judge/Executive  
 The Honorable Paul Hays, Jackson County Sheriff  
 Members of the Jackson 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 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, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

### **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Jackson County Sheriff, as of December 31, 2020, 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 Jackson County Sheriff for the year ended December 31, 2020, 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 October 27, 2021, on our consideration of the 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 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 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 comments:

- 2020-001 The Jackson County Sheriff's Office Does Not Have Adequate Segregation Of Duties Over Receipts, Bank Reconciliations, And Disbursements
- 2020-002 The Jackson County Sheriff Materially Misstated His Fourth Quarter Report
- 2020-003 The Jackson County Sheriff Did Not Follow Proper Procurement Procedures For Purchases Over \$30,000

Respectfully submitted,



Mike Harmon  
 Auditor of Public Accounts

October 27, 2021

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

For The Year Ended December 31, 2020

Receipts

Federal Fees For Services - U.S. Department of Agriculture	\$	6,462
State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)		22,015
State Fees For Services:		
Finance and Administration Cabinet	\$	45,251
Sheriff Security Service		2,521
		47,772
Circuit Court Clerk:		
Fines and Fees Collected		11,817
Court Ordered Payments		6,752
		18,569
School Resource Officer		26,700
Fiscal Court		67,266
County Clerk - Delinquent Taxes		20,112
Commission On Taxes Collected		155,715
Fees Collected For Services:		
Auto Inspections		2,540
Serving Papers		18,151
Carry Concealed Deadly Weapon Permits		4,560
		25,251
Other:		
Add-On Fees		17,424
Miscellaneous		7,288
		24,712
Interest Earned		97
Borrowed Money:		
State Advancement		85,000
		85,000
Total Receipts		499,671

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

JACKSON COUNTY  
 PAUL HAYS, SHERIFF  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2020  
 (Continued)

Disbursements

Operating Disbursements:

Personnel Services-

Deputies' Gross Salaries	\$	72,925	
Part Time Gross Salaries		7,925	
Other Gross Salaries - KLEFPF		18,074	
Court Security Salaries		74,664	

Employee Benefits-

Employer's Share Retirement - KLEFPF		3,930	
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Contracted Services-

Vehicle Maintenance and Repairs		12,393	
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Materials and Supplies-

Office Materials and Supplies		17,509	
Uniforms		5,421	

Auto Expense-

Gasoline		13,013	
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Other Charges-

Postage		314	
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Miscellaneous		<u>1,733</u>	\$ 227,901
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Debt Service:

Lease Agreement - Vehicles		45,223	
State Advancement		<u>85,000</u>	<u>130,223</u>

Total Disbursements			<u>\$ 358,124</u>
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Net Receipts			141,547
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Less: Statutory Maximum			<u>90,562</u>
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Excess Fees			50,985
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Less: Training Incentive Benefit			<u>4,216</u>
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Excess Fees Due County for 2020			46,769
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Payment to Fiscal Court - January 5, 2021			<u>46,767</u>
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Balance Due Fiscal Court at Completion of Audit			<u><u>\$ 2</u></u>
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The accompanying notes are an integral part of this financial statement.



JACKSON COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2020

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the sheriff as determined by the audit. KRS 134.192 requires the sheriff to settle excess fees with the fiscal court at the time he files his annual settlement with the fiscal court on or before September 1 of each year. KRS 64.830 requires an outgoing sheriff to settle excess fees with the fiscal court of his county by March 15 immediately following the expiration of his term of office.

The financial statement has been prepared on a regulatory basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. This basis demonstrates compliance with the laws of Kentucky and is a special purpose framework. Under this regulatory basis of accounting, receipts and disbursements are generally recognized when cash is received or disbursed, with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2020 services
- Reimbursements for 2020 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2020

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 sheriff's office has elected to participate, pursuant to KRS 78.530, in the County Employees Retirement System (CERS), which is administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). This is a cost-sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute.

JACKSON COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2020  
 (Continued)

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

The sheriff's contribution for calendar year 2018 was \$2,426, calendar year 2019 was \$3,731, and calendar year 2020 was \$3,930.

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

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on or after January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own accounts. Nonhazardous covered employees contribute five percent of their annual creditable compensation. Nonhazardous members also contribute one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the KRS Board of Directors based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a four percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008, must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

The county's contribution rate for nonhazardous employees was 24.06 percent for the year.

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

<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%

JACKSON COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2020  
(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)

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 161.714 with exception of COLA and retiree health benefits after July 2003.

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

Once members reach a minimum vesting period of 15 years, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually by 1.5 percent. This was established for Tier 2 members during the 2008 Special Legislative Session by House Bill 1. During the 2013 Legislative Session, Senate Bill 2 was enacted, creating Tier 3 benefits for members.

The monthly insurance benefit has been increased annually as a 1.5 percent cost of living adjustment (COLA) since July 2003 when the law changed. The annual increase is cumulative and continues to accrue after the member's retirement.

Tier 2 member benefits are covered by KRS 161.714 with exception of COLA and retiree health benefits after July 2003. Tier 3 members are not covered by the same provisions.

C. Cost of Living Adjustments - Tier 1

The 1996 General Assembly enacted an automatic cost of living adjustment (COLA) provision for all recipients of KRS benefits. During the 2008 Special Session, the General Assembly determined that each July beginning in 2009, retirees who have been receiving a retirement allowance for at least 12 months will receive an automatic COLA of 1.5 percent. The COLA is not a guaranteed benefit. If a retiree has been receiving a benefit for less than 12 months, and a COLA is provided, it will be prorated based on the number of months the recipient has been receiving a benefit.

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.

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.

JACKSON COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2020  
(Continued)

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

KRS Annual Financial Report and Proportionate Share Audit Report

KRS issues a publicly available annual financial report that includes financial statements and required supplementary information on CERS. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

KRS also issues proportionate share audit reports for both total pension liability and other post-employment benefits for CERS determined by actuarial valuation as well as each participating county's proportionate share. Both the Schedules of Employer Allocations and Pension Amounts by Employer and the Schedules of Employer Allocations and OPEB Amounts by Employer reports and the related actuarial tables are available online at <https://kyret.ky.gov>. The complete actuarial valuation report, including all actuarial assumptions and methods, is also available on the website or can be obtained as described in the paragraph above.

Note 3. Deposits

The 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 Jackson County Sheriff does not have a deposit policy for custodial credit risk, but rather follows the requirements of the DLG *County Budget Preparation and State Local Finance Officer Policy Manual*. As of December 31, 2020, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. U.S. Department of Agriculture Fee For Services

The Jackson County Sheriff's Office entered into an agreement with the U.S. Department of Agriculture for \$6,462 to provide patrol services at Daniel Boone National Forest recreation area for the period of April 1, 2020 through September 30, 2020. The sheriff's office received \$6,462 during calendar year 2020.

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 \$2,977 on January 1, 2020. During calendar year 2020, the sheriff deposited \$101 and expended \$100, leaving a balance of \$2,978 as of December 31, 2020. 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.

JACKSON COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2020  
 (Continued)

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, 2020, the balance was \$1,086. During calendar year 2020, the sheriff deposited \$8,673 in donations to be used exclusively for the public purposes of the office. The sheriff expended \$1,010 of the donations for materials and equipment. The balance in the account was \$8,749 as of December 31, 2020.

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, 2020, the account balance was \$11,694. During calendar year 2020, the sheriff deposited \$417 and expended \$7,965. The balance of the second donation account as of December 31, 2020 was \$4,146.

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, 2020, the balance was \$2,617. During calendar year of 2020, the sheriff deposited \$752 and expended \$2,546. The balance in the account was \$823 as of December 31, 2020.

Note 9. Lease Agreements

On December 14, 2020, the Jackson County Sheriff entered into two lease agreements for two vehicles to be used by the sheriff's office. The agreement is a lease with a buy option and the sheriff will not have right, title, or interest in or to the vehicles except for the use of the vehicles as described in the agreement. The Jackson County Sheriff paid in full for the total price of both of these lease agreements on December 15, 2020. The lease agreements payment schedule at December 31, 2020 are as follows:

Item Purchased	Monthly Payment	Term of Agreement	Ending Date	Principal Balance December 31, 2020
Dodge Durango	\$ 628	36 Months	1/14/2024	\$ 0
Dodge Durango	\$ 628	36 Months	1/14/2024	\$ 0

Note 10. Short-term Debt

A. Direct Borrowing

1. State Advancement

During calendar year 2020, the sheriff's office borrowed \$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, 2021, 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 2020 fee account as of December 31, 2020.

JACKSON COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2020  
 (Continued)

Note 10. Short-term Debt (Continued)

A. Direct Borrowing (Continued)

1. State Advancement (Continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Direct Borrowing	<u>\$</u>	<u>\$ 85,000</u>	<u>\$ 85,000</u>	<u>\$</u>
Total Short-term Debt	<u>\$ 0</u>	<u>\$ 85,000</u>	<u>\$ 85,000</u>	<u>\$ 0</u>

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 Shane Gabbard, Jackson County Judge/Executive  
The Honorable Paul Hays, Jackson County Sheriff  
Members of the Jackson 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 Jackson County Sheriff for the year ended December 31, 2020, and the related notes to the financial statement and have issued our report thereon dated October 27, 2021. The 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 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 Jackson County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Jackson 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 2020-001, 2020-002, and 2020-003 to be material weaknesses.

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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*  
(Continued)

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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 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 2020-002 and 2020-003.

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

The Jackson County Sheriff's views and planned corrective action for the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Jackson County Sheriff's responses was/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

October 27, 2021

## SCHEDULE OF FINDINGS AND RESPONSES

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JACKSON COUNTY  
PAUL HAYS, SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2020

FINANCIAL STATEMENT FINDINGS:

2020-001 The Jackson County Sheriff's Office Does 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 2019-001. The sheriff's bookkeeper is responsible for collecting receipts, preparing deposits, preparing daily checkout sheets, posting to ledgers, and performing bank reconciliations. The sheriff or another employee did not document oversight of bank reconciliations. The sheriff's bookkeeper is also responsible for preparing purchase orders, preparing checks, and signing checks. The sheriff has implemented compensating controls, including having an outside bookkeeper review monthly ledgers and bank statements and the 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 sheriff, the lack of segregation of duties is a result of a limited budget; which restricts the number of employees he can 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 segregate duties over receipts, bank reconciliations, and disbursements. If segregation of duties is not feasible due to lack of staff, the sheriff should continue with, and strengthen established compensating controls to help mitigate any weakness.

*Sheriff's Response: The Jackson County Sheriff's Office operates under very limited staff budget. We have previously introduced compensating control measures to minimize the potential for mismanagement of funds received or disbursed. Through the tax collection season we employ additional personnel to allow our office manager more time to focus on segregated duties. We are in communication with auditors to solicit additional ideas and measures that will improve our procedures, with consideration of our budget limitations.*

2020-002 The Jackson County Sheriff Materially Misstated His Fourth Quarter Report

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The Jackson County Sheriff hires an outside CPA to complete his quarterly reports for his fee account. During our review of the sheriff disbursements ledger and fourth quarter report it was determined that the CPA submitted the sheriff's fourth quarter report that did not include disbursements for the fourth quarter. This mistake went over looked by the sheriff and the county judge/executive.

Additionally, the Jackson County Sheriff failed to properly get approval for a budget amendment of \$30,000 on the total receipts for calendar year 2020. The sheriff's original budget was approved on December 30, 2019, with \$433,750 for total receipts. The sheriff's fourth quarter financial report showed total budgeted receipts as \$463,750, a \$30,000 increase when compared to the original budget. Through inquiry with the sheriff's bookkeeper and observation of the fiscal court minutes, there was no attempt to have a budget amendment approved with the fiscal court for calendar year 2020.

JACKSON COUNTY  
 PAUL HAYS, SHERIFF  
 SCHEDULE OF FINDINGS AND RESPONSES  
 For The Year Ended December 31, 2020  
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2020-002 The Jackson County Sheriff Materially Misstated His Fourth Quarter Report (Continued)

The sheriff did not have controls in place to ensure that his financial statement was materially accurate. Failure to include the disbursements for the fourth quarter, resulted in the sheriff's fourth quarter report to be materially inaccurate by \$198,435. A misstatement could result in an increased risk of uncorrected errors, theft, loss or misappropriated assets.

Furthermore, the sheriff's fourth quarter report had an additional \$30,000 of budgeted receipts that was not documented by approval of a budget amendment by the fiscal court.

KRS 134.192(11) states, in part, "(a) A complete statement of all funds received by his or her office for official services, showing separately the total incomes received by his or her office for services rendered, exclusive of his or her commissions for collecting taxes, and the total funds received as commissions for collecting state, county, and school taxes; and (b) A complete statement of all expenditures of his or her office[.]"

We recommend the Jackson County Sheriff post all disbursements on his quarterly reports. We further recommend the Jackson County Sheriff have all budget amendments approved by the fiscal court.

*Sheriff's Response: The 4<sup>th</sup> Quarter Report was completed by an outside Accounting Service. This service was employed as a compensating control which, due to budget shortfalls, provides some additional controls in this process. Inadvertently, a 'Down Level' version of the report was received from the accounting service and approved by the Sheriff and through Fiscal Court without noticing the error. Once the error was noticed by the Audit team, the 'Final Report' was immediately forwarded with all accurate receipts and expenses included. All funds received and disbursed were accounted for and balanced back to the bank statements.*

2020-003 The Jackson County Sheriff Did Not Follow Proper Procurement Procedures For Purchases Over \$30,000

The Jackson County Sheriff did not advertise for bids on all expenditures exceeding \$30,000. The sheriff paid \$45,223 to lease two vehicles during December 2020, which were also paid off that same month. These items were not bid by the sheriff. The sheriff was unaware of the bidding requirements regarding his leasing of two vehicles. Payment of both leases in full exceeded the bidding threshold, resulting in the sheriff being noncompliance with KRS 424.260.

KRS 424.260(1) states, "[e]xcept where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district, or board or commission of a city or county, or sheriff or county clerk, may make a contract, lease, or other agreement for materials, supplies except perishable meat, fish, and vegetables, equipment, or for contractual services other than professional, involving an expenditure of more than thirty thousand dollars (\$30,000) without first making newspaper advertisement for bids."

The Jackson County Administrative Code regarding bidding procedures notes that the bid threshold is set at \$30,000. It further states the bidding process includes the following: advertisement for the bid, bids are opened publically, and the approval of the bid by the fiscal court.

JACKSON COUNTY  
PAUL HAYS, SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended December 31, 2020  
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2020-003 The Jackson County Sheriff Did Not Follow Proper Procurement Procedures For Purchases  
Over \$30,000 (Continued)

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We recommend any disbursements that exceeds the bidding threshold be subject to the bidding process or the disbursement be purchased via the state contract. We further recommend the Jackson County Sheriff comply with the county administrative code regarding the bidding process.

*Sheriff's Response: As a result of the 'Cares Grant', funding become available to upgrade our fleet. The decision was made to lease two new vehicles for the Jackson County Sheriff's Office at a price per year well under the \$30,000 limit. The Jackson County Sheriff paid the total lease cost for the three-year plan up front, while funding was available, instead of making monthly payments. We believed we were making a sound business decision, but did not realize paying the total for the three-year lease would place us in violation of established procedures. Future purchases will be made in consult with auditors and these comments will be documented prior to any lease or purchase.*