

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

**For The Period  
January 1, 2018 Through January 6, 2019**



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

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

Independent Auditor's Report

**Report on the Financial Statement**

We have audited the accompanying Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the former Sheriff of Pendleton County, Kentucky, for the period January 1, 2018 through January 6, 2019, 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.



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

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

As described in Note 1 of the financial statement, the financial statement is prepared by the former Pendleton County Sheriff on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

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

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

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the former Pendleton County Sheriff, for the period January 1, 2018 through January 6, 2019, or changes in financial position or cash flows thereof for the period then ended.

### **Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the former Pendleton County Sheriff for the period January 1, 2018 through January 6, 2019, 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 25, 2019, on our consideration of the former Pendleton County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the former Pendleton County Sheriff's internal control over financial reporting and compliance.

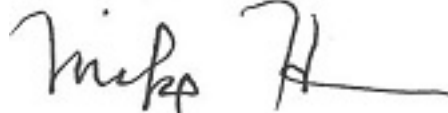
The Honorable David Fields, Pendleton County Judge/Executive  
The Honorable Craig Peoples, Former Pendleton County Sheriff  
The Honorable Edwin Quinn, Pendleton County Sheriff  
Members of the Pendleton County Fiscal Court

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

Based on the results of our audit, we have presented the accompanying Schedule of Findings and Responses, included herein, which discusses the following report comments:

- 2018-001 The Former Sheriff Exceeded Approved Budgeted Appropriations For Both Official Expenses And Salaries For Deputies And Assistants In Calendar Year 2018
- 2018-002 The Former Sheriff's Office Lacked Adequate Segregation Of Duties Over Receipts And Disbursements
- 2018-003 The Former Sheriff Expended Funds For Unallowable Purposes And Also Had Unsupported Expenditures Resulting In Disallowed Expenditures Of \$4,491
- 2018-004 The Former Pendleton County Sheriff Did Not Have Adequate Controls Over Receipts

Respectfully submitted,

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

Mike Harmon  
Auditor of Public Accounts

October 25, 2019

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

For The Period January 1, 2018 Through January 6, 2019

Receipts

State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)	\$	32,843	
State Fees For Services:			
Finance and Administration Cabinet	\$	63,791	
Sheriff Security Service		<u>3,604</u>	67,395
Fiscal Court			66,609
County Clerk - Delinquent Taxes			27,346
Commission On Taxes Collected			304,597
Fees Collected For Services:			
Auto Inspections		4,035	
Accident and Police Reports		877	
Serving Papers		30,960	
Carry Concealed Deadly Weapon Permits		<u>11,065</u>	46,937
Other:			
Add-On Fees		30,796	
Miscellaneous		12,237	
School Resource Officer		48,894	
Courthouse General Fund		<u>4,220</u>	96,147
Interest Earned			580
Borrowed Money:			
State Advancement			<u>214,992</u>
Total Receipts			857,446

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



PENDLETON COUNTY  
 CRAIG PEOPLES, FORMER SHERIFF  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
 For The Period January 1, 2018 Through January 6, 2019  
 (Continued)

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-	
Deputies' Gross Salaries	\$ 136,478
Secretary Gross Salaries	32,758
Overtime Gross Salaries	31,966
Transport Salaries	62,793
School Resource Officer	58,542
Range Instructor	275
Court Security Salary	71,613
KLEFPF	24,974
Contracted Services-	
Vehicle Maintenance and Repairs	20,972
Materials and Supplies-	
Office Materials and Supplies	2,483
Uniforms	3,839
Auto Expense-	
Gasoline	33,331
Other Charges-	
Conventions and Travel	5,425
Dues	636
Postage	685
Office Phones	2,776
Miscellaneous	9,457
Mobile Phones	4,791
Ammunition	1,480
Computer and Copier	10,734
Radio	200
Courthouse General Fund	4,220
Accreditation	2,694
Payments to County Treasurer	8,027
CCDW Fees	2,535

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

PENDLETON COUNTY  
 CRAIG PEOPLES, FORMER SHERIFF  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
 For The Period January 1, 2018 Through January 6, 2019  
 (Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay: (Continued)

Capital Outlay-		
Office Equipment	<u>\$ 1,124</u>	\$ 534,808
Debt Service:		
State Advancement		<u>214,992</u>
Total Disbursements		<u>\$ 749,800</u>
Net Receipts		107,646
Less: Statutory Maximum		<u>86,880</u>
Excess Fees		20,766
Less: Training Incentive Benefit		<u>4,137</u>
Excess Fees Due County for 2018		16,629
Payment to Fiscal Court - February 12, 2019		<u>16,629</u>
Balance Due Fiscal Court at Completion of Audit		<u>\$ 0</u>

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

PENDLETON COUNTY  
NOTES TO FINANCIAL STATEMENT

January 6, 2019

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 2018 services
- Reimbursements for 2018 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2018

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).

PENDLETON COUNTY  
NOTES TO FINANCIAL STATEMENT  
January 6, 2019  
(Continued)

Note 2. Employee Retirement System and Other Post-Employment

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.

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 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 19.18 percent for the period January 1, 2018 through June 30, 2018 and 21.48 percent for the period July 1, 2018 through January 6, 2019.

Hazardous

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

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

PENDLETON COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 January 6, 2019  
 (Continued)

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

Hazardous (Continued)

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 31.55 percent for the period January 1, 2018 through June 30, 2018 and 35.34 percent for the period July 1, 2018 through January 6, 2019.

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%

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.

Benefits are covered under KRS 161.714 with exception of COLA and retiree health benefits after July 2003.

PENDLETON COUNTY  
NOTES TO FINANCIAL STATEMENT  
January 6, 2019  
(Continued)

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

Other Post-Employment Benefits (OPEB) (Continued)

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. Health Insurance Coverage - Tier 2 and Tier 3 - Hazardous

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

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

D. Cost of Living Adjustments - Tier 1

The 1996 General Assembly enacted an automatic cost of living adjustment (COLA) provision for all recipients of 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.

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

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

F. Death Benefit

If a retired member is receiving a monthly benefit based on at least 48 months of service credit, KRS will pay a \$5,000 death benefit payment to the beneficiary designated by the member specifically for this benefit. Members with multiple accounts are entitled to only one death benefit.

PENDLETON COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 January 6, 2019  
 (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 former Pendleton County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the sheriff's deposits may not be returned. The former Pendleton County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of January 6, 2019, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Special Accounts

A. Asset Forfeiture

The former Pendleton County Sheriff's office maintained a drug account for the receipt and expenditure of funds resulting from drug related seizures and forfeitures. This account had a beginning balance on January 1, 2018 of \$7,168. Expenditures from the account are for law enforcement activities. During 2018, there were receipts of \$4,089 and expenditures of \$2,209, leaving a balance of \$9,048 as of January 6, 2019.

B. Pendleton County Cop and Court Account

The former Pendleton County Sheriff's office maintained a cop and court account. This account consists of funds obtained through fundraiser proceeds to be used with the annual shop with a cop program. The beginning balance in the account on January 1, 2018 was \$3,096. Receipts during the year totaled \$2,865 and expenditures totaled \$5,961 leaving a balance of \$0 as of January 6, 2019.

PENDLETON COUNTY  
NOTES TO FINANCIAL STATEMENT  
January 06, 2019  
(Continued)

Note 4. Special Accounts (Continued)

C. Drug Court Account

The former Pendleton County Sheriff's office maintained a drug court account. This account consists of funds allotted by the Pendleton County Fiscal Court for the Drug Court program that is administered by the circuit court. The beginning balance in the account on January 1, 2018 was \$4,402. There were \$9 in receipts, and disbursements of \$4,411 during the year, leaving a balance of \$0 in the account as of January 6, 2019.

Note 5. Related Party Transactions

The former Pendleton County Sheriff purchased goods from a business owned by his family member. The total amount spent in calendar year 2018 was \$804 for a variety of office supplies to operate the sheriff's office.



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

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

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

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With *Government Auditing Standards*

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the former Pendleton County Sheriff for the period January 1, 2018 through January 6, 2019, and the related notes to the financial statement and have issued our report thereon dated October 25, 2019. The former Pendleton County Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statement, we considered the former Pendleton County Sheriff's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former Pendleton County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Pendleton County Sheriff's internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2018-001 to be a material weakness.



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With *Government Auditing Standards*  
(Continued)

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

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2018-002, 2018-003, and 2018-004 to be significant deficiencies.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the former Pendleton County Sheriff's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2018-001.

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

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

October 25, 2019

## SCHEDULE OF FINDINGS AND RESPONSES

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

For The Period January 1, 2018 Through January 6, 2019

FINANCIAL STATEMENT FINDINGS:

2018-001 The Former Sheriff Exceeded Approved Budgeted Appropriations For Both Official Expenses And Salaries For Deputies And Assistants In Calendar Year 2018

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The former Pendleton County Sheriff's operating expenditures exceeded the budgeted amount approved by the Pendleton County Fiscal Court for calendar year 2018. The fiscal court approves the sheriff's budget by line item. The following expenditure line items exceeded the budget:

<u>Expenditure Account</u>	<u>Amount Over Budget</u>
• Sheriff's Gross Salary	\$1,822
• Training Fringe Benefit	85
• Deputies' Gross Salaries	10,378
• Overtime Gross Salaries	1,966
• Transport Salaries	793
• School Resource Officer	17,639
• Court Security Salary	1,613
• KLEFPF	874
• Vehicle Maintenance and Repairs	8,972
• Gasoline	1,331
• Miscellaneous	5,457
• Computer and Copier	34
• Courthouse General Fund	220
• Payments to County Treasurer	8,027
• CCDW Fees	735

The former sheriff also exceeded the maximum salary limitation established by the fiscal court for the salaries of deputies and assistants by \$32,495. The salary limitation was set at \$386,903 for calendar year 2018; however, the former sheriff expended \$419,398.

The former sheriff did not adequately monitor his budget throughout the year ensuring that budgeted expenditures were within prescribed limits. Failure to monitor the budget throughout the year led to the former sheriff overspending his approved budget. Failing to properly monitor budgets could also lead to cash deficits in the sheriff's operating account.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* requires the fiscal court to approve a calendar year budget for each fee office as a component of the county's budget preparation process by January 15th of each year.

KRS 64.530(3) states, "the fiscal court shall fix annually the reasonable maximum amount, including fringe benefits, which the officer may expend for deputies and assistants, and allow the officer to determine the number to be hired and the individual compensation of each deputy and assistant." The sheriff is to ensure that salaries for deputies and assistants do not exceed that fixed amount.

PENDLETON COUNTY  
 CRAIG PEOPLES, FORMER SHERIFF  
 SCHEDULE OF FINDINGS AND RESPONSES  
 For The Period January 1, 2018 Through January 06, 2019  
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-001 The Former Sheriff Exceeded Approved Budgeted Appropriations For Both Official Expenses And Salaries For Deputies And Assistants In Calendar Year 2018 (Continued)

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We recommend the Pendleton County Sheriff's office properly monitor expenses related to operations and payroll to ensure they do not exceed budgeted amounts that have been approved or fixed by the fiscal court for the calendar year. If the sheriff anticipates the necessary expenses of the office are going to exceed the budgeted amounts, we recommend that he obtain an approved budget amendment from the fiscal court prior to the end of the calendar year.

*Former Sheriff's Response: All budget overages expenditures were approved by the fiscal court by amendment. At the time the budget is approved the sheriff's salary is based on current year until DLG puts out a new salary in February. During the year an additional SRO was hired and approved by fiscal court.*

Auditor's Reply: The budget amendments provided were approved after the end of the calendar year. As recommended, the sheriff's office should monitor the budget throughout the year and have all amendments approved before the end of the calendar year.

2018-002 The Former Sheriff's Office Lacked Adequate Segregation Of Duties Over Receipts And Disbursements

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During our review of internal controls, we discovered the former sheriff's office lacked adequate segregation of duties over receipts and disbursements. All employees of the former sheriff's office collect receipts. The office manager prepares the daily bank deposit and daily checkout sheet and then posts items to the receipts ledger. The office manager prepares the quarterly financial report and bank reconciliations that are agreed to the receipts and disbursements ledgers. The office manager prepares checks for all disbursements including payroll and posts to the disbursements ledger. The former sheriff and office manager are the only authorized check signers. The former sheriff does not require dual signatures on checks; however, the office manager generally signs checks. This is a repeat finding and was included in the prior year audit report as finding 2017-001.

According to the former sheriff, due to the office having a small staff comprised of three full time employees, it is very difficult to segregate duties over receipts and disbursements. Lack of segregation of duties over receipts and disbursements creates an opportunity for misappropriation of assets. By having the same employee perform these functions, the risk that undetected errors or fraud could occur increases. This could also result in inaccurate financial reporting to external agencies such as the Department for Local Government.

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

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



PENDLETON COUNTY  
 CRAIG PEOPLES, FORMER SHERIFF  
 SCHEDULE OF FINDINGS AND RESPONSES  
 For The Period January 1, 2018 Through January 06, 2019  
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-002 The Former Sheriff's Office Lacked Adequate Segregation Of Duties Over Receipts And Disbursements (Continued)

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

*Sheriff's Response: This information will be passed on to new sheriff. As this office also does law enforcement duties it is not always feasible for someone to do what is outlined. Any check written for over \$500.00 had the sheriff's signature. I always reviewed the monthly receipts and disbursement reports as well as the quarterly reports.*

2018-003 The Former Sheriff Expended Funds For Unallowable Purposes And Also Had Unsupported Expenditures Resulting In Disallowed Expenditures Of \$4,491

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Over the past years, the former sheriff operated and maintained a Cop & Court account that he stated was for the Shop With A Cop Program. During calendar 2018, this account had a beginning balance of \$3,096, deposits of \$2,860, which the sheriff stated were probably donations, interest of \$5, and disbursements of \$5,961. The disbursements consisted of two donations to the Kentucky Sheriff's Boys and Girls Ranch totaling \$1,660, and one check, payable to "Cash", in the amount of \$4,301 to close out the account.

The amount received by the sheriff for donations did not have any supporting documentation on who the donations were from, what they were to be used for, and were not accounted for in any type of ledger. The check written to cash did not have supporting documentation on how \$2,831 was spent, what it was used for, or where the funds went. Subsequent to the exit conference, the former sheriff provided supporting documentation for \$1,470 of expenditures, leaving \$4,491 of personal funds due to the fee account.

KRS 61.310(8)(a) states:

[a] sheriff may accept a donation of money or goods to be used for the public purposes of his or her office if the sheriff establishes a register for recording all donations that includes, at a minimum:

1. The name and address of the donor;
2. A general description of the donation;
3. The date of acceptance of the donation;
4. The monetary amount of the donation, or its estimated worth; and
5. Any purpose for which the donation is given.

The register shall constitute a public record, be subject to the provisions of KRS 61.870 to 61.884, and be made available to the public for inspection in the sheriff's office during regular business hours.

Also, KRS 68.210 authorizes the state local finance officer to establish minimum accounting requirements for handling public funds. These requirements include maintaining receipts and disbursements ledgers.

PENDLETON COUNTY  
 CRAIG PEOPLES, FORMER SHERIFF  
 SCHEDULE OF FINDINGS AND RESPONSES  
 For The Period January 1, 2018 Through January 06, 2019  
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-003 The Former Sheriff Expended Funds For Unallowable Purposes And Also Had Unsupported Expenditures Resulting In Disallowed Expenditures Of \$4,491 (Continued)

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Using donated funds to donate to the Kentucky Sheriff's Boys and Girls Ranch does not meet the criteria of being used for the public purpose of the sheriff's office as required by KRS 61.310(8). Furthermore, without proper supporting documentation, the allowability of a check written to cash cannot be determined. Therefore, the donations made to the Kentucky Sheriff's Boys and Girls Ranch and the check written to cash that lack supporting documentation, are considered unallowable expenditures and are disallowed. If the former sheriff was collecting donations specifically for charitable purposes rather than public purpose donations contemplated in the statute, those charitable donations are not a function of the sheriff's office and should be handled outside the work of the sheriff's office as private activities.

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

We recommend the former sheriff deposit personal funds of \$4,491 to reimburse the sheriff's office for these disallowed expenditures. We also recommend the sheriff's office properly account for donations and ensure all expenditures are for allowable purposes and are properly supported. Any charitable activities that are outside the sheriff's statutory duties, should be handled privately, not through public accounts during official business hours.

*Former Sheriff's Response:*

- *All donations at request of donor were made anonymously.*
- *Funds were received, deposited and expended per donor request with the understanding as to what the donation was for and how it was spent.*
- *No funds for this account were comingled with the sheriff's fee or tax account. This account had no bearing on the day to day operations of the sheriff's office.*
- *All funds were used to foster a relationship with families in the community that were in need and to support the kids from Pendleton County who attended the Kentucky Sheriffs Boys and Girls Ranch. The expenditures in this account does in fact serve the public by forming bonds between law enforcement and our youth.*
- *Neither the sheriff nor anyone with in the office gained financially from the monies in this account.*
- *This account is charitable in nature. However it was more convenient for the donors to come to the office to make their donation. All functions of performing our "shop with a cop" program were done outside of office hours. KRS 61.310(8)(b) states "any donation to a sheriff shall only be used to further the public purpose...". The COPS office states that "Community policing begins with commitment to building trust and mutual respect between police and communities." Which is what our program does therefore serving a public purpose. The account did not support our office in any fashion of its operation but to serve a public need for under privileged children.*
- *All donations were for charitable purposes and with the exception of donors coming to the office to drop off donations and parents dropping off child's name the shopping with the kids took place outside of office hours and outside the scope of our everyday LE activities.*

PENDLETON COUNTY  
 CRAIG PEOPLES, FORMER SHERIFF  
 SCHEDULE OF FINDINGS AND RESPONSES  
 For The Period January 1, 2018 Through January 06, 2019  
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-003 The Former Sheriff Expended Funds For Unallowable Purposes And Also Had Unsupported Expenditures Resulting In Disallowed Expenditures Of \$4,491 (Continued)

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*Former Sheriff's Response (Continued):*

- *These are not "public funds" for a law enforcement purpose but as a community outreach.*
- *Attached are receipts and letters that our merchants were able to come up with from that date. The purchases are not all inclusive as to the fact some of them were not able to provide us with duplicates from that date.*
- *A police officer is paired with one or more children and is given an envelope for each with a certain amount money inside. The LEO takes the child to which ever and however many stores that they wish or have money for. The officer pays for the item until all money is spent, the merchant would mark the receipt as "shop with a cop" should the item need to be exchanged therefore not allowing cash to be returned. This receipt is given to the child/parent and not kept by the officer.*
- *Should the incoming sheriff desire to continue with a similar program he will be advised of the issues.*

2018-004 The Former Pendleton County Sheriff Did Not Have Adequate Controls Over Receipts

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Auditors tested one week of receipts and noted the following issues:

- Collections from April 20, 23, and 24, totaling \$855, were deposited on April 25, 2018;
- Collections from April 25, 26, 27, and 30, totaling \$11,751, were deposited on April 30, 2018;
- Sixteen receipts did not include the date of collections;
- Three receipts did not specify whether payment was by cash or check; and
- One receipt in the sequence was missing.

This is a repeat finding and was included in the prior year audit report as finding 2017-002.

It was the practice of the sheriff's office to make deposits only when collections were significant, due to limited staff. Controls were not in place to ensure receipts included all information and were maintained in the daily packets.

Failure to properly account for daily receipts increases the risk for misappropriation of assets. This condition could also result in inaccurate financial reporting to external agencies such as the Department for Local Government.

KRS 68.210 requires the state local finance officer to create a system of uniform accounts for all counties and county officials. The Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual*, which outlines minimum requirements for handling public funds, requires officials to issue receipts and deposit daily into a federally insured banking institution.

PENDLETON COUNTY  
CRAIG PEOPLES, FORMER SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Period January 1, 2018 Through January 06, 2019  
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-004 The Former Pendleton County Sheriff Did Not Have Adequate Controls Over Receipts (Continued)

We recommend the sheriff's office properly account for daily receipts by ensuring they are batched, posted to a daily checkout sheet, and deposited daily. We further recommend the sheriff ensure all required information is listed on manual receipts and that copies of all receipts are maintained.

*Sheriff's Response: At the time of this response I did not have access to the dates of deposits in question, so I cannot speak to this specifically. The new sheriff will be advised of what actions are needed.*