

**REPORT OF THE AUDIT OF THE
WASHINGTON COUNTY
SHERIFF**

**For The Year Ended
December 31, 2018**



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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Timothy Graves, Washington County Judge/Executive
The Honorable Jerry Pinkston, Washington County Sheriff
Members of the Washington 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 Washington County, Kentucky, for the year ended December 31, 2018, 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 Timothy Graves, Washington County Judge/Executive
 The Honorable Jerry Pinkston, Washington County Sheriff
 Members of the Washington 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 Washington 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 Washington County Sheriff, as of December 31, 2018, 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 Washington County Sheriff for the year ended December 31, 2018, 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 August 16, 2019, on our consideration of the Washington 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 Washington 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:

- 2018-001 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts, Disbursements, And Reconciliations
- 2018-002 The Sheriff's Office Did Not Batch Receipts Or Make Deposits Daily

Respectfully submitted,



Mike Harmon
 Auditor of Public Accounts

August 16, 2019

WASHINGTON COUNTY
 JERRY PINKSTON, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2018

Receipts

State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)	\$	21,411
State Fees For Services:		
Finance and Administration Cabinet	\$ 79,533	
Sheriff Security Service	2,750	82,283
Circuit Court Clerk:		
Fines and Fees Collected		3,048
Fiscal Court		132,849
County Clerk - Delinquent Taxes		7,715
Commission On Taxes Collected		224,703
Fees Collected For Services:		
Auto Inspections	2,315	
Accident and Police Reports	470	
Serving Papers	22,245	
Carry Concealed Deadly Weapon Permits	6,840	31,870
Other:		
Add-On Fees	19,134	
Miscellaneous	3,885	
Reimbursements	4,564	27,583
Interest Earned		131
Borrowed Money:		
State Advancement		130,000
Total Receipts		661,593

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

WASHINGTON COUNTY
 JERRY PINKSTON, SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2018
 (Continued)

Disbursements

Operating Disbursements:

Personnel Services-

Deputies' Salaries	\$ 158,921
Part-Time Salaries	42,908
Other Salaries	108,765
Overtime	36,951
KLEFPF	16,974

Employee Benefits-

Employer's Share Social Security	35,168
KLEFPF Retirement	4,438

Materials and Supplies-

Office Materials and Supplies	4,358
Uniforms	619

Other Charges-

Training	2,143
Dues	470
Postage	3,857
Bond	809
Equipment	2,716
Extradition Expense	900
Vehicle Expense	640
Miscellaneous	3,963
	<u> </u> \$ 424,600

Debt Service:

State Advancement	130,000
Notes	13,701
Interest	1,200
	<u> </u> <u> </u> 144,901

Total Disbursements

\$ 569,501

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

WASHINGTON COUNTY
JERRY PINKSTON, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2018
(Continued)

Net Receipts	\$ 92,092
Less: Statutory Maximum	<u>86,880</u>
Excess Fees	5,212
Less: Training Incentive Benefit	<u>4,137</u>
Excess Fees Due County for 2018	1,075
Payment to Fiscal Court - February 6, 2019	<u>1,075</u>
Balance Due Fiscal Court at Completion of Audit	<u>\$ 0</u>

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

WASHINGTON COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2018

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).

WASHINGTON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2018
(Continued)

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

The sheriff's office has elected to participate, pursuant to KRS 78.530, in the County Employees Retirement System (CERS), which is administered by the 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.

The sheriff's Kentucky Law Enforcement Foundation Program retirement contribution for calendar year 2016 was \$5,360, calendar year 2017 was \$6,549, and calendar year 2018 was \$4,438.

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 first half of the year and 21.48 percent for the second half of the year.

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.

WASHINGTON COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2018
 (Continued)

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

Hazardous (Continued)

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

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008, aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

The county's contribution rate for hazardous employees was 31.55 percent for the first half of the year and 35.34 percent for the second half of 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:

Years of Service	% Paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

WASHINGTON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2018
(Continued)

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

Other Post-Employment Benefits (OPEB) (Continued)

A. Health Insurance Coverage - Tier 1 (Continued)

Hazardous employees whose participation began on or after July 1, 2003, earn 15 dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, the employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Benefits are covered under KRS 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. 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.

WASHINGTON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2018
(Continued)

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

Other Post-Employment Benefits (OPEB) (Continued)

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

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

F. Death Benefit

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

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 Washington 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 Washington 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, 2018, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

WASHINGTON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2018
(Continued)

Note 4. Note Payable

The Washington County Sheriff's office borrowed \$41,451 on March 20, 2017, at an interest rate of 3.75 percent, for a 2017 Ford Explorer. The note required a monthly payment of \$758 for 60 months to be completed on March 15, 2022. The sheriff made a lump sum payment of \$5,800 on the note for calendar 2018. The remaining balance of the agreement was \$21,992, as of December 31, 2018.

Note 5. Drug Forfeiture Account

The Washington County Sheriff's office maintains a drug forfeiture account under terms stipulated by the United States Department of Justice and the Commonwealth of Kentucky. The Washington County Sheriff's office receives proceeds from the confiscation, surrender, or sale of real and personal property involved in drug related convictions. These proceeds may be used for law enforcement disbursements of the sheriff's office. The balance in the account on January 1, 2018, was \$1,653. There were no receipts during the year. Disbursements totaled \$1,653 during 2018. The balance in the account as of December 31, 2018, was \$0.

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

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Timothy Graves, Washington County Judge/Executive
The Honorable Jerry Pinkston, Washington County Sheriff
Members of the Washington 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 Washington County Sheriff for the year ended December 31, 2018, and the related notes to the financial statement and have issued our report thereon dated August 16, 2019. The Washington 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 Washington 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 Washington County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Washington County Sheriff's internal control.

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. *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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified certain deficiencies in internal control, which are described in the accompanying Schedule of Findings and Responses as items 2018-001 and 2018-002 that we consider to be significant deficiencies.



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 Washington 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 matter that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying Schedule of Findings and Responses as item 2018-002.

Views of Responsible Official and Planned Corrective Action

The Washington 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 Washington County Sheriff's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

August 16, 2019

SCHEDULE OF FINDINGS AND RESPONSES

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WASHINGTON COUNTY
JERRY PINKSTON, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2018

FINANCIAL STATEMENT FINDINGS:

2018-001 The Sheriff's Office Lacks Adequate Segregation Over Duties Receipts, Disbursements, And Reconciliations

The Washington County Sheriff's office lacks adequate segregation of duties over the following accounting functions: record-keeping, report preparation, disbursements, and reconciliations. The bookkeeper collects cash, performs the daily closeout procedures, and prepares the daily deposit and takes it to the bank. In addition, the bookkeeper prepares disbursement checks, completes the monthly bank reconciliation, and prepares the monthly and quarterly financial reports. There were no documented compensating controls to offset the lack of segregation of duties or reduce the control deficiency to an acceptable level.

According to the sheriff, the lack of segregation of duties existed because a limited number of employees were available to properly segregate duties. Having the same employee responsible for these functions increases the risk of undetected misstatements due to error or fraud.

A lack of adequate segregation of duties could result in undetected misappropriation of assets and inaccurate financial reporting. Good internal controls dictate the same employee should not handle, record, and reconcile receipts. Furthermore, the same employee should not be responsible for preparing, recording, and reconciling disbursements. The segregation of duties over various accounting functions such as opening mail, preparing deposits, recording receipts and disbursements, and preparing monthly reports, or the implementation of compensating controls is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To adequately protect against misappropriation of assets and inaccurate financial reporting, we recommend the sheriff separate the accounting functions to the extent possible. If these duties cannot be segregated due to limited staff or limited budget, then strong oversight should be provided for the employee responsible for these duties. The oversight should be evidenced by the sheriff, or a designee, initialing and dating the documentation reviewed.

Sheriff's Response: Office staff review duties more often.

2018-002 The Sheriff's Office Did Not Batch Receipts Or Make Deposits Daily

The sheriff did not make deposits or batch receipts on a daily basis as required. Between February 1, 2018 and February 16, 2018, there were only six checkout sheets and bank deposits. The checkout sheets included receipts for up to seven days.

The sheriff's office lacked internal control policies to ensure receipts are batched and deposited daily. By not making daily deposits, the sheriff's office could create the opportunity for undetected misappropriation of assets.

The practice of making daily deposits reduces the risk of misappropriation of cash, which is the asset most subject to possible theft. In addition, the Department for Local Government (DLG) was given the authority by KRS 68.210 to prescribe a uniform system of accounts. The minimum requirements for handling public funds as stated in the *County Budget Preparation and State Local Finance Officer Policy Manual* include performing daily check-out procedures and deposits to be made intact daily into a federal insured banking institution.

WASHINGTON COUNTY
JERRY PINKSTON, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2018
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-002 The Sheriff's Office Did Not Batch Receipts Or Make Deposits Daily (Continued)

We recommend the sheriff implement procedures to ensure receipts are batched, posted to a daily checkout sheet, and are deposited daily.

Sheriff's Response: Complete daily checkout sheet each day and deposit more often, 2-3 times a week.