

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

**For The Year Ended
December 31, 2023**



**ALLISON BALL
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ALLISON BALL
AUDITOR OF PUBLIC ACCOUNTS

Independent Auditor's Report

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

Report on the Audit of the Financial Statement

Opinions

We have audited the accompanying Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the Sheriff of Jackson County, Kentucky, for the year ended December 31, 2023, and the related notes to the financial statement.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the accompanying financial statement presents fairly, in all material respects, the receipts, disbursements, and excess fees of the Jackson County Sheriff for the year ended December 31, 2023, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws as described in Note 1.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles section of our report, the financial statement does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Jackson County Sheriff, as of December 31, 2023, or changes in financial position or cash flows thereof for the year then ended.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards* (GAS), issued by the Comptroller General of the United States, and the *Audit Program for County Fee Officials* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statement section of our report. We are required to be independent of the Jackson County Sheriff and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



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

Basis for Opinion (Continued)

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

As described in Note 1 of the financial statement, the financial statement is prepared by the Jackson County Sheriff on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

Responsibilities of Management for the Financial Statement

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Jackson County Sheriff's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statement

Our objectives are to obtain reasonable assurance about whether the financial statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and GAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statement.

In performing an audit in accordance with GAAS and GAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Jackson County Sheriff's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statement.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Jackson County Sheriff's ability to continue as a going concern for a reasonable period of time.

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

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

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we have identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2025, 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 effectiveness of internal control over financial reporting or on compliance. That 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 findings:

- 2023-001 The Jackson County Sheriff's Office Did Not Have Adequate Segregation Of Duties Over Receipts, Bank Reconciliations, And Disbursements
- 2023-002 The Jackson County Sheriff's Office Lacks Adequate Internal Controls Over The Reporting Process
- 2023-003 The Jackson County Sheriff's Fourth Quarter Financial Statement Was Materially Misstated
- 2023-004 The Jackson County Sheriff's Office Did Not Properly Handle Receipts
- 2023-005 The Jackson County Sheriff Did Not Have Proper Controls Over The Payroll Process

Respectfully submitted,



Allison Ball
Auditor of Public Accounts
Frankfort, KY

March 13, 2025

JACKSON COUNTY
DANIEL ISAACS, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2023

Receipts

State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)	\$	27,499
State Fees For Services:		
Sheriff Security Service	\$	137,751
Cabinet For Health And Family Services		6,799
Delinquent Tax		878
		145,428
Circuit Court Clerk:		
Fines and Fees Collected		1,690
Court Ordered Payments		70
		1,760
Fiscal Court		3,046
School Resource Officer		143,647
County Clerk - Delinquent Taxes		23,025
Commission On Taxes Collected		135,695
Fees Collected For Services:		
Auto Inspections		3,302
Accident and Police Reports		615
Serving Papers		21,191
Carry Concealed Deadly Weapon Permits		5,972
Copies		1,116
Transports		8,433
		40,629
Other:		
Add-On Fees		13,960
Miscellaneous		8,934
Telecom		932
		23,826
Interest Earned		39
Borrowed Money:		
State Advancement		45,000
		589,594
Total Receipts		589,594

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

JACKSON COUNTY
DANIEL ISAACS, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2023
(Continued)

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$	160,214
Part-Time Salaries		6,102
Other Salaries		14,100
Court Security Salaries		108,488

Contracted Services-

Vehicle Maintenance and Repairs		13,769
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Materials and Supplies-

Office Materials and Supplies		20,889
Uniforms		7,712

Auto Expense-

Gasoline		5,344
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Other Charges-

Dues		800
Postage		656
Vehicle Expense		5,741
Miscellaneous		3,425

Capital Outlay-

Office Equipment		637
Vehicles		36,020
	\$	383,897

Debt Service:

State Advancement		45,000
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Total Disbursements		\$	428,897
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Net Receipts			160,697
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Less: Statutory Maximum			85,417
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Excess Fees			75,280
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Less: Training Incentive Benefit			1,246
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Excess Fees Due County for 2023			74,034
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Payment to Fiscal Court - December 29, 2023			7,680
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Balance Due Fiscal Court at Completion of Audit		\$	66,354
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The accompanying notes are an integral part of this financial statement.

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2023

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 due from the sheriff as determined by the audit. KRS 134.192 requires the sheriff to pay to the governing body of the county any fees, commissions, and other income of his or her office, including income from investments, which exceed the sum of his or her maximum salary as permitted by the Constitution and other reasonable expenses, including compensation of deputies and assistants by March 15 of each year. KRS 64.830 requires an outgoing sheriff to make a final settlement with the fiscal court of his county by March 15 immediately following the expiration of his term of office.

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

- Interest receivable
- Collection on accounts due from others for 2023 services
- Reimbursements for 2023 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2023

The measurement focus of a fee official's financial statement is upon current financial resources. Per KRS 134.192(12), remittance of excess fees is due to the fiscal court when the sheriff makes their final settlement.

C. Cash and Investments

KRS 66.480 authorizes the sheriff's office to invest in obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

JACKSON COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2023
 (Continued)

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

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

The sheriff's contribution for calendar year 2021 was \$4,292, calendar year 2022 was \$4,440, and calendar year 2023 was \$0.

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 CERS insurance fund.

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

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

The county's contribution rate for nonhazardous employees was 26.79 percent for the first six months and 23.34 percent for the last six months.

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS provides post-retirement health care coverage as follows:

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

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2023
(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)

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 up Benefits are covered under KRS 78.5536.

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

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

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

Tier 2 member benefits are covered by KRS 78.5536. Tier 3 members are not covered by the same provisions.

C. Cost of Living Adjustments - Tier 1

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

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

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

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2023
(Continued)

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

Other Post-Employment Benefits (OPEB) (Continued)

E. Death Benefit

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

Kentucky Retirement System Annual Financial Report and Proportionate Share Audit Report

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

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

Note 3. Deposits

The Jackson County Sheriff maintained deposits of public funds with federally insured banking institutions as required by the Department for Local Government's (DLG's) *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's *County Budget Preparation and State Local Finance Officer Policy Manual*. As of December 31, 2023, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Forfeiture Account

The Jackson County Sheriff's Office maintained an account funded by proceeds from confiscation, surrender, or sale of real personal property involved in drug related convictions. The balance on January 1, 2023, was \$0. During calendar year 2023, the sheriff received \$5,701. The sheriff disbursed \$1,587 and had an account balance of \$4,114 as of December 31, 2023. The use of these funds was determined by court order granting forfeiture funds to the sheriff's office; thus, they were not included as part of excess fees.

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2023
(Continued)

Note 5. Donation Account

The Jackson County Sheriff's Office maintains a donation account to collect private and public donations for charitable, scientific, or educational purposes for the sheriff's office. On January 1, 2023, the balance was \$0. The sheriff received \$7,997 during the year and expended \$5,298 of the donations for materials and equipment. The balance in the account was \$2,699 as of December 31, 2023.

Note 6. 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, 2023, the account balance was \$0. During calendar year 2023, the sheriff deposited \$10,860 and expended \$7,157. The balance of the second donation account as of December 31, 2023, was \$3,703.

Note 7. K-9 Account

The Jackson County Sheriff's Office maintained a K-9 donation account for the purchase and upkeep of a drug detection dog. On January 1, 2023, the balance was \$0. During calendar year of 2023, the sheriff deposited donations of \$1,057 and expended \$587. The balance in the account was \$470 as of December 31, 2023.

Note 8. Short-term Debt

Direct Borrowings

A. State Advancement - During calendar year 2023, the Finance and Administration Cabinet issued an advancement in the amount of \$45,000 to the Jackson County Sheriff's Office, per KRS 64.140. The advancement was due on or before January 15, 2024. The balance of this advancement was repaid in full as of December 12, 2023.

B. Changes in Short-term Debt

	Beginning Balance	Additions	Reductions	Ending Balance
State Advancement	\$	\$ 45,000	\$ 45,000	\$
Total Short-term Debt	\$ 0	\$ 45,000	\$ 45,000	\$ 0

Note 9. Lease Agreement

The Jackson County Sheriff's Office entered into a 60-month lease agreement for the acquisition and use of a copier. The lease agreement requires monthly payments of \$52 for 60 to be completed on November 22, 2027. The total lease liability balance of the agreement was \$2,506 as of December 31, 2023.

Note 10. Fiduciary Account - Sheriff's Evidence Holding Account

The Jackson County Sheriff deposited cash evidence into a custodial bank account. These funds are held until a resolution in the form of a court order is received. The funds are then remitted in accordance with the court order. The account had a beginning balance of \$0 with receipts of \$14,648 from the former sheriff, \$4,250 in cash evidence, and \$10 in interest. The sheriff disbursed \$11,231 per court orders for calendar year 2023. The account balance was \$7,677 as of December 31, 2023.

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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ALLISON BALL
AUDITOR OF PUBLIC ACCOUNTS

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

Independent Auditor's Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Audit Program for County Fee Officials* issued by the Auditor of Public Accounts, Commonwealth of Kentucky, the Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the Jackson County Sheriff for the year ended December 31, 2023, and the related notes to the financial statement and have issued our report thereon dated March 13, 2025. 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.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2023-001, 2023-002, 2023-003, 2023-004, and 2023-005 to be material weaknesses.



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

Report on 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 2023-002, 2023-003, 2023-004, 2023-005.

Views of Responsible Official and Planned Corrective Action

Government Auditing Standards requires the auditor to perform limited procedures on the Jackson County Sheriff's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Responses. The Jackson County Sheriff's response was not subjected to the other auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on the response.

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,



Allison Ball
Auditor of Public Accounts
Frankfort, KY

March 13, 2025

SCHEDULE OF FINDINGS AND RESPONSES

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JACKSON COUNTY
DANIEL ISAACS, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2023

FINANCIAL STATEMENT FINDINGS:

2023-001 The Jackson County Sheriff's Office Did Not Have Adequate Segregation Of Duties Over Receipts, Bank Reconciliations, And Disbursements

This is a repeat finding and was included in the prior year audit report as finding 2022-001. The sheriff's office bookkeeper was 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 was also responsible for preparing purchase orders, preparing checks, and signing checks. The sheriff had implemented compensating controls, including 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 was a result of a limited budget, which restricted the number of employees he could hire and delegate responsibilities to.

The 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 (DLG). The lack of oversight could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the DLG. The lack of adequate segregation of duties, coupled with a lack of adequate management oversight, provides an environment in which an individual could manipulate financial records and misappropriate or misdirect county funds.

KRS 46.010(2) requires, "each county treasurer, and each county officer who receives or disburses state funds, to keep an accurate account of receipts and disbursements, showing a daily balance of receipts and disbursements." KRS 46.010(3) requires, "all county officers handling state funds, other than taxes, to make an annual report to the Department for Local Government showing receipts and disbursements, and to make other financial statements as the Department for Local Government requires." The lack of segregation of duties is a basic internal control necessary to ensure the accuracy and reliability of financial reports. Segregation of duties over various accounting functions, such as opening mail, collecting receipts, preparing bank deposits, posting receipts and disbursements, preparing reports and reconciliations, or the implementation of compensating controls, when needed because the number of staff is limited, 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.

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

Sheriff's Response: Lack of funding to have additional office personnel, and this makes it very difficult to segregate duties. Most small offices share this issue.

2023-002 The Jackson County Sheriff's Office Lacks Adequate Internal Controls Over The Reporting Process

This is a repeat finding and was included in the prior year audit report as finding 2022-002. In the prior year, the sheriff used a tax service to prepare the quarterly financial reports. In 2023, this responsibility was given to the bookkeeper who processed and recorded all transactions in the computer system. At the end of each quarter, she compiled details of deposits and disbursements from the computer system and bank statements to create the quarterly financial reports.

JACKSON COUNTY
 DANIEL ISAACS, SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2023
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2023-002 The Jackson County Sheriff's Office Lacks Adequate Internal Controls Over The Reporting Process

During a comparison of the sheriff's final budgeted amounts, it was noted the sheriff's office overspent the approved budget by \$47,558. The sheriff did submit a budget amendment with the fourth quarter financial settlement that was presented to the fiscal court on January 11, 2024, but this was after the deadline of December 31, 2023.

The sheriff relied on a single member of management to compile this information and prepare the quarterly reports. No review process was implemented. The lack of internal controls over the reporting process increases the risk that material misstatements will not be prevented or detected on a timely basis. The lack of internal controls allowed inaccurate reports to be submitted to the fiscal court and DLG. Financial statement receipts were increased by \$61,674 and disbursements were decreased by \$145,055 due to misstatements not discovered by the sheriff or the sheriff's bookkeeper.

KRS 64.530(3) states, in part, "[t]he fiscal court may also fix the reasonable maximum amount that the officer may expend each year for expenses of his office." Additionally, strong internal controls over financial reporting are vital in ensuring the sheriff's actual expenditures do not exceed the budgeted expenditures and that any amendments to the sheriff's budget are properly approved.

We recommend the sheriff's office implement stronger internal controls and management oversight over the financial reporting process. Internal controls such as a thorough review of the quarterly financial statements by someone independent of the accounting function to detect misstatements and errors that have occurred. The review should also include tracing transactions posted to the receipts and disbursements ledger to actual bank statement transactions, as well as, agreeing fund balances between the quarterly financial statements and bank reconciliations. Ledgers should also be reviewed to verify transactions have been recorded in the appropriate account codes. Once the ledgers and reconciliations are deemed accurate, the individual should document their review before submitting the quarterly financial statement to the fiscal court and the DLG. We further recommend the sheriff's office request a budget amendment prior to exceeding the budget and prior to the end of the calendar year.

Sheriff's Response: During 2023 there was several changes with office clerks, this created several different styles of reporting.

2023-003 The Jackson County Sheriff's Fourth Quarter Financial Statement Was Materially Misstated

The sheriff's fourth quarter financial statement was materially misstated. The following was noted:

- The sheriff reported \$82,561 of payroll disbursements paid by the fiscal court that were not reimbursed by the sheriff per verbal agreement.
- The sheriff failed to pay the 2023 fee account commissions collected from the 2023 tax account in the amount of \$61,701. The sheriff issued a check for all commissions collected to his 2024 fee account.
- The sheriff paid a tax payment to the Kentucky State Treasurer in the amount of \$4,655 that should have been paid from his 2022 tax account.
- The sheriff paid \$2,992 from his donation account #2 for Kentucky Law Enforcement Foundation Program Fund payments to the fiscal court for payroll that should have been paid from the 2023 fee account.

JACKSON COUNTY
 DANIEL ISAACS, SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2023
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2023-003 The Jackson County Sheriff's Fourth Quarter Financial Statement Was Materially Misstated
 (Continued)

- The sheriff correctly posted an NSF check that was returned to the 2023 fee bank account but did not maintain any supporting documentation. The sheriff did not attempt to collect the NSF, nor did he turn it over to the county attorney.

The sheriff's office was unfamiliar with the proper way to complete a quarterly report and was unaware of the requirement to pay tax commission over monthly. The sheriff's fourth quarter report required material adjustments. Receipts required adjustments of \$61,674 and disbursements were adjusted by \$142,383.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The DLG's *County Budget Preparation & State Local Finance Officer Policy Manual* requires the sheriff to prepare a quarterly report which includes all receipts and disbursements the sheriff collected and paid during the calendar year.

We recommend the sheriff ensure his fourth quarter financial statement is accurate.

Sheriff's Response: Most budgets are misstated by the 4th quarter but are amended before the end of the quarter. This option was something I was unaware of, but going forward it will not be a finding.

2023-004 The Jackson County Sheriff's Office Did Not Properly Handle Receipts

The Jackson County Sheriff's Office did not properly handle receipts. The following deficiencies were noted during our test of daily checkouts and test of commissions:

- Six instances in which daily checkout deposits included receipts from multiple days.
- One instance in which no receipt was issued for a fee collected.
- One instance in which the receipt noted \$50 was collected from a customer with no change given back, but only \$45 was deposited into the sheriff's bank account.
- \$30,838 was deposited erroneously into the 2023 fee account in January 2024, and the amounts were posted to the quarterly financial statement by error when those funds were further transferred to the 2024 fee account.
- Tax commissions collected for tax year 2023 were paid to the 2024 fee account causing the receipts in the 2023 fee account to be materially understated by \$61,701.

Per the bookkeeper, receipts issued for vehicle inspections are not always deposited with the daily checkout on the day of receipt because the inspections are performed by the sheriff or a deputy, and due to the nature of their jobs, they are not always able to turn in that day. Management was unaware that commissions were to be paid monthly during tax collection until after the 2023 calendar year.

Failure to batch and deposit fees collected intact or delaying depositing fees collected increases the risk of fraud and misappropriation of cash, which ultimately can result in inaccurate financial reporting. Auto inspections are primarily cash transactions, and a lack of proper controls could easily lead to the misappropriation of funds. In addition, the tax commission paid to the wrong account caused the quarterly financial statement to be materially misstated. Those funds will now be turned over as excess fees.

JACKSON COUNTY
 DANIEL ISAACS, SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2023
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2023-004 The Jackson County Sheriff's Office Did Not Properly Handle Receipts (Continued)

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. Pursuant to KRS 68.210, the State Local Finance Officer has prescribed the minimum accounting and reporting standards in the DLG's *County Budget Preparation and State Local Finance Officer Policy Manual*. Page 64 of the manual states, "Daily deposits intact into a federally insured banking institution."

KRS 134.191(1) requires the sheriff to make monthly reports of tax collections to the county, Department of Revenue, and any other district for which the sheriff collects taxes by the tenth day of each month following collection. . Inherent in this statute is that the remittance be paid from the correct account and to the correct district.

We recommend the sheriff comply with KRS 68.210 by implementing internal controls and appropriate oversight over the receipt and deposit process in his office to ensure all deposits are made intact daily as required by the DLG. For example, vehicle inspections could be paid in advance at the sheriff's office before the sheriff or deputy performs the inspections. Also, additional reviews of bank deposits assuring they agree to the correct daily deposit and correct year fee account ledger can be instituted. These reviews should be completed by an individual not responsible for the initial deposit and posting to the ledgers should be evidenced by the signature or initials of the preparer and reviewer.

Sheriff's Response: The sheriff did not provide a response.

2023-005 The Jackson County Sheriff Did Not Have Proper Controls Over The Payroll Process

The sheriff lacked adequate controls over the payroll process. The following deficiencies were noted during payroll testing:

- Deputies, assistants, and other employee salaries were set by the fiscal court in January 2023, at \$250,000. No amendments were noted. The sheriff exceeded the fiscal court salary limit by \$121,679, which includes funds paid by the fiscal court on his behalf.
- Payroll included on the financial statements is not fairly stated.
- Payroll records did not reasonably agree to the disbursements posted to the quarterly financial statement. The sheriff reported \$82,561 of payroll disbursements paid by the fiscal court that were not reimbursed by the sheriff per verbal agreement.
- For the pay period tested, three employees did not have any timesheets to substantiate the salaries received. Timesheets are completed weekly with two timesheets per pay period.
- Overtime and compensatory time are not being calculated correctly. During the pay period tested, one employee worked 32 regular hours and used 8 hours of leave time but also received 2.5 hours of compensatory or overtime during the same week.
- Additionally, one employee was not compensated for 24 hours as either compensatory or overtime. The employee worked for the sheriff as a deputy and at 911 services as a dispatcher. The employee worked 40 regular hours per week and worked a total of 24 hours during the same pay period as a dispatcher.

The fiscal court receives copies of timesheets for the sheriff's employees and then generates the payroll checks from these timesheets. The bookkeeper stated that she would give the fiscal court a copy of these timesheets but, in some cases, the original timesheet would be submitted to the fiscal court. The fiscal court failed to maintain the original timesheet that was submitted by the sheriff's office.

JACKSON COUNTY
DANIEL ISAACS, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2023
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2023-005 The Jackson County Sheriff Did Not Have Proper Controls Over The Payroll Process (Continued)

Due to a lack of oversight of payroll and financial quarterly reports, the sheriff failed to see that the maximum salary set by the fiscal court was overspent, which also contributed to the sheriff's office underpaying the fiscal court for all payroll costs for the calendar year. By not ensuring timekeeping records are properly maintained and accurate, employees can be over or under compensated and the sheriff assumes the risk of employees disputing the number of hours worked.

Strong internal controls over the payroll process and timekeeping are vital in ensuring that payroll amounts are calculated and accounted for properly.

KRS 337.320(1) states, "[e]very employer shall keep a record of: (a) The amount paid each pay period of each employee; (b) The hours worked each day and each week by each employee; and (c) Such other information as the executive director requires."

KRS 64.530(3) states, in part, "[t]he 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."

We recommend the sheriff's office implement stronger controls over the payroll process to ensure amounts are reported accurately and that timesheets are maintained for all employees. Stronger controls over the payroll process would also ensure the sheriff's office does not exceed the salary limit for deputies set by the fiscal court and that all payroll amounts due to the fiscal court are paid to cover the cost.

Sheriff's Response: The sheriff did not provide a response.