



Auditor of Public Accounts
Mike Harmon

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Contact: **Michael Goins**
Michael.Goins@ky.gov
502.564.5841
502.209.2867

Harmon Releases Audit of Letcher County Sheriff's Unmined Coal Tax Settlement

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2015 unmined coal taxes for Letcher County Sheriff Danny Webb. State law requires the auditor to annually audit the accounts of each county sheriff. In compliance with this law, the auditor issues two sheriff's reports each year: one reporting on the audit of the sheriff's tax account, and the other reporting on the audit of the fee account used to operate the office.

Auditing standards require the auditor's letter to communicate whether the sheriff's settlement presents fairly the taxes charged, credited, and paid in accordance with accounting principles generally accepted in the United States of America. The sheriff's settlement is prepared on the regulatory basis, which is described in the auditor's opinion letter. Regulatory basis reporting for the sheriff's settlement is an acceptable reporting methodology, and this reporting methodology is followed for all 120 sheriff settlements in Kentucky.

The sheriff's financial statement fairly presents the taxes charged, credited and paid for the period June 19, 2015 through August 16, 2016 in conformity with the regulatory basis of accounting.

As part of the audit process, the auditor must comment on noncompliance with laws, regulations, contracts, and grants. The auditor must also comment on material weaknesses involving the internal control over financial operations and reporting.

The audit contains the following comments:

The sheriff did not distribute interest earnings as required. The sheriff did not distribute interest earnings to the school districts and to the fee account monthly as required due to lack of oversight by management. The lack of oversight could result in misappropriation of assets and inaccurate financial reporting. By not distributing tax interest monthly as required, the sheriff is in

violation of state statute. KRS 134.140(2) requires the sheriff to pay monthly "that part of the investment earnings for the month which are attributable to the investment of school taxes[.]" The sheriff should distribute the investment earnings at the same time as the monthly tax collections. KRS 134.140(3) requires the remaining monthly interest to be transferred to the county treasurer.

We recommend the sheriff distribute interest earned on tax collections in accordance with KRS 134.140.

Sheriff's response: We have completed this year.

The sheriff did not make daily deposits. Tax receipts were not always deposited into an official bank account on a daily basis. The sheriff has not addressed the increased risk of having one person responsible for so many accounting functions without sufficient oversight. The lack of oversight could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the Department of Revenue and local taxing districts. The State Local Finance Officer, under the authority of KRS 68.210, has established minimum accounting requirements, which include depositing receipts intact daily and reconciling receipts to a daily check out sheet. Failure to make daily deposits puts funds on hand at risk of loss or theft and makes the reconciliation process more difficult.

We recommend the sheriff make daily deposits of tax receipts as required by the State Local Finance Officer.

Sheriff's response: None.

The sheriff's office lacks adequate segregation of duties. The sheriff's bookkeeper collects payments from customers, prepares receipts, deposits, posts receipts to the receipts ledger, and reconciles the bank statements. The bookkeeper also prepares disbursement checks and monthly tax reports. There was not sufficient evidence available that would show that the sheriff or another employee periodically reviews deposits, ledgers, monthly reports, or the bank reconciliations to offset the risk caused by the lack of segregation of duties. The official did not have controls in place to ensure that staff knew the requirements or did not monitor/review to make sure requirements were followed.

A lack of oversight could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the Department of Revenue and local taxing districts. The segregation of duties over various accounting functions such as 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 employees in the normal course of performing their duties, and prevent inaccurate financial reporting and misappropriation of assets, we recommend the sheriff implement strong oversight over these areas, either by an employee independent of those functions or by the sheriff, such as:

- The sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily cash settlement sheet to the receipts ledger. Any differences should be reconciled. The sheriff could document this by initialing the settlement sheet, daily deposit, and receipts ledger.
- The sheriff should compare supporting documentation to payments. The sheriff could document this by initialing the supporting documentation.
- The sheriff should compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The sheriff could document this by initialing the bank reconciliation.

Sheriff's response: None.

The sheriff's responsibilities include collecting property taxes, providing law enforcement and performing services for the county fiscal court and courts of justice. The sheriff's office is funded through statutory commissions and fees collected in conjunction with these duties.

The audit report can be found on the [auditor's website](#).

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