



Auditor of Public Accounts  
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**FOR IMMEDIATE RELEASE**

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**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 – 2016 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 August 17, 2016 through September 15, 2017 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 internal control over financial operations and reporting.

The audit contains the following comments:

**The sheriff did not distribute interest earnings monthly as required:** This is a repeat finding and was included in the prior year audit report as Finding 2015-001. The sheriff did not distribute interest payments to the school or fee account monthly. The sheriff is aware that monthly interest payments should be made to the school districts and fee account, but the amount of interest earned

on unmined coal account is very small and the sheriff planned to distribute the appropriate amounts after the audit was completed.

The sheriff is not in compliance with KRS 134.140. KRS 134.140(2) states, “[a]s part of the monthly distribution of taxes to a district board of education as required by KRS 134.191, the sheriff shall pay to the board of education that part of the investment earnings for the month which are attributable to the investment of school taxes, less an amount not to exceed four percent (4%) of the earned monthly investment income to reimburse the sheriff for the costs of administering the investment.” KRS 134.140(4) states, “[i]n those counties where the office of sheriff is funded in whole or in part by fees and commissions, the sheriff may use investment earnings, other than those which must be paid to the board of education in compliance with subsection (2) of this section, to pay lawful expenses of his or her office.”

We recommend the sheriff distribute interest monthly to the board of education and fee account as required by statute.

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

**The sheriff did not make daily deposits:** This is a repeat finding and was included in the prior year audit report as Finding 2015-002. Unmined coal tax receipts were not deposited into an official bank account on a daily basis. Unmined coal tax receipts are not collected every day. According to the sheriff, when tax bills are paid, every effort is made to deposit as soon as possible.

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 on a daily basis and reconciling receipts to a daily check out sheet. Failure to make daily deposits put 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: The sheriff did not provide a response.*

**The sheriff transferred the certification of delinquency for unmined coal tax bills prior to the end of the collection period required by statute:** The sheriff transferred unmined coal tax bills as delinquent to the county clerk on September 15, 2017. However, the official receipt for unmined coal property was dated April 26, 2017, and tax bills were mailed May 1, 2017. The tax collection period for these bills should have been May 1, 2017 through October 15, 2017.

Due to lack of management’s knowledge of the tax collection period requirements per statute, the sheriff turned over the unmined coal property tax bills as delinquent to the county clerk prior to the end of the tax collection schedule.

The Letcher County Sheriff is not in compliance with KRS 134.122. The unmined coal property tax bills should have been collected for another 30 days. As a result, taxpayers were prematurely subjected to additional fees and sale of the bills to third party purchasers once bills were turned over as delinquent to the county clerk.

KRS 134.122(1)(a) states, “[t]he sheriff shall, on April 15 or three (3) months and fifteen (15) days from the date the taxes were due under an alternative collection schedule, file all tax claims on real and personal property remaining in his or her possession with the county clerk[.]”

We recommend the sheriff’s office comply with KRS 134.122(1)(a) for unmined coal property tax collections.

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

**The sheriff’s office lacks adequate segregation of duties:** This is a repeat finding and was included in the prior year audit report as Finding 2015-003. The sheriff’s bookkeeper collects payments from customers, prepares receipts, makes deposits, post 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 sheriff 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 Kentucky Department of Revenue. 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 or misappropriation of assets, we are recommending 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 for payments to taxing districts and refunds. 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: The sheriff did not provide a response.*

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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