

**REPORT OF THE AUDIT OF THE
LETCHER COUNTY
SHERIFF'S SETTLEMENT - 2016 UNMINED COAL TAXES**

**For The Period
August 17, 2016 Through September 15, 2017**



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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

The Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
The Honorable Jim Ward, Letcher County Judge/Executive
The Honorable Danny Webb, Letcher County Sheriff
Members of the Letcher County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the Letcher County Sheriff's Settlement - 2016 Unmined Coal Taxes for the period August 17, 2016 through September 15, 2017 - Regulatory Basis, 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 the 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 as described in Note 1. 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 Sheriff's Tax Settlements*, 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.



To the People of Kentucky
The Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
The Honorable Jim Ward, Letcher County Judge/Executive
The Honorable Danny Webb, Letcher County Sheriff
Members of the Letcher 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 Letcher County Sheriff on the basis of 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 taxes charged, credited, and paid of the Letcher County Sheriff, for the period August 17, 2016 through September 15, 2017.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the taxes charged, credited, and paid for the period August 17, 2016 through September 15, 2017 of the Letcher County Sheriff, 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 July 10, 2018, on our consideration of the Letcher County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Letcher County Sheriff's internal control over financial reporting and compliance.

To the People of Kentucky
The Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
The Honorable Jim Ward, Letcher County Judge/Executive
The Honorable Danny Webb, Letcher County Sheriff
Members of the Letcher County Fiscal Court

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

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

- 2017-001 The Sheriff Did Not Distribute Interest Earnings As Required
- 2017-002 The Sheriff Did Not Make Daily Deposits
- 2017-003 The Sheriff Transferred Certificates of Delinquency For Unmined Coal Bills Prior To The End Of The Collection Period Required By Statute
- 2017-004 The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

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Mike Harmon
Auditor of Public Accounts

July 10, 2018

LETCHER COUNTY
DANNY WEBB, SHERIFF
SHERIFF'S SETTLEMENT - 2016 UNMINED COAL TAXES

For The Period August 17, 2016 Through September 15, 2017

<u>Charges</u>	County Taxes	Special Taxing Districts	School Taxes	State Taxes
Unmined Coal - 2016 Taxes	\$ 35,224	\$ 72,761	\$ 164,513	\$ 31,367
Penalties	62	128	287	55
Gross Chargeable to Sheriff	<u>35,286</u>	<u>72,889</u>	<u>164,800</u>	<u>31,422</u>
 <u>Credits</u>				
Discounts	614	1,269	2,847	547
Delinquents:				
Unmined Coal - 2016 Taxes	<u>3,327</u>	<u>6,872</u>	<u>16,902</u>	<u>2,962</u>
Total Credits	<u>3,941</u>	<u>8,141</u>	<u>19,749</u>	<u>3,509</u>
Taxes Collected	31,345	64,748	145,051	27,913
Less: Commissions *	<u>1,333</u>	<u>2,752</u>	<u>5,369</u>	<u>1,186</u>
Taxes Due	30,012	61,996	139,682	26,727
Taxes Paid	18,021	37,485	84,223	15,970
Refunds (Current and Prior Year)	<u>11,991</u>	<u>24,511</u>	<u>55,459</u>	<u>10,757</u>
Due Districts as of Completion of Audit	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

* Commissions:

4.25% on	\$	124,006
4% on	\$	101,794
3% on	\$	43,257

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

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT

September 15, 2017

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. 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.

B. Basis of Accounting

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

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).

Note 2. Deposits

The Letcher County Sheriff maintained deposits of public funds with depository institutions insured by the 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 Letcher 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 September 15, 2017, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT
September 15, 2017
(Continued)

Note 3. Tax Collection Period

Unmined Coal Property Taxes

The unmined coal property tax assessments were levied as of January 1, 2016. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was April 26, 2017 through September 15, 2017.

Note 4. Interest Income

The Letcher County Sheriff earned \$27 as interest income on 2016 Unmined Coal taxes. As of July 10, 2018, the sheriff owed \$14 in interest to the school district and \$13 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Letcher County Sheriff collected \$496 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the sheriff's office.

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

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jim Ward, Letcher County Judge/Executive
The Honorable Danny Webb, Letcher County Sheriff
Members of the Letcher 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 Letcher County Sheriff's Settlement - 2016 Unmined Coal Taxes for the period August 17, 2016 through September 15, 2017 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated July 10, 2018. The Letcher 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 Letcher 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 Letcher County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Letcher 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 a certain deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2017-004 to be a material weakness.



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

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Letcher 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 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 2017-001, 2017-002, and 2017-003.

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,

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

Mike Harmon
Auditor of Public Accounts

July 10, 2018

SCHEDULE OF FINDINGS AND RESPONSES

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LETCHER COUNTY
DANNY WEBB, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Period August 17, 2016 Through September 15, 2017

STATE LAWS AND REGULATIONS:

2016-001 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.

2016-002 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.

2016-003 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.

LETCHER COUNTY
 DANNY WEBB, SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Period August 17, 2016 Through September 15, 2017
 (Continued)

STATE LAWS AND REGULATIONS: (Continued)

2016-003 The Sheriff Transferred The Certification Of Delinquency For Unmined Coal Tax Bills Prior To The End Of The Collection Period Required By Statute (Continued)

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.

INTERNAL CONTROL - MATERIAL WEAKNESS:

2016-004 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.