REPORT OF THE AUDIT OF THE FORMER LETCHER COUNTY SHERIFF

For The Period
January 1, 2018 Through January 6, 2019

MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov

209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912

CONTENTS PAGE

THIS PAGE LEFT BLANK INTENTIONALLY

MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Terry Adams, Letcher County Judge/Executive
The Honorable Danny Webb, Former Letcher County Sheriff
The Honorable Mickey Stines, Letcher County Sheriff
Members of the Letcher 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 former Sheriff of Letcher County, Kentucky, for the period January 1, 2018 through January 6, 2019, 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.

209 St. Clair Street
Frankfort, KY 40601-1817
Telephone 502.564.5841
Facsimile 502.564.2912
www.auditor.ky.gov
An Equal Opportunity Employer M / F / D

The Honorable Terry Adams, Letcher County Judge/Executive
The Honorable Danny Webb, Former Letcher County Sheriff
The Honorable Mickey Stines, 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 former Letcher 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 former Letcher County Sheriff, for the period January 1, 2018 through January 6, 2019, 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 former Letcher County Sheriff for the period January 1, 2018 through January 6, 2019, 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 October 10, 2019, on our consideration of the former Letcher 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 former Letcher County Sheriff's internal control over financial reporting and compliance.

The Honorable Terry Adams, Letcher County Judge/Executive
The Honorable Danny Webb, Former Letcher County Sheriff
The Honorable Mickey Stines, 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:

2018-001 The Former Sheriff's Office Lacked Adequate Segregation Of Duties
2018-002 The Former Sheriff's 2011 Fee Account Had A Deficit Of $23,004 That Has Not Been Settled
2018-003 The Former Sheriff Did Not Settled His 2012 Fee Account
2018-004 The Former Sheriff Has Not Deposited Personal Funds To The Drug Forfeiture Fund For Disallowed Disbursements
2018-005 The Former Sheriff's Office Lacked Adequate Internal Controls Over Payroll Disbursements And Reconciliations
2018-006 The Former Sheriff Did Not Make Daily Deposits

Respectfully submitted,

Mike Harmon
Auditor of Public Accounts

October 10, 2019

LETCHER COUNTY
DANNY WEBB, FORMER SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Period January 1, 2018 Through January 6, 2019

Federal - Highway Safety Grant		$ 1,452
State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)		18,862
State Fees For Services:		
Finance and Administration Cabinet	$ 42,198	
Sheriff Security Service	6,229	48,427
Circuit Court Clerk:		
Fines and Fees Collected		410
Board of Education - School Resource Officer		50,963
Fiscal Court		2,000
County Clerk - Delinquent Taxes		63,305
Commission On Taxes Collected		248,282
Fees Collected For Services:		
Auto Inspections	12,110	
Accident and Police Reports	144	
Serving Papers	31,310	
Carry Concealed Deadly Weapon Permits	10,275	
Fingerprints	440	
Transport Prisoners	3,445	57,724
Other:		
Add-On Fees	54,361	
Firearms	2,000	
Election Board	1,000	
Miscellaneous	1,525	58,886
Interest Earned		330
Borrowed Money:		
State Advancement		110,000
Total Receipts		660,641

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

LETCHER COUNTY
DANNY WEBB, FORMER SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Period January 1, 2018 Through January 6, 2019
(Continued)

Disbursements

Operating Disbursements:		
Personnel Services-		
Deputies' Gross Salaries	$ 86,469	
Court Security	51,891	
Office Gross Salaries	73,409	
KLEFPF	16,000	
School Resource Officer	34,198	
Employee Benefits-		
Employer's Share Social Security	26,993	
Employer's Share Retirement	68,630	
Employer Paid Health Insurance	33,409	
Unemployment Insurance	3,254	
Contracted Services-		
Accounting Services	2,863	
Materials and Supplies-		
Office Materials and Supplies	4,115	
Uniforms	39	
Auto Expense-		
Gasoline	16,220	
Maintenance and Repairs	6,257	
Other Charges-		
Dues	663	
Postage	5,631	
Bond	2,197	
Carry Concealed Deadly Weapons	235	
Phone	14,817	
Juror Expense	344	
Training	897	
Prisoner Transport	1,100	
Property Tax Expense	2,635	
Miscellaneous	871	$ 453,137

LETCHER COUNTY
DANNY WEBB, FORMER SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended January 06, 2019
(Continued)

Disbursements (Continued)		
Operating Disbursements: (Continued)		
Debt Service:		
State Advancement	$ 110,000	
Total Disbursements		$ 563,137
Less: Disallowed Disbursement - Late Charge		12
Total Allowable Disbursements		563,125
Net Receipts		97,516
Less: Statutory Maximum		93,085
Excess Fees		4,431
Less: Training Incentive Benefit		4,137
Balance Due Fiscal Court at Completion of Audit		$ 294

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT

January 6, 2019

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 2019 services
- Reimbursements for 2019 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2019

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).

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 contribution for calendar year 2016 was $100,959, calendar year 2017 was $87,214, and calendar year 2018 was $68,630.

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 period July 1, 2018 through January 6, 2019.

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.

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 period July 1, 2018 through January 6, 2019.

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.

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.

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 former Letcher 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 former Letcher County Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 66.480(1)(d) and KRS 41.240. As of January 6, 2019, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Kentucky Law Enforcement Foundation Program Fund (KLEFPF)

The Letcher County Sheriff’s office was awarded a grant under the Kentucky Law Enforcement Foundation Program Fund from the Commonwealth of Kentucky Department of Criminal Justice Training. Under the program, eligible officers received up to $3,100 annually as provided in KRS 15.460. During the period January 1, 2018 through January 6, 2019, the former Letcher County Sheriff’s office received $18,862.

Note 5. Drug Forfeiture Account

The former Letcher County Sheriff had a drug forfeiture account with a beginning balance of $548. The former sheriff received funds of $6,407 and disbursed $6,358 during calendar year 2018. The cash balance at January 6, 2019, was $597.

Note 6. Donation Account

The former Letcher County Sheriff has a donation account with a beginning balance of $0. The former sheriff received funds of $250 and disbursed funds $250 during calendar year 2018. The cash balance at January 6, 2019, was $0.

Note 7. Outstanding Checks And Unexplained Tax Receipts Held In Escrow

The former Letcher County Sheriff’s office deposited outstanding checks and unexplained tax receipts into an escrow account. When statutorily required, the sheriff‘s office will turn over the escrowed funds to the Kentucky State Treasurer as unclaimed property. The sheriff’s office escrowed amounts were as follows:

2012	$3,639
2013	$1,530
2014	$230
2015	$1,014

Note 8. Federal Grant

The former sheriff received a highway safety grant passed through from the Kentucky Transportation Cabinet’s Office of Highway Safety. Funds totaling $1,452 were received during the year. The grant period was May 1, 2018 through September 30, 2018.

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*

THIS PAGE LEFT BLANK INTENTIONALLY

MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Terry Adams, Letcher County Judge/Executive
The Honorable Danny Webb, Former Letcher County Sheriff
The Honorable Mickey Stines, 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 Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the former Letcher County Sheriff for the period January 1, 2018 through January 6, 2019, and the related notes to the financial statement and have issued our report thereon dated October 10, 2019. The former Letcher County Sheriff's financial statement was 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 former 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 former Letcher County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Letcher County Sheriff's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. 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 and other deficiencies that we consider to be significant deficiencies.

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 2018-001, 2018-002, and 2018-003 to be material weaknesses.

209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE 502.564.5841
FACSIMILE 502.564.2912
WWW.AUDITOR.KY.GOV
AN EQUAL OPPORTUNITY EMPLOYER M / F / D

Internal Control over Financial Reporting (Continued)

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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2018-004 and 2018-005 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the former 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 2018-002, 2018-003, and 2018-006.

Views of Responsible Official and Planned Corrective Action

The former Letcher County Sheriff's views and planned corrective action for the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The former Letcher 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

October 10, 2019

SCHEDULE OF FINDINGS AND RESPONSES

THIS PAGE LEFT BLANK INTENTIONALLY

LETCHER COUNTY
DANNY WEBB, FORMER SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Period January 1, 2018 Through January 6, 2019

FINANCIAL STATEMENT FINDINGS:

2018-001 The Former Sheriff's Office Lacked Adequate Segregation Of Duties

This is a repeat finding and was reported in the prior year audit report as finding 2017-008. The former sheriff's bookkeeper collected payments from customers and prepared receipts, prepared deposits, and posted receipts to the receipts ledger. In addition, the bookkeeper prepared disbursement checks, distributed payroll checks, posted checks to the disbursements ledger, and prepared the monthly bank reconciliations. There was not sufficient evidence available to show that the former sheriff, or another employee, periodically reviewed deposits, ledgers, invoices, or the bank reconciliations to offset the risk caused by the lack of segregation of duties. The former sheriff did not have enough funds to hire additional personnel to segregate duties and did not address the increased risk of having one person responsible for so many accounting functions without sufficient oversight.

A lack of oversight could have resulted in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the Department for Local Government.

The segregation of duties over various accounting functions such as preparing deposits, recording receipts and disbursements, and preparing bank reconciliation, 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 have adequately protected employees and prevented inaccurate financial reporting or misappropriation of assets, we recommend the sheriff's office segregate the duties within the office. If this is not possible due to lack of funds, the sheriff's office should implement strong oversight over these areas, either by an employee independent of those functions or by the sheriff. Any oversight or reviews should be evidenced by the individual's signature or initials on the source documentation.

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

2018-002 The Former Sheriff's 2011 Fee Account Had A Deficit Of $23,004 That Has Not Been Settled

This is a repeat finding and was reported in the prior year audit report as finding 2017-001. The former sheriff's deficit for the 2011 fee account has not been resolved. The deficit is personally due from the former sheriff and has not been paid. By not doing so, the former sheriff is denying the fiscal court excess fees.

Good internal controls dictate that all receivables and liabilities are settled for each fee year when an official makes their annual settlement with the fiscal court. KRS 134.192 requires the sheriff to settle excess fees with the fiscal court at the time he files his annual settlement.

The former sheriff should have opened an escrow account and deposited $3,720 receivable due from the payroll account and personal funds of $23,004 to cover the deficit in the 2011 fee account. The liabilities should have been paid once all funds were deposited, which include $16,302 due to the 2012 fee account and $10,422 excess fess due to the fiscal court. This finding will be referred to the Letcher County Attorney.

Former Sheriff's Response: According to a letter from the Letcher County Attorney, B. Jamie Hatton, the County Attorney presented this matter upon receipt of the initial findings regarding the 2011 and 2012 excess fees owed to the Letcher County Fiscal Court. The fiscal court declined to initiate collection proceedings because the court reasoned that they would have turned any excess fees presented to the court right back over to the Sheriff for us by that department either way. The County Attorney continues to advise that the statute of limitations has now passed at this point anyway. The funds were spent on office expenses.

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-002 The Former Sheriff's 2011 Fee Account Had A Deficit Of $23,004 That Has Not Been Settled (Continued)

Auditor's Reply: The finding is referred to the county attorney because he is responsible for collecting the amounts due from the former sheriff. KRS 64.820(2) states, "In the event the fiscal court cannot collect the amount due the county from the county official without suit, the fiscal court shall then direct the county attorney to institute suit for the collection of the amount reported by the Auditor[.]"

2018-003 The Former Sheriff Did Not Settled His 2012 Fee Account

This is a repeat finding and was reported in the prior year audit report as finding 2017-002. The former sheriff's 2012 fee account has not been settled and excess fees due to the fiscal court total $26,163. The 2012 fee account balance was $11,485, received $8 interest, and had an outstanding liability of $1,968 due to the 2012 tax account that has been paid. The former sheriff made a partial payment of $9,525 to the fiscal court for 2012 excess fees due, which included interest of $8 earned since the prior year. The 2012 fee account was closed. The 2012 fee account has a receivable due from the 2011 fee account of $16,302. In addition, $344 is due from the 2013 fee account.

The former sheriff has not personally deposited funds to the 2011 fee account to cover the deficit in order to have funds available to settle the 2012 fee account. When these funds are received, $16,646 is due to the fiscal court for the balance of excess fees.

Good internal controls dictate that all receivables and liabilities are settled for each fee year when an official makes their annual settlement with the fiscal court. By not doing so, the former sheriff is denying the fiscal court excess fees. KRS 134.192 requires the sheriff to settle excess fees with the fiscal court at the time he files his annual settlement.

The former sheriff should have deposited personal funds to cover the deficit in the 2011 fee account and transferred $16,302 to an escrow account for 2012 fees. In addition, $344 was due from the 2013 fee account. Once all these funds were deposited to the 2012 escrow account, the former sheriff should have paid $16,646 excess fees due to the fiscal court for the calendar year ended December 31, 2012. This finding will be referred to the Letcher County Attorney.

Former Sheriff's Response: According to a letter from the Letcher County Attorney, B. Jamie Hatton, the County Attorney presented this matter upon receipt of the initial findings regarding the 2011 and 2012 excess fees owed to the Letcher County Fiscal Court. The fiscal court declined to initiate collection proceedings because the court reasoned that they would have turned any excess fees presented to the court right back over to the Sheriff for us by that department either way. The County Attorney continues to advise that the statute of limitations has now passed at this point anyway. The funds were spent on office expenses.

Auditor's Reply: The finding is referred to the county attorney because he is responsible for collecting the amounts due from the former sheriff. KRS 64.820(2) states, "In the event the fiscal court cannot collect the amount due the county from the county official without suit, the fiscal court shall then direct the county attorney to institute suit for the collection of the amount reported by the Auditor[.]"

LETCHER COUNTY
DANNY WEBB, FORMER SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Period January 1, 2018 Through January 6, 2019
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-004 The Former Sheriff Has Not Deposited Personal Funds To The Drug Forfeiture Fund For Disallowed Disbursements

This is a repeat finding and was included in the prior year audit report as finding 2017-003. The former sheriff's prior year audit report recommended the former sheriff deposit personal funds of $1,577 for disallowed disbursements made from the drug forfeiture fund account for the calendar years ended December 31, 2014 and December 31, 2015. The former sheriff purchased books totaling $1,402 that included the sheriff's name and spent $44 for coffee supplies during calendar year 2014. The former sheriff paid $111 in late fees to PNC bank for a vehicle lease from the drug account during calendar year 2015.

KRS 218A.420 requires drug forfeiture funds to be used for "direct law enforcement purposes." The former sheriff has not deposited personal funds to reimburse the drug forfeiture account for these disallowed expenditures from calendar years 2014 and 2015. When drug forfeiture funds are spent on disallowed disbursements, the money is not available for its intended purpose, which is to be spent for direct law enforcement purposes.

The former sheriff should reimburse the drug forfeiture account $1,577 with personal funds for disallowed disbursements from calendar year 2014 and 2015.

Former Sheriff's Response: When the agreement was made to purchase the kid's books, we were told that the books would say "Letcher County Sheriff's Department" however, when the books were actually issued they said "Sheriff Danny R. Webb". We have bought books with this company for many year with no problems. This error was done without our knowledge and agreement.

2018-005 The Former Sheriff's Office Lacked Adequate Internal Controls Over Payroll Disbursements And Reconciliations

This is a repeat finding and was reported in the prior year audit report as finding 2017-006. Payroll checks were primarily signed by the former sheriff. If the former sheriff was not available, the bookkeeper would sign the checks. An outside CPA firm prepared monthly bank reconciliations; however, the balance was not reconciled to zero at year end. The former sheriff did not review the bank statements or the bank reconciliations to ensure that payroll was prepared properly. As a result, the former sheriff had a surplus balance of $1,362 in the 2018 payroll account as of January 6, 2019. Review of the transactions found $1,150 was transferred in error from the 2019 fee account for payroll expenditures.

Per the former sheriff, the payroll was prepared and reconciled by an outside CPA firm, and he did not have access to the checks prepared by the CPA. Furthermore, he did not review the bank reconciliations prepared by the CPA firm. Not having strong internal controls in place that require two signatures for payroll distribution and preparation of monthly bank reconciliations could result in improper checks being issued and excess funds not being paid to the fiscal court due to not reconciling the payroll bank balance to zero at year end.

Strong internal controls over the payroll process or the implementation of compensating controls are essential for accurate payroll recording and reporting.

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-005 The Former Sheriff's Office Lacked Adequate Internal Controls Over Payroll Disbursements And Reconciliations (Continued)

The sheriff's office should ensure that there are adequate internal controls over the payroll process. In addition, bank reconciliation procedures should be put in place to balance the account monthly and these reconciliations should be reviewed by the sheriff or his designee. At year end, the payroll bank account should balance to zero. In addition the former sheriff should settle his accounts by remitting $1,150 from the 2018 payroll account to the current sheriff's 2019 fee account with the balance of $212 to be remitted to the fiscal court as additional excess fees for calendar year 2018.

Former Sheriff's Response: Payroll is done by an outside CPA therefore the check information is not in our office and a reconciliation is not possible, however since 2015 we have been faxing the bank statement to the CPA so that they can reconcile the account. The payroll checks are only signed by one of three authorized personnel however; the transfer for the payroll requires two signatures which are signed by me and the Financial Officer.

Auditor's Reply: The former sheriff was responsible for ensuring there are adequate controls over payroll even though a CPA processed it. The former sheriff should have reconciled the payroll account monthly and reviewed the reconciliation to ensure it was accurate.

2018-006 The Former Sheriff Did Not Make Daily Deposits

This is a repeat finding and was included in the prior year audit report as finding 2017-005. The former sheriff did not make deposits daily as required.

According to the former sheriff, the office did not collect large amounts of receipts on a daily basis. Therefore, receipts were not deposited daily but were kept in a secure location. His policy was that the office make deposits when receipts totaled at least $500. Making daily deposits reduces the risk of misappropriation of cash, which is the asset most susceptible to theft.

The state local finance officer 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 Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* require deposits to be made daily.

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

Former Sheriff's Response: Deposits are not made daily, my policy is that a deposit does not have to be made unless it is over $500 however the reports are balanced daily.

Auditor's Reply: The former sheriff should have ensured compliance with the Department for Local Government's minimum requirements for handling public funds and made deposits daily.