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Harmon Releases Audit of Former Letcher County Sheriff's Tax Settlement

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2018 taxes for former 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 former 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 former sheriff's settlement is prepared on the regulatory basis, which is described in the auditor's opinion letter. Regulatory basis reporting for the former sheriff's settlement is an acceptable reporting methodology, and this reporting methodology is followed for all 120 sheriff settlements in Kentucky.

The former sheriff's financial statement fairly presents the taxes charged, credited and paid for the period April 17, 2018 through January 6, 2019 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 former Letcher County Sheriff's Office did not have adequate segregation of duties: This is a repeat finding and was included in the prior year audit report as Finding 2017-001. The former sheriff's bookkeeper collected payments from customers, prepared receipts, prepared deposits, posted receipts to the receipts ledger, and reconciled the bank statements. The bookkeeper also prepared disbursement checks and monthly tax reports. There was not sufficient evidence available to show that the former sheriff or another employee periodically reviewed deposits, ledgers, monthly reports, or the bank reconciliations to offset the risk caused by the lack of segregation of duties.

The former sheriff stated that this condition was a result of a limited budget, which restricted the number of employees the former sheriff could hire or delegate duties to. A lack of oversight could have resulted in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as 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 would protect employees in the normal course of performing their daily responsibilities.

To adequately protect employees and prevent 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.

The former Letcher County Sheriff did not prepare an accurate county settlement: The former sheriff did not prepare a complete and accurate settlement for 2018 tax collections. The following discrepancies were noted:

- April, August, and September 2018 franchise collections totaling \$324,286 were not included on the county settlement.
- Additional bills totaling \$24,449 were not included on the county settlement.
- Additional bills totaling \$23,287 were not included on the official receipt transferring tax bills to the incoming sheriff.

These errors occurred due to a lack of internal controls and oversight over financial reporting. As a result, the former sheriff's tax settlement was materially understated. The former sheriff approved audit adjustments to correct the discrepancies.

KRS 134.192(11) states, "[i]n counties containing a population of less than seventy thousand (70,000), the sheriff shall file annually with his or her settlement:

(a) A complete statement of all funds received by his or her office for official services, showing separately the total income received by his or her office for services rendered, exclusive of his or her commissions for collecting taxes, and the total funds received as commissions for collecting state, county, and school taxes; and
(b) A complete statement of all expenditures of his or her office, including his or her salary, compensation of deputies and assistants, and reasonable expenses."

We recommend the sheriff's office comply with KRS 134.192(11) by submitting a complete and accurate settlement of all tax collections received and disbursed.

Former Sheriff's Response: The former 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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