



Auditor of Public Accounts
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FOR IMMEDIATE RELEASE

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Harmon Releases Audit of Letcher County Sheriff's Office

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2014 financial statement of 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 financial statement presents fairly the receipts, disbursements, and excess fees of the Letcher County Sheriff in accordance with accounting principles generally accepted in the United States of America. The sheriff's financial statement did not follow this format. However, the sheriff's financial statement is fairly presented in conformity with the regulatory basis of accounting, which is an acceptable reporting methodology. This reporting methodology is followed for all 120 sheriff audits in Kentucky.

As part of the audit process, the auditor must comment on non-compliance 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's office lacks adequate segregation of duties. Cash receipts by mail are not received and logged by someone who is independent of handling and posting cash receipts to the ledger. At a minimum, the employee designated to receive and open mail should not be the same employee that records cash receipts, prepares the deposits, and completes the bank reconciliations. Authorized check signers are not independent of check preparation, purchasing, recording expenditures, and performing bank reconciliations.

A proper segregation of duties over these tasks or the implementation of compensating controls, when limited by the number of staff, is essential for providing protection against the misappropriation of assets and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

Due to the entity's diversity of official operations, small size, and budget restrictions, the sheriff has limited options for establishing an adequate segregation of duties. Without segregating duties, the risk of undetected errors is very high.

If the sheriff cannot segregate these duties, compensating controls such as the sheriff recounting the daily deposits, agreeing deposits to daily reports, and agreeing deposits to the receipts ledger should be implemented. The sheriff should document this review by initialing and dating the bank deposit, daily checkout sheet, and receipts ledger. The sheriff could also periodically compare the bank reconciliations to the balance in the checkbook and document this by initialing and dating the bank reconciliation and the balance in the checkbook. We recommend the sheriff review office procedures to address this control deficiency.

Sheriff's response: No response.

The sheriff did not have proper controls over receipts. The sheriff does not batch and deposit receipts on a daily basis. The sheriff did not design internal control procedures to ensure deposits were made intact and agreed to daily batches and daily checkout sheets. Failure to make daily deposits puts funds on hand at risk of loss or theft and makes the reconciliation process more difficult. Effective internal control procedures over daily deposits require that deposits be made intact and contain all cash and checks received for payments. The sheriff should design and implement internal control procedures to ensure daily deposits are made intact in accordance with the Department for Local Government *County Budget Preparation and State Local Finance Officer Policy Manual*.

Sheriff's response: No response.

The sheriff does not have internal controls over payroll. Our audit procedures indicate that payroll checks are only signed by the bookkeeper, reconciliations of the payroll account are not performed, and the account is not reconciled to zero at the end of the year. There are no procedures in place to require dual signatures on checks or ensure the account is reconciled to a zero balance. Not having two signatures on payroll checks could allow for improper checks to be issued, increasing the chance of misappropriated disbursements. Also, by not reconciling and clearing all funds out of the payroll account the sheriff could be denying the fiscal court excess fees. Good internal controls dictate checks should be issued for all disbursements and bank reconciliations should be performed monthly. We recommend the sheriff require two signatures on payroll checks, with one of the signatures being his. Also, he should put procedures in place to make sure the payroll account has bank reconciliations performed each month and that it reconciles to zero at the end of each year.

Sheriff's response: Payroll is done by an outside CPA therefore the check information is not in our office and 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.

The sheriff should properly approve timesheets. Proper controls are not in place to properly approve timesheets. When employees' timesheets are not signed by a supervisor, the sheriff and the supervisor may not be aware of errors in the time charged. All timesheets should be signed by a supervisor to document that control procedures have been performed to ensure the accuracy of the timesheets submitted by employees. We recommend the sheriff or the designated supervisor review and sign-off on all timesheets in order to substantiate hours worked.

Sheriff's response: Timesheets are signed by the employee and a timesheet summarization is prepared by the Financial Officer who is an authorized supervisor, which is sent to the CPA so that he can prepare the payroll.

The sheriff did not deposit all oil and gas commissions into his 2014 fee account. The sheriff had a total of \$55,516 in commissions for January 2015 for oil and gas tax collections. The sheriff deposited \$18,000 into his 2014 fee account and the remaining \$37,516 into his 2015 fee account. The sheriff used these tax commissions in order to meet obligations of the 2014 fee account, which caused the fiscal court not to receive all excess fees due for calendar year 2014. The Department of Revenue did not allow collections for oil and gas tax bills until January 2015, which is later than normal collections, and since those commissions were included in the sheriff's 2014 budget, the sheriff was allowed to roll back one month's commissions for January collections for oil and gas taxes. The sheriff should deposit \$37,516 from his 2015 fee account into his 2014 fee account for the remaining commissions collected in January 2015 for oil and gas taxes.

Sheriff's response: This will be done.

The sheriff has \$1,446 of disallowed disbursements from his drug forfeiture account. During the review of disbursements from the sheriff's drug forfeiture account, we noted \$1,466 of disallowed disbursements. The sheriff paid \$1,402 for books that were given away to local schools that included the sheriff's name on them, and \$44 for coffee supplies used by office staff and deputies. KRS 218A.420 requires drug funds forfeited to the sheriff's office to be used for "direct law enforcement purposes." In addition, the sheriff is required to expend all drug account monies on allowable disbursements as defined in the case of Funk v. Milliken, 317 S.W.2d 499 (Ky. 1958). In Funk v. Milliken, 317 S.W.2d 499 (Ky. 1958), Kentucky's highest court reaffirmed the rule that county fee officials' expenditures of public funds will be allowed only if they are necessary, adequately documented (to be for direct law enforcement purposes), reasonable in amount, beneficial to the public, and not personal expenses. When money is spent on disallowed disbursements, the sheriff is required to deposit personal funds in the account to cover these items. The sheriff should reimburse the drug forfeiture account \$1,466 with his personal funds for these disallowed disbursements.

Sheriff's response: The books that were given out to the schools "The Little People's Guide to the Big World" did read "Sheriff Danny Webb Letcher County Sheriff's Department" but we were not suppose to include my name. We have used this company for many years and have not had this

happen in the past; this program is ran for two years therefore this comment has appeared for 2013 and 2014 fee audit reviews, it is an error that was made by the company and has been corrected for future books. The drug account money that was used to pay for this promotion does allow for "Support of Community-Based Program". The cups that are purchased for the office are available to all the public. There are also time that a juvenile is detained for a long period of time and providing something to drink for said juvenile is one of the Sheriff's Office duties. That being said I feel like cups are a required office supply expense. Therefore I do not believe this comment is fair and should be removed from the audit.

Auditor's Reply: We acknowledge the sheriff's comments that his name was printed on the books in error. Due to this error, however, the promotional nature of this matter makes the expenditure disallowed. The cups were purchased from the drug forfeiture fund. KRS 218A.420 requires drug funds forfeited to the sheriff's office to be used for "direct law enforcement purposes."

The sheriff has not settled his 2011 fee account. Follow up of 2012 fee account audit findings determined that the sheriff's deficit has not been properly resolved. The sheriff closed the 2011 fee bank account and transferred the balance of \$1,698 to the 2012 fee account, which had a liability that is due of \$18,000. This left a balance of \$16,302 due to the 2012 fee account. In order to settle the 2011 fee account the sheriff needs to collect and disburse the following:

Receivables:		
Payroll Account		\$ 3,720
Liabilities:		
2012 Fee Account*	\$ 16,302	
Fiscal Court - Excess Fees	<u>10,422</u>	<u>26,724</u>
Amount Personally Due From Sheriff		<u><u>\$ 23,004</u></u>

*2011 Fee Account had previously remitted \$1,698 leaving a balance of \$16,302 owed from 2011 Fee Account.

KRS 134.192 requires the sheriff to settle excess fees with the fiscal court at the time he files his final settlement. 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 sheriff is denying the fiscal court of excess fees.

Since the sheriff closed the 2011 fee account, we recommend that the sheriff open an escrow account and deposit the receivable due from the payroll account and personal funds of \$23,004 to cover the deficit in the 2011 fee account then pay the liabilities due as soon as possible. We will also refer this to the Letcher County Attorney.

Sheriff's response: No Response.

The sheriff has not settled his 2012 fee account. Follow up of the 2012 audit findings determined that the sheriff's 2012 receivables and liabilities remained unsettled:

Receivables:

2011 Fee Account*	\$ 16,302
2013 Fee Account	<u>344</u>
Total Receivables	<u>\$ 16,646</u>

*2011 Fee Account had previously remitted \$1,698 leaving a balance of \$16,302 owed from 2011 Fee Account.

The sheriff has an account balance of \$11,485. Once the amounts above are collected, the sheriff will have a total of \$28,131 to pay for the following liabilities:

Liabilities

2012 Tax Account	\$ 1,968
Fiscal Court - Excess Fees	<u>26,163</u>
Total Liabilities	<u>\$ 28,131</u>

KRS 134.192 requires the sheriff to settle excess fees with the fiscal court at the time he files his final settlement. 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 doing so, the sheriff is denying the fiscal court of excess fees and districts their taxes owed.

We recommend the sheriff settle the 2012 fee account.

Sheriff's response: No Response.

The sheriff has not settled his 2013 fee account. Follow up of the 2013 audit findings determined that the sheriff's 2013 receivables and liabilities remained unsettled:

Receivables:

2012 Unmined Coal	\$ 135
2012 Tax Account	690
Fiscal Court	<u>1,165</u>
Total Receivables	<u>\$ 1,990</u>

The sheriff has an account balance of \$851. Once the amounts above are collected, the sheriff will have a total of \$2,841 available to pay the following liabilities:

Liabilities:

2012 Fee Account	\$ 344
2013 Tax Account	1,871
2012 Tax Account	<u>626</u>
Total Liabilities	<u>\$ 2,841</u>

KRS 134.192 requires the sheriff to settle excess fees with the fiscal court at the time he files his final settlement. 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. If the sheriff does not settle these receivables and liabilities, he is denying districts their taxes owed.

We recommend the sheriff settle his 2013 fee account.

Sheriff's response: No 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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