

**REPORT OF THE AUDIT OF THE
FORMER LESLIE COUNTY
SHERIFF'S SETTLEMENT - 2017 UNMINED COAL TAXES**

**For The Period
September 19, 2017 Through August 15, 2018**



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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
The Honorable Andy Beshear, Governor
Holly M. Johnson, Secretary
Finance and Administration Cabinet
The Honorable William R. Lewis, Leslie County Judge/Executive
The Honorable Delano Huff, Former Leslie County Sheriff
The Honorable Billy M. Collett, Leslie County Sheriff
Members of the Leslie County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We were engaged to audit the former Leslie County Sheriff's Settlement - 2017 Unmined Coal Taxes for the period September 19, 2017 through August 15, 2018 - 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 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 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 statements are free from material misstatement. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

The former Leslie County Sheriff did not prepare the 2017 Unmined Coal Tax Settlement and did not maintain adequate accounting records. This prohibited us from applying procedures to obtain sufficient appropriate audit evidence necessary to render an opinion.



To the People of Kentucky
The Honorable Andy Beshear, Governor
Holly M. Johnson, Secretary
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The Honorable Billy M. Collett, Leslie County Sheriff
Members of the Leslie County Fiscal Court

Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 8, 2020, on our consideration of the former Leslie 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 former Leslie County Sheriff's internal control over financial reporting and compliance.

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 Former Leslie County Sheriff's Office Did Not Have Adequate Segregation Of Duties Over Receipts, Disbursements, And Reconciliations
- 2017-002 The Former Leslie County Sheriff Did Not Prepare An Annual Settlement For 2017 Unmined Coal Taxes And Did Not Maintain Accounting Records
- 2017-003 The Former Leslie County Sheriff Did Not Distribute One Month Of Unmined Coal Tax Collections To Districts
- 2017-004 The Former Leslie County Sheriff Did Not Have Back Up Procedures In Place For Tax Collection Data

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

July 8, 2020

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 William R. Lewis, Leslie County Judge/Executive
The Honorable Delano Huff, Former Leslie County Sheriff
The Honorable Billy M. Collett, Leslie County Sheriff
Members of the Leslie 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 were engaged to audit, 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 former Leslie County Sheriff's Settlement - 2017 Unmined Coal Taxes for the period September 19, 2017 through August 15, 2018 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated July 8, 2020. Our report disclaims an opinion on the financial statement because the former Leslie County Sheriff did not prepare a 2017 Unmined Coal Tax settlement and failed to maintain adequate accounting records.

Internal Control Over Financial Reporting

In connection with our engagement of the financial statement, we considered the former Leslie 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 Leslie County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Leslie 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 certain deficiencies in internal control that we consider to be material weaknesses.

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 2017-001, 2017-002, 2017-003, and 2017-004 to be material weaknesses.



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 former Leslie County Sheriff's financial statement is free from 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 is required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 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 line extending to the right.

Mike Harmon
Auditor of Public Accounts

July 8, 2020

SCHEDULE OF FINDINGS AND RESPONSES

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LESLIE COUNTY
 DELANO HUFF, FORMER SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES

For The Period September 19, 2017 Through August 15, 2018

FINANCIAL STATEMENT FINDINGS:

2017-001 The Former Leslie County Sheriff's Office Did Not Have Adequate Segregation Of Duties Over Receipts, Disbursements, And Reconciliations

This is a repeat finding and was included in the prior year audit report as finding 2016-001. The former Leslie County Sheriff's office did not have adequate segregation of duties over receipts, disbursements, and bank reconciliations. The bookkeeper opened mail, collected tax payments, prepared the daily checkout sheet and the daily deposit, opened bank statements, and prepared bank reconciliations. In addition, the bookkeeper was also responsible for preparing the monthly tax reports and all disbursements. These incompatible duties created a lack of segregation of duties over receipts, disbursements, and the reconciliation process.

The lack of adequate segregation of duties within the former sheriff's office was the result of limited staff size which prevented the former sheriff from segregating accounting duties to different individuals within the office. The former sheriff stated he could not hire additional employees to allow segregation of duties due to a limited budget. A lack of segregation of duties could result in undetected misappropriation of assets or inaccurate financial reporting to local taxing districts. The segregation of duties over various accounting functions such as opening mail, preparing deposits, and recording payments and disbursements, is essential for providing protection from asset misappropriation or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. The former sheriff could have implemented oversight when duties could not have been segregated.

We recommend the sheriff's office segregate duties or implement compensating controls. The following are examples of compensating controls the sheriff's office could implement:

- The sheriff, or his designee, could compare the daily checkout sheet to tax reports and bank deposit receipts and document his review.
- The sheriff, or his designee, could reconcile the bank statement or examine the bank reconciliation prepared by the bookkeeper, resolve any discrepancies, and document the review by initialing the bank reconciliation and the bank statement.
- The sheriff could examine checks prepared by the bookkeeper and compare checks to the monthly tax reports, resolve any discrepancies, and document the review by initialing and dating the monthly tax reports.

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

2017-002 The Former Leslie County Sheriff Did Not Prepare An Annual Settlement For 2017 Unmined Coal Taxes And Did Not Maintain Accounting Records

The former Leslie County Sheriff did not prepare an annual settlement for 2017 unmined coal tax collections and did not maintain records such as monthly reports or daily checkout sheets supporting the collection of the 2017 unmined coal taxes.

According to the former sheriff, he was unaware the physical records were missing and electronic records were not backed up. He was also not aware the annual settlement had not been prepared.

Due to the settlement not being completed and the lack of financial records available, auditors are unable to express an opinion on the former sheriff's settlement. Also, the former sheriff was not in compliance with state laws and regulations.

LESLIE COUNTY
 DELANO HUFF, FORMER SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Period September 19, 2017 through August 15, 2018
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-002 The Former Leslie County Sheriff Did Not Prepare An Annual Settlement For 2017 Unmined Coal Taxes And Did Not Maintain Accounting Records (Continued)

KRS 134.215(3) states in part, “[e]ach outgoing sheriff shall make a final settlement with the department, the fiscal court, and all districts for which his or her office collected taxes by March 15 immediately following the expiration of his or her term of office.”

Proper accounting procedures require that financial reports be supported with underlying accounting records such as daily receipts and payment reports. KRS 43.075(3) states in part, “[t]he uniform audit standards and procedures promulgated by the Auditor shall include but need not be limited to the requirement that each person performing an audit shall determine whether the fiscal court or county official is complying with the requirements of the uniform system of accounts adopted under KRS 68.210, whether there is accurate recording of receipts by source and expenditures by payee[.]”

We recommend the sheriff’s office ensure a complete settlement of taxes collected is prepared as required and records are properly maintained to support the settlement.

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

2017-003 The Former Leslie County Sheriff Did Not Distribute One Month Of Unmined Coal Tax Collections To Districts

During collection of 2017 unmined coal taxes, the former sheriff did not remit collections totaling \$60,449 for the month of June 2018 to the state, county, and special taxing districts. In addition, the former sheriff did not remit commissions earned of \$1,880 due his fee account for these collections.

The former sheriff did not have controls in place to ensure taxes collected and sheriff’s commissions were properly distributed each month of collections. As a result of not properly remitting tax collections due, the districts and the former sheriff’s office had less funds to operate on. Additionally, the former sheriff is in noncompliance with KRS 134.191.

KRS 134.191(1) states in part, “[t]he sheriff shall provide monthly reports by the tenth day of each month to the chief executive of the county, the department, and any other district for which the sheriff collects taxes.”

KRS 134.191(3) states, “[a]t the time of making the report, the sheriff shall pay to the county treasurer or other officer designated by the governing body of a county, to the department, and to any other district for which the sheriff collects taxes, all funds belonging to the county, state, or the district that were collected during the period covered by the report.”

We recommend the sheriff’s office implement internal controls to ensure monthly tax reports are properly prepared and taxes collected are remitted timely as required by KRS 134.191. We recommend the former sheriff remit the amounts due to the state, county, special taxing districts, and the fee account for 2017 unmined coal tax collections for the month of June 2018.

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

LESLIE COUNTY
DELANO HUFF, FORMER SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Period September 19, 2017 through August 15, 2018
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-004 The Former Leslie County Sheriff Did Not Have Back Up Procedures In Place For Tax Collection Data

In 2019, the Leslie County Sheriff's office lost all documentation pertaining to 2017 tax collections. The former sheriff did not have back-up procedures in place for electronic tax collection data; therefore, recovery of data pertaining to the 2017 unmined coal tax collections was not possible.

The former sheriff was under the impression that the vendor for the tax collection software provided backup services, but learned that this was a service that had to be purchased separately. As a result, all information concerning 2017 tax collections was lost and unable to be recovered and he was unable to prepare a tax settlement. Good internal controls require that the former sheriff ensure that procedures are in place to protect tax collection data.

The sheriff's office should develop a disaster recovery plan which includes procedures for backing up digital data on a regular basis and store the backups offsite. The sheriff's office should also test the disaster and recovery plan on a regular basis to ensure it works in the event of an emergency.

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