



Auditor of Public Accounts
Mike Harmon

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Contact: **Michael Goins**
Michael.Goins@ky.gov
502.564.5841
502.209.2867

Harmon Releases Audit of Letcher County Sheriff's Fee Account

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2016 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 clerk's financial statement did not follow this format. However, the clerk'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 clerk audits in Kentucky.

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 internal control over financial operations and reporting.

The audit contains the following comments:

The sheriff did not make daily deposits: This is a repeat finding and was reported in the prior year audit report as Finding 2015-002. The sheriff does not make deposits on a daily basis as required. The sheriff's office does not collect large amounts of receipts on a daily basis. The daily receipts not deposited are kept in a secure location. The sheriff's office makes deposits when receipts total at least \$500. The receipts are batched and posted to a daily checkout sheet when deposits are made. Making daily deposits reduces the risk of misappropriation of cash, which is the asset most susceptible to theft. The Department for Local Government 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 *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 that deposits are made on a daily basis.

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

The sheriff did not properly approve timesheets: This is a repeat finding and was reported in the prior year audit report as Finding 2015-004. Timesheets are not approved and signed by the sheriff or a designated supervisor. The sheriff's office was aware of this requirement. However, due to lack of management oversight and weak internal controls over payroll, it has not been implemented. When timesheets are not properly reviewed and approved, risk increases that hours worked are not accurately reported and employees are not paid correctly. KRS 337.320 requires that all employers keep a record of the hours worked each day and week by each employee. Strong internal controls dictate payments to employees for hours worked should be supported by a timesheet to ensure employees are accurately paid for hours worked and a need for employee timesheets to be signed by the employee and signed by the supervisor or by the official. Strong internal controls require accurate employee records to be maintained for proper reporting to external agencies such as the Internal Revenue Service and the Kentucky Retirement Systems.

We recommend the sheriff's office comply with KRS 337.320, by requiring all employees (except elected official) to prepare timesheets each pay period and that employees' timesheets need to be signed by the employee and signed by the sheriff or a designated supervisor.

Sheriff's Response: This has been corrected.

The sheriff did not deposit personal funds for disallowed disbursement to the drug fund: This is a repeat finding and was reported in the prior year audit report as Finding 2015-005. The sheriff paid \$111 in late fees to a bank from the drug account. In addition, the sheriff's prior year audit report recommended that the sheriff deposit personal funds of \$1,446 for disallowed disbursements made from the drug forfeiture fund account for calendar year ended December 31, 2014. The sheriff paid \$111 disallowed late fee for a vehicle lease. The drug fund disbursements are to be used for direct law enforcement purposes. In the prior year, the sheriff's office purchased books totaling \$1,402 from the drug forfeiture account that included the sheriff's name. In addition, \$44 was spent for coffee supplies. The sheriff stated that his name being on the books was an error made by the company they have used for many years. The sheriff indicated that the books should not be disallowed since they are for "Support of Community-Based Program." He also stated that the coffee supplies were available to the public and to juveniles who are detained for long periods of time. The sheriff did not question whether or not coffee supplies are an allowable supply expense. 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 that benefit the public.

KRS 218A.420 requires drug funds forfeited to the sheriff's office to be used for "direct law enforcement purposes."

We recommend that the sheriff reimburse the drug forfeiture account \$1,557 with 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 they were not supposed to include my name. We have used this company for many years and have not had this happen in the past; this program ran for only two years but this comment has appeared for the 2013, 2014 and 2015 fee audits, 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 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 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 did not deposit federal forfeiture funds in a separate account: The sheriff's office received \$35,279 from the Federal Bureau of Investigations for federal forfeiture funds in the prior year, and \$4,709 in the current year. These funds are restricted and are to be deposited in a fund separate from other drug funds received. Since both state and federal monies were deposited to the same account, the auditor was unable to determine federal expenditures from state expenditures. The sheriff stated that he was not aware that the federal funds had to be deposited in a separate account. The sheriff did submit annual forfeiture reports to the state and federal agencies as required. By not depositing federal forfeiture funds in a separate account, the sheriff's office is in violation of state law. In addition, federal guidelines were not followed and disbursements may have not been allowed, resulting in noncompliance. Restrictions and practices differ on use of the two funds. State funds are governed by state law. Federal funds are governed by the *Guide to Equitable Sharing for State and Local Law Enforcement Agencies* published by the Department of Justice (April 2009) which requires law enforcement agencies receiving federal forfeiture funds to maintain separate accounts for assets forfeited pursuant to state law and proceeds of federal equitable sharing program.

We recommend the sheriff's office deposit federal forfeiture monies in a separate account and follow the *Guide to Equitable Sharing for State and Local Law Enforcement Agencies* published by the Department of Justice (April 2009). In addition, the sheriff's office should follow state laws for state forfeiture monies received.

Sheriff's Response: This has been corrected.

The sheriff's 2011 fee account has 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 2015-006. The sheriff's deficit

for the 2011 fee account has not been resolved. The deficit is personally due from sheriff and has not been paid. 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. KRS 134.192 requires the sheriff to settle excess fees with the fiscal court at the time he files his annual settlement.

We recommend the sheriff open an escrow account and deposit \$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 will need to be paid once all funds are deposited, which include \$16,302 due to the 2012 fee account and \$10,422 excess fees due fiscal court. This finding has been referred to the Letcher County Attorney.

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

The sheriff has not settled his 2012 fee account: This is a repeat finding and was reported in the prior year audit report as Finding 2015-007. The sheriff's 2012 fee account has not been settled and excess fees due 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 sheriff made partial payment of \$9,525 to the fiscal court for 2012 excess fees due which included interest of \$8 earned since 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 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. 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. KRS 134.192 requires the sheriff to settle excess fees with the fiscal court at the time he files his annual settlement.

We recommend the sheriff deposit personal funds to cover the deficit in the 2011 fee account and transfer \$16,302 to an escrow account for 2012 fees. In addition, \$344 is due from the 2013 fee account. Once all funds are deposited to the 2012 escrow account, we recommend that the sheriff pay \$16,646 excess fees due to the fiscal court for the calendar year ended December 31, 2012.

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

The sheriff's office lacks adequate internal controls over payroll disbursements and reconciliations: This is a repeat finding and was reported in the prior year audit report as Finding 2015-003. Payroll checks are signed only by the bookkeeper. Monthly bank reconciliations are not prepared and the account is not reconciled to zero at year end. The payroll is prepared by an outside CPA firm. The sheriff does not have access to the checks prepared by the CPA and the bank statements are not reconciled at the sheriff's office. 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 issued and excess funds not 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 implementing of compensating controls is essential for accurate payroll recording and reporting.

We recommend the sheriff ensure adequate internal controls over the payroll process by requiring two signatures on all payroll checks, one being the sheriff. In addition, bank reconciliation procedures should be put in place to balance the account monthly and initialed by the sheriff. At year end, the payroll bank account should be balanced to zero.

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

The sheriff's office lacks adequate segregation of duties: This is a repeat finding and was reported in the prior year audit report as Finding 2015-001. The sheriff's bookkeeper collects payments from customers and prepares receipts. The bookkeeper is also responsible for preparing deposits and posting receipts to the receipts ledger. In addition, the bookkeeper prepares disbursement checks, distributes payroll checks, post checks to the disbursements ledger, and prepares the monthly bank reconciliations. The sheriff does not have enough funds to hire additional personnel to segregate duties. The sheriff has not addressed the increased risk of having one person responsible for so many accounting functions without sufficient oversight. There was not sufficient evidence available that would show that the sheriff or another employee periodically reviews deposits, ledgers, invoices, or the bank reconciliations to offset the risk caused by the lack of segregation of duties. The lack of oversight could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the Department of 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 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 compare the 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 to payments. 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.

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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