Auditor of Public Accounts
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FOR IMMEDIATE RELEASE

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Harmon Releases Audit of Former Letcher County Sheriff's Fee Account

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the January 1, 2018 – January 6, 2019 financial statement of 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 financial statement presents fairly the receipts, disbursements and excess fees of the former Letcher County Sheriff in accordance with accounting principles generally accepted in the United States of America. The former sheriff's financial statement did not follow this format. However, the former 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.

This audit will be referred to the Letcher County Attorney.

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 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 (DLG).

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

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 County 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[.]"

The former sheriff did not settle 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.

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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.

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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 County 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.

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.

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 County 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.

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 (DLG) *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 County 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 DLG's minimum requirements for handling public funds and made deposits daily.

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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