

**REPORT OF THE AUDIT OF THE
LETCHER COUNTY
SHERIFF**

**For The Year Ended
December 31, 2014**



**MIKE HARMON
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EXECUTIVE SUMMARY
AUDIT OF THE
LETCHER COUNTY SHERIFF

For The Year Ended
December 31, 2014

The Auditor of Public Accounts has completed the Letcher County Sheriff's audit for the year ended December 31, 2014. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the receipts, disbursements, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$5,167 from the prior year, resulting in excess fees of \$44,002 as of December 31, 2014. Receipts decreased by \$56,753 from the prior year and disbursements decreased by \$61,920.

Report Comments:

- 2014-001 The Sheriff's Office Lacks Adequate Segregation Of Duties
- 2014-002 The Sheriff Should Improve Controls Over Receipts
- 2014-003 The Sheriff Does Not Have Internal Controls Over Payroll
- 2014-004 The Sheriff Should Properly Approve Timesheets
- 2014-005 The Sheriff Did Not Deposit All Oil And Gas Commissions Into His 2014 Fee Account
- 2014-006 The Sheriff Has \$1,446 Of Disallowed Disbursements From His Drug Forfeiture Account
- 2014-007 The Sheriff Has Not Settled His 2011 Fee Account
- 2014-008 The Sheriff Has Not Settled His 2012 Fee Account
- 2014-009 The Sheriff Has Not Settled His 2013 Fee Account

Deposits:

The sheriff's deposits were insured and collateralized by bank securities.

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jim Ward, Letcher County Judge/Executive
The Honorable Danny Webb, Letcher County Sheriff
Members of the Letcher County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the Sheriff of Letcher County, Kentucky, for the year ended December 31, 2014, 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 as described in Note 1, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the 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 County Fee Officials* 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 statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



The Honorable Jim Ward, Letcher County Judge/Executive
The Honorable Danny Webb, Letcher County Sheriff
Members of the Letcher County Fiscal Court

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the Letcher County Sheriff on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the Letcher County Sheriff, as of December 31, 2014, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the Letcher County Sheriff for the year ended December 31, 2014, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 1, 2016 on our consideration of the Letcher 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 solely 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. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance.

The Honorable Jim Ward, Letcher County Judge/Executive
The Honorable Danny Webb, Letcher County Sheriff
Members of the Letcher County Fiscal Court

Other Reporting Required by *Government Auditing Standards* (Continued)

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2014-001 The Sheriff's Office Lacks Adequate Segregation of Duties
- 2014-002 The Sheriff Should Improve Controls over Receipts
- 2014-003 The Sheriff Does Not Have Internal Controls over Payroll
- 2014-004 The Sheriff Should Properly Approve Timesheets
- 2014-005 The Sheriff Did Not Deposit All Oil And Gas Commissions into His 2014 Fee Account
- 2014-006 The Sheriff Has \$1,446 Of Disallowed Disbursements From His Drug Forfeiture Account
- 2014-007 The Sheriff Has Not Settled His 2011 Fee Account
- 2014-008 The Sheriff Has Not Settled His 2012 Fee Account
- 2014-009 The Sheriff Has Not Settled His 2013 Fee Account

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

September 1, 2016

LETCHER COUNTY
DANNY WEBB, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2014

Receipts

Federal Grants	\$	46,964	
State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)			15,656
State Fees For Services:			
Finance and Administration Cabinet	\$	39,003	
Sheriff Security Service		<u>5,266</u>	44,269
Circuit Court Clerk:			
Fines and Fees Collected			1,070
County Clerk - Delinquent Taxes			27,196
Commission On Taxes Collected			395,891
Fees Collected For Services:			
Auto Inspections		313	
Accident and Police Reports		362	
Serving Papers		21,400	
Carrying Concealed Deadly Weapon Permits		<u>9,050</u>	31,125
Other:			
Add-On Fees		37,686	
Juror Expense		113	
Conveying Prisoners		11,355	
School Resource Officer		50,078	
Forfeitures		165	
Sheriff Incentive		102	
Election		50	
Miscellaneous		<u>8,547</u>	108,096
Interest Earned			354
Borrowed Money:			
State Advancement			<u>100,000</u>
Total Receipts			770,621

The accompanying notes are an integral part of this financial statement.

LETCHER COUNTY
DANNY WEBB, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2014
(Continued)

Disbursements

Operating Disbursements:

Personnel Services-

Deputies' Gross Salaries	\$ 138,194
Court Security Gross Salaries	47,886
Office Gross Salaries	62,956
Dispatchers Gross Salaries	30,839
KLEFPF	12,177
School Resource Officer	32,776
Victims Advocate	30,319

Employee Benefits-

Employer's Share Social Security	31,506
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Contracted Services-

Accounting Services	2,585
Vehicle Maintenance and Repairs	14,894

Materials and Supplies-

Office Materials and Supplies	7,494
Uniforms	692

Auto Expense-

Gasoline	38,242
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Other Charges-

Conventions and Travel	2,652
Dues	683
Postage	10,151
Bond	3,846
CCDW	525
Phone	13,543
Unemployment Insurance	2,866
Computer Services	104
Juror Expenses	218
Transport Prisoners	3,121
Property Tax Expenses	3,036
Medical	23
Equipment	6,600
Water Services	282
Miscellaneous	9,502
	<u> </u> \$ 507,712

The accompanying notes are an integral part of this financial statement.

LETCHER COUNTY
DANNY WEBB, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2014
(Continued)

Disbursements (Continued)

Debt Service:	
State Advancement	\$ 100,000
Automobile Lease	<u>27,002</u> <u>\$ 127,002</u>
 Total Disbursements	 <u>\$ 634,714</u>
 Net Receipts	 135,907
Less: Statutory Maximum	<u>87,995</u>
 Excess Fees	 47,912
Less: Training Incentive Benefit	<u>3,910</u>
 Balance Due Fiscal Court at Completion of Audit	 <u><u>\$ 44,002</u></u>

The accompanying notes are an integral part of this financial statement.

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2014

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the sheriff as determined by the audit. KRS 134.192 requires the sheriff to settle excess fees with the fiscal court at the time he files his annual settlement with the fiscal court on or before September 1 of each year. KRS 64.830 requires an outgoing sheriff to settle excess fees with the fiscal court of his county by March 15 immediately following the expiration of his term of office.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Under this regulatory basis of accounting receipts and disbursements are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2014 services
- Reimbursements for 2014 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2014

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the county treasurer in the subsequent year.

C. Cash and Investments

KRS 66.480 authorizes the sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2014
(Continued)

Note 2. Employee Retirement System and Other Post-Employment Benefits

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute six percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 17.67 percent for the first six months and 17.06 percent for the last six months.

Hazardous covered employees are required to contribute eight percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute nine percent of their salary to be allocated as follows: eight percent will go to the member's account and one percent will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 34.31 percent for the first six months and 32.95 percent for the last six months.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2014, plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own accounts. Members contribute five percent (nonhazardous) and eight percent (hazardous) of their annual creditable compensation and one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a four percent (nonhazardous) and seven and one-half percent (hazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

LETCHER COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2014
 (Continued)

Note 2. Employee Retirement System and Other Post-Employment Benefits (Continued)

CERS also provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% Paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Hazardous employees whose participation began on or after July 1, 2003, earn 15 dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

KRS issues a publicly available annual financial report that includes financial statements and required supplementary information on CERS. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Letcher County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2014
(Continued)

Note 3. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the sheriff's deposits may not be returned. The Letcher County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of December 31, 2014, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Kentucky Law Enforcement Foundation Program Fund (KLEFPF)

The Letcher County Sheriff's office was awarded a grant under the Kentucky Law Enforcement Foundation Program Fund from the Commonwealth of Kentucky Department of Criminal Justice Training. Under the program, eligible officers received up to \$3,100 annually as provided in Kentucky Revised Statute 15.460. During calendar year ended December 31, 2014, the Letcher County Sheriff's office received \$15,656.

Note 5. Federal Grant

The sheriff's office received High Intensity Drug Trafficking Area (HIDTA) funds of \$46,964 during the year. These funds are used for the investigation and eradication of illegal drugs throughout the county.

Note 6. Drug Forfeiture Account

The Letcher County Sheriff has a drug forfeiture account with a beginning balance of \$1,629. The sheriff received forfeited funds of \$13,570 and disbursed \$14,648 during calendar year 2014. Of the disbursed amount we have determined that the sheriff has disallowed disbursements of \$1,446. The cash balance at December 31, 2014 is \$551.

Note 7. Seized Funds Payable

Funds totaling \$7,490, confiscated during two separate drug related arrests, were found missing in January 2006. The money was put in an evidence locker located in a closet while awaiting court order for distribution. When the sheriff received the court order for distribution of funds in one of the cases, the funds for both cases were discovered missing. The issue has been referred to the Kentucky State Police for investigation. If the sheriff recovers these funds, he should forward 10% to the Commonwealth Attorney as noted in the court order of forfeiture and the remainder should be distributed to the sheriff's forfeiture account.

Note 8. Lease Agreement

On May 2, 2011, the sheriff's office entered into a lease-purchase agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) for four Dodge Police Chargers. The agreement requires a monthly principal and interest payment. As of December 31, 2014, the lease principal balance was \$8,848.

Note 9. Subsequent Event

Funds totaling \$5,576 seized during a drug related arrest were found missing in June 2014. As of September 1, 2016, this case is still active and the sheriff has not been directed to either forfeit the money to the court or return to the owner.

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*



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jim Ward, Letcher County Judge/Executive
The Honorable Danny Webb, Letcher County Sheriff
Members of the Letcher 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 have audited, 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 Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the Letcher County Sheriff for the year ended December 31, 2014, and the related notes to the financial statement and have issued our report thereon dated September 1, 2016. The Letcher County Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Letcher 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 Letcher County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Letcher 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 comments and recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

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 comments and recommendations as items 2014-001, 2014-002, 2014-003, 2014-005 and 2014-006 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)

Internal Control over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying comment and recommendation as item 2014-004 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Letcher County Sheriff's financial statement is free of 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 are required to be reported under *Government Auditing Standards* and which are described in the accompanying comments and recommendations as items 2014-004, 2014-006, 2014-007, 2014-008, and 2014-009.

Sheriff's Responses to Findings

The Letcher County Sheriff's responses to the findings identified in our audit are described in the accompanying comments and recommendations. The Letcher County Sheriff's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

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,



Mike Harmon
Auditor of Public Accounts

September 1, 2016

COMMENTS AND RECOMMENDATIONS

LETCHER COUNTY
DANNY WEBB, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2014

FINANCIAL STATEMENT FINDINGS:

2014-001 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.

2014-002 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.

LETCHER COUNTY
DANNY WEBB, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2014
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-003 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.

2014-004 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.

2014-005 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.

LETCHER COUNTY
DANNY WEBB, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2014
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-006 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 supposed 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."

2014-007 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 due in the amount 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>\$ 23,004</u>

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

LETCHER COUNTY
 DANNY WEBB, SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended December 31, 2014
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-007 The Sheriff Has Not Settled His 2011 Fee Account (Continued)

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 finding to the Letcher County Attorney.

Sheriff's Response: No Response.

2014-008 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><u>\$ 16,646</u></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><u>\$ 28,131</u></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.

LETCHER COUNTY
 DANNY WEBB, SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended December 31, 2014
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-009 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><u>\$ 1,990</u></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><u>\$ 2,841</u></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.

