

**REPORT OF THE AUDIT OF THE
FORMER LETCHER COUNTY
SHERIFF'S SETTLEMENT - 2018 TAXES**

**For The Period
April 17, 2018 Through January 6, 2019**



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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 Terry Adams, Letcher County Judge/Executive
The Honorable Danny Webb, Former Letcher County Sheriff
The Honorable Mickey Stines, Letcher County Sheriff
Members of the Letcher County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the former Letcher County Sheriff's Settlement - 2018 Taxes for the period April 17, 2018 through January 6, 2019 - 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 as described in Note 1. 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 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.



To the People of Kentucky
The Honorable Andy Beshear, Governor
Holly M. Johnson, Secretary
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Auditor's Responsibility (Continued)

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

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 former Letcher County Sheriff on the basis of 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 taxes charged, credited, and paid of the former Letcher County Sheriff, for the period April 17, 2018 through January 6, 2019.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the taxes charged, credited, and paid for the period April 17, 2018 through January 6, 2019 of the former Letcher County Sheriff, 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 November 15, 2019, on our consideration of the former 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 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 Letcher County Sheriff's internal control over financial reporting and compliance.

To the People of Kentucky
The Honorable Andy Beshear, Governor
Holly M. Johnson, Secretary
Finance and Administration Cabinet
The Honorable Terry Adams, Letcher County Judge/Executive
The Honorable Danny Webb, Former Letcher County Sheriff
The Honorable Mickey Stines, 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 Schedule of Findings and Responses, included herein, which discusses the following report comments:

- 2018-001 The Former Letcher County Sheriff's Office Did Not Have Adequate Segregation Of Duties
- 2018-002 The Former Letcher County Sheriff Did Not Prepare An Accurate County Settlement

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

November 15, 2019

LETCHER COUNTY
DANNY WEBB, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2018 TAXES

For The Period April 17, 2018 Through January 6, 2019

	County	Special Taxing Districts	School Districts	State
<u>Charges</u>				
Real Estate	\$ 737,857	\$ 1,283,191	\$ 2,473,745	\$ 456,948
Tangible	76,371	178,755	261,445	128,996
Fire Protection	3,803			
Total Per Sheriff's Official Receipt	818,031	1,461,946	2,735,190	585,944
<u>Other Taxes & Charges</u>				
Franchise Taxes	57,829	102,931	203,796	
Additional Billings	4,480	7,539	19,765	3,112
Unmined Coal - 2017 Taxes	12,339	20,455	42,252	8,050
Bank Franchises	52,887			
Penalties	8	16	30	6
Gross Chargeable to Sheriff	945,574	1,592,887	3,001,033	597,112
<u>Credits</u>				
Exonerations	7,429	13,090	25,232	4,548
Discounts	10,298	18,528	34,305	7,609
Transfer to Incoming Sheriff	188,038	329,995	639,483	125,464
Delinquent Unmined Coal - 2017 Taxes	1,713	2,841	6,229	1,118
Total Credits	207,478	364,454	705,249	138,739
Taxes Collected	738,096	1,228,433	2,295,784	458,373
Less: Sheriff's Commissions*	31,365	52,200	84,803	19,484
Taxes Due Districts	706,731	1,176,233	2,210,981	438,889
Taxes Paid	705,350	1,173,810	2,205,947	437,917
Refunds (Current and Prior Year)	1,299	2,320	4,830	1,067
10% Penalty				11
Taxes Due Districts (Refund Due Sheriff)	\$ 82	\$ 103	\$ 204	\$ (84)
		**	***	

*, **, and *** See next page.

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

LETCHER COUNTY
 DANNY WEBB, FORMER SHERIFF
 SHERIFF'S SETTLEMENT - 2018 TAXES
 For The Period April 17, 2018 Through January 6, 2019
 (Continued)

* Commissions:

4.25% on	\$	2,424,902
4% on	\$	1,594,127
3% on	\$	701,657

** Special Taxing Districts:

Library District	\$	37
Health District		13
Extension District		29
Soil Conservation		<u>24</u>

Due Districts	\$	<u>103</u>
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*** School Taxing Districts

Common School District	\$	<u>204</u>
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Due District	\$	<u>204</u>
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LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT

January 6, 2019

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. 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.

B. Basis of Accounting

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. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

KRS 66.480 authorizes the sheriff's office to invest in 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).

D. Preparation of State Settlement

The Kentucky Department of Revenue conducts the settlement relating to taxes collected for the state under the provision of KRS 134.192(2)(a). This is reported as the "State Taxes" column on the financial statement.

Note 2. Deposits

The former Letcher County Sheriff maintained deposits of public funds with depository institutions insured by the 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.

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 former Letcher County Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 66.480(1)(d) and KRS 41.240. As of January 6, 2019, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

LETCHER COUNTY
 NOTES TO FINANCIAL STATEMENT
 January 6, 2019

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2018. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2019. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 31, 2018 through January 6, 2019.

B. 2017 Unmined Coal Property Taxes

The unmined coal property tax assessments were levied as of January 1, 2017. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was February 21, 2018 through August 15, 2018.

C. Franchise Taxes

The franchise tax assessments were levied by the Department of Revenue for various tax years. Franchise taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was April 17, 2018 through January 6, 2019.

Note 4. Interest Income

The former Letcher County Sheriff earned \$314 as interest income on 2018 taxes. The former sheriff was in substantial compliance with his statutory responsibilities.

Note 5. Outstanding Checks And Unexplained Tax Receipts Held In Escrow

The Letcher County Sheriff's office deposited outstanding checks and unexplained tax receipts into an escrow account. When statutorily required, the sheriff's office will turn over the escrowed funds to the Kentucky State Treasurer as unclaimed property. The sheriff's office escrowed amounts were as follows:

2012	\$3,639
2013	\$1,530
2014	\$230
2015	\$1,014

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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 Terry Adams, Letcher County Judge/Executive
The Honorable Danny Webb, Former Letcher County Sheriff
The Honorable Mickey Stines, 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 former Letcher County Sheriff's Settlement - 2018 Taxes for the period April 17, 2018 through January 6, 2019 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated November 15, 2019. The former 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 former 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 former Letcher County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the former 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 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 2018-001 and 2018-002 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 Letcher 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2018-002.

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 flourish extending to the right.

Mike Harmon
Auditor of Public Accounts

November 15, 2019

SCHEDULE OF FINDINGS AND RESPONSES

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LETCHER COUNTY
DANNY WEBB, FORMER SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Period April 17, 2018 Through January 6, 2019

FINANCIAL STATEMENT FINDINGS:

2018-001 The Former Letcher County Sheriff's Office Did Not Have Adequate Segregation Of Duties

This is a repeat finding and was included in the prior year audit report as finding 2017-001. The former sheriff's bookkeeper collected payments from customers, prepared receipts, prepared deposits, posted receipts to the receipts ledger, and reconciled the bank statements. The bookkeeper also prepared disbursement checks and monthly tax reports. There was not sufficient evidence available to show that the former sheriff or another employee periodically reviewed deposits, ledgers, monthly reports, or the bank reconciliations to offset the risk caused by the lack of segregation of duties.

The former sheriff stated that this condition was a result of a limited budget, which restricted the number of employees the former sheriff could hire or delegate duties to. A lack of oversight could have resulted in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as Department of Revenue.

The segregation of duties over various accounting functions such as preparing deposits, recording receipts and disbursements, and preparing monthly reports, or the implementation of compensating controls is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties would protect employees in the normal course of performing their daily responsibilities.

To adequately protect employees and prevent 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 Sheriff's Response: The former sheriff did not provide a response.

2018-002 The Former Letcher County Sheriff Did Not Prepare An Accurate County Settlement

The former sheriff did not prepare a complete and accurate settlement for 2018 tax collections. The following discrepancies were noted:

- April, August, and September 2018 franchise collections totaling \$324,286 were not included on the county settlement
- Additional bills totaling \$24,449 were not included on the county settlement
- Additional bills totaling \$23,287 were not included on the official receipt transferring tax bills to the incoming sheriff

These errors occurred due to a lack of internal controls and oversight over financial reporting. As a result, the former sheriff's tax settlement was materially understated. The former sheriff approved audit adjustments to correct the discrepancies.

LETCHER COUNTY
DANNY WEBB, FORMER SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Period April 17, 2018 Through January 6, 2019
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-002 The Former Letcher County Sheriff Did Not Prepare An Accurate County Settlement (Continued)

KRS 134.192(11) states, “[i]n counties containing a population of less than seventy thousand (70,000), the sheriff shall file annually with his or her settlement:

- (a) A complete statement of all funds received by his or her office for official services, showing separately the total income received by his or her office for services rendered, exclusive of his or her commissions for collecting taxes, and the total funds received as commissions for collecting state, county, and school taxes; and
- (b) A complete statement of all expenditures of his or her office, including his or her salary, compensation of deputies and assistants, and reasonable expenses.”

We recommend the sheriff’s office comply with KRS 134.192(11) by submitting a complete and accurate settlement of all tax collections received and disbursed.

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