

**REPORT OF THE AUDIT OF THE
LETCHER COUNTY
SHERIFF'S SETTLEMENT – 2013 UNMINED COAL TAXES**

**For The Period
July 17, 2013 Through September 24, 2014**



**MIKE HARMON
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EXECUTIVE SUMMARY

AUDIT OF THE LETCHER COUNTY SHERIFF'S SETTLEMENT – 2013 UNMINED COAL TAXES

**For The Period
July 17, 2013 Through September 24, 2014**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2013 Unmined Coal Taxes for the Letcher County Sheriff for the period July 17, 2013 through September 24, 2014. We have issued an unmodified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The sheriff collected 2013 unmined coal taxes of \$1,793,146 for the districts, retaining commissions of \$67,120 to operate the sheriff's office. The sheriff distributed 2013 unmined coal taxes of \$1,726,026 to the districts.

Report Comments:

2013-001 The Sheriff Did Not Distribute Interest Earnings As Required
2013-002 The Sheriff Did Not Make Daily Deposits
2013-003 The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

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

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Jim Ward, Letcher County Judge/Executive
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 Letcher County Sheriff's Settlement - 2013 Unmined Coal Taxes for the period July 17, 2013 through September 24, 2014 - 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.



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William M. Landrum III, 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 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 September 24, 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 taxes charged, credited, and paid for the period July 17, 2013 through September 24, 2014 of the 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 August 25, 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 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 effectiveness of the Letcher County Sheriff's 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 Letcher County Sheriff's internal control over financial reporting and compliance.

To the People of Kentucky

Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
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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:

- 2013-001 The Sheriff Did Not Distribute Interest Earnings As Required
- 2013-002 The Sheriff Did Not Make Daily Deposits
- 2013-003 The Sheriff's Office Lacks Adequate Segregation Of Duties

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

August 25, 2016

LETCHER COUNTY
DANNY WEBB, SHERIFF
SHERIFF'S SETTLEMENT – 2013 UNMINED COAL TAXES

For The Period July 17, 2013 Through September 24, 2014

| <u>Charges</u> | Special | | | |
|-------------------------------|---------------------|-------------------------|---------------------|--------------------|
| | <u>County Taxes</u> | <u>Taxing Districts</u> | <u>School Taxes</u> | <u>State Taxes</u> |
| Unmined Coal - 2013 Taxes | \$ 213,898 | \$ 463,119 | \$ 1,039,057 | \$ 239,409 |
| Unmined Coal - 2012 Taxes | 2,120 | 4,615 | 9,674 | 2,560 |
| Penalties | 70 | 152 | 328 | 78 |
| Adjusted to Sheriff's Receipt | 76 | 165 | 370 | 85 |
| Gross Chargeable to Sheriff | <u>216,164</u> | <u>468,051</u> | <u>1,049,429</u> | <u>242,132</u> |
| <u>Credits</u> | | | | |
| Exonerations | 76 | 165 | 356 | 85 |
| Discounts | 3,941 | 8,530 | 19,240 | 4,413 |
| Delinquents: | | | | |
| Real Estate | <u>16,287</u> | <u>35,288</u> | <u>75,838</u> | <u>18,411</u> |
| Total Credits | <u>20,304</u> | <u>43,983</u> | <u>95,434</u> | <u>22,909</u> |
| Taxes Collected | 195,860 | 424,068 | 953,995 | 219,223 |
| Less: Commissions * | <u>8,324</u> | <u>18,023</u> | <u>31,456</u> | <u>9,317</u> |
| Taxes Due | 187,536 | 406,045 | 922,539 | 209,906 |
| Taxes Paid | <u>187,536</u> | <u>406,045</u> | <u>922,539</u> | <u>209,906</u> |
| Due as of Completion of Audit | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> |

* Commissions:

4.25% on \$ 839,151
4% on \$ 283,616
3% on \$ 670,379

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

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT

September 24, 2014

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 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).

Note 2. 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.

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 September 24, 2014, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT
September 24, 2014
(Continued)

Note 3. Tax Collection Period

The unmined coal property tax assessments were levied as of January 1, 2014. Property taxes were billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was April 1, 2014 through September 24, 2014.

Note 4. Interest Income

The Letcher County Sheriff earned \$210 as interest income on 2013 unmined coal taxes. As of August 25, 2016 the sheriff owed \$107 in interest to the school district and \$103 in interest to his fee account.

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
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 Letcher County Sheriff's Settlement - 2013 Unmined Coal Taxes for the period July 17, 2013 through September 24, 2014 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated August 25, 2016. The Letcher County Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

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 over financial reporting.

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 a certain deficiency in internal control that we consider to be a material weakness.

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 deficiency described in the accompanying comments and recommendations as item 2013-003 to be a material weakness.



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 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 2013-001 and 2013-002.

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 line extending to the right.

Mike Harmon
Auditor of Public Accounts

August 25, 2016

COMMENTS AND RECOMMENDATIONS

LETCHER COUNTY
DANNY WEBB, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period July 17, 2013 Through September 24, 2014

STATE LAWS AND REGULATIONS:

2013-001 The Sheriff Did Not Distribute Interest Earnings As Required

The sheriff did not distribute interest earnings to the school districts and to the fee account monthly as required. By not distributing tax interest monthly as required, the sheriff is in violation of statute. KRS 134.140(2) requires the Sheriff to pay monthly "that part of the investment earnings for the month which are attributable to the investment of school taxes." The sheriff should distribute the investment earning at the same time as the monthly tax collections. KRS 134.140(4) provides for the remaining monthly interest to be transferred to the sheriff's fee account.

We recommend the sheriff distribute interest earned on tax collections in accordance with KRS 134.140.

Sheriff's Response: None.

2013-002 The Sheriff Did Not Make Daily Deposits

Tax receipts were not always deposited into an official bank account on a daily basis. The sheriff has not addressed the increased risk of having one person responsible for so many accounting functions without sufficient oversight. Lack of oversight could result in the undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the Department for Local Government.

The State Local Finance Officer, under the authority of KRS 68.210, has established minimum accounting requirements, which include depositing receipts intact on a daily basis and reconciling receipts to a daily check out sheet. Failure to make daily deposits put funds on hand at risk of loss or theft and makes the reconciliation process more difficult.

We recommend the sheriff make daily deposits of tax receipts as required by the State Local Finance Officer.

Sheriff's Response: None.

INTERNAL CONTROL - MATERIAL WEAKNESS:

2013-003 The Sheriff's Office Lacks Adequate Segregation Of Duties

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. The bookkeeper also prepares disbursement checks, payroll checks, monthly reports, and the monthly bank reconciliations. There was not sufficient evidence available that would show that the sheriff or another employee periodically reviews deposits, ledgers, monthly reports, or the bank reconciliations to offset the risk caused by the lack of segregation of duties. The sheriff has not addressed the increased risk of having one person responsible for so many accounting functions without sufficient oversight. Lack of oversight could result in the undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the Department for Local Government.

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 protects employees in the normal course of performing their daily responsibilities.

LETCHER COUNTY
DANNY WEBB, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period July 17, 2013 Through September 24, 2014
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESS (CONTINUED):

2013-003 The Sheriff's Office Lacks Adequate Segregation Of Duties (Continued)

To adequately protect employees in the normal course of performing their duties, and prevent inaccurate financial reporting or misappropriation of assets, we are recommending that 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 periodically compare a 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: None.

