

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

**For The Year Ended
December 31, 2015**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY
AUDIT OF THE
LETCHER COUNTY SHERIFF

For The Year Ended
December 31, 2015

The Auditor of Public Accounts has completed the Letcher County Sheriff's audit for the year ended December 31, 2015. 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 decreased by \$34,447 from the prior year, resulting in excess fees of \$13,465 as of December 31, 2015. Receipts decreased by \$6,289 from the prior year and disbursements increased by \$23,549.

Report Comments:

- 2015-001 The Sheriff's Office Lacks Adequate Segregation Of Duties
- 2015-002 The Sheriff Did Not Make Daily Deposits
- 2015-003 The Sheriff's Office Lacks Adequate Internal Controls Over Payroll Disbursements And Reconciliations
- 2015-004 The Sheriff Did Not Properly Approve Timesheets
- 2015-005 The Sheriff Did Not Deposit Personal Funds For Disallowed Disbursement To The Drug Fund
- 2015-006 The Sheriff's 2011 Fee Account Has A Deficit Of \$23,004 That Has Not Been Settled
- 2015-007 The Sheriff Has Not Settled His 2012 Fee Account
- 2015-008 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, 2015, 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.

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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, 2015, 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, 2015, 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 January 18, 2018, 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.

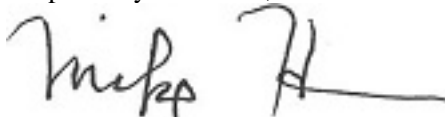
The Honorable Jim Ward, Letcher County Judge/Executive
The Honorable Danny Webb, Letcher County Sheriff
Members of the Letcher County Fiscal Court

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:

- 2015-001 The Sheriff's Office Lacks Adequate Segregation Of Duties
- 2015-002 The Sheriff Did Not Make Daily Deposits
- 2015-003 The Sheriff's Office Lacks Adequate Internal Controls Over Payroll Disbursements And Reconciliations
- 2015-004 The Sheriff Did Not Properly Approve Timesheets
- 2015-005 The Sheriff Did Not Deposit Personal Funds For Disallowed Disbursement To The Drug Fund
- 2015-006 The Sheriff's 2011 Fee Account Has A Deficit Of \$23,004 That Has Not Been Settled
- 2015-007 The Sheriff Has Not Settled His 2012 Fee Account
- 2015-008 The Sheriff Has Not Settled His 2013 Fee Account

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

January 18, 2018

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

For The Year Ended December 31, 2015

Receipts

Federal Grant - HIDTA	\$	17,281
Kentucky River Community Care - Sobriety Checkpoint Grant		1,490
State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)		11,967
State Fees For Services:		
Finance and Administration Cabinet	\$	35,638
Sheriff Security Service		7,213
Conveying Prisoners		<u>2,095</u>
		44,946
Circuit Court Clerk - Fines and Fees		1,672
Fiscal Court - Election Commission		250
County Clerk - Delinquent Taxes		34,034
Commission On Taxes Collected		408,136
Fees Collected For Services:		
Add-On Fees		47,536
Auto Inspections		1,950
Accident and Police Reports		816
Serving Papers		20,050
Carry Concealed Deadly Weapon Permits		<u>7,525</u>
		77,877
Other:		
Conveying Prisoners		3,300
Miscellaneous		3,707
School Resource Officer		<u>49,583</u>
		56,590
Interest Earned		89
Borrowed Money:		
State Advancement		110,000
Total Receipts		764,332

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, 2015
(Continued)

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$	115,390	
Court Security		48,582	
Office Gross Salaries		56,551	
Dispatcher Gross Salaries		18,631	
KLEFPF		9,081	
School Resource Officer		34,106	
Victims Advocate Salary		31,450	

Employee Benefits-

Employer's Share Social Security		28,542	
Employer's Share Retirement		55,518	
Employer's Share Health Insurance		26,389	
Employer Paid Life Insurance		190	
Unemployment Insurance		6,389	

Contracted Services-

Accounting Services		3,057	
Property Tax Expense		5,807	

Materials and Supplies-

Office Materials and Supplies		8,495	
Uniforms		7,832	

Auto Expense-

Gasoline		24,385	
Vehicle Maintenance and Repairs		17,218	
Radios and Equipment		9,075	

Other Charges-

Training Services		3,017	
Transport Prisoners		1,200	
Postage		13,194	
Bond		6,286	
Telephone and TV Services		8,652	
Miscellaneous		2,530	
		<u>2,530</u>	\$ 541,567

Debt Service:

State Advancement		110,000	
Vehicle Lease		<u>6,696</u>	116,696

Total Disbursements \$ 658,263

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, 2015
(Continued)

Net Receipts	\$ 106,069
Less: Statutory Maximum	<u>88,663</u>
Excess Fees	17,406
Less: Training Incentive Benefit	<u>3,941</u>
Excess Fees Due County for 2015	13,465
Payment to Fiscal Court - January 27, 2016	<u>12,000</u>
Balance Due Fiscal Court at Completion of Audit	<u>\$ 1,465</u>

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

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2015

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 2015 services
- Reimbursements for 2015 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2015

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 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. 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.

LETCHER COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2015
 (Continued)

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

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, 2013, 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.

Retirement matching contributions to fiscal court were required as of July 1, 2015. Contribution for the six month period July 1, 2015 through December 31, 2015 was \$55,518.

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.

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%

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2015
(Continued)

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

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.

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, 2015, 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, 2015, the Letcher County Sheriff's office received \$11,967.

Note 5. Federal Grant

The sheriff's office received High Intensity Drug Trafficking Area (HIDTA) funds of \$17,281 during the year. These funds are used for the investigation and eradication of illegal drugs throughout the county.

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2015
(Continued)

Note 6. Drug Forfeiture Account

The Letcher County Sheriff has a drug forfeiture account with a beginning balance of \$551. The sheriff received forfeited funds of \$51,795 and disbursed \$23,461 during calendar year 2015. The cash balance at December 31, 2015, is \$28,885.

Note 7. Seized Funds Payable - 2006

Funds totaling \$7,490, confiscated during two separate drug related arrests, were found to be 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 to be missing. The issue has been referred to the Kentucky State Police for investigation. If the sheriff recovers these funds, he should forward 10 percent 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. Seized Funds Payable - 2014

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

Note 9. 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, 2015, the lease was paid in full.

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 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, 2015, and the related notes to the financial statement and have issued our report thereon dated January 18, 2018. 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 2015-001, 2015-002, and 2015-003 to be material weaknesses.

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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*
(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 accompany comment and recommendation as item 2015-004 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 2015-004, 2015-005, 2015-006, 2015-007, and 2015-008.

County Officials' Responses to Findings

The Letcher County Sheriff and the Letcher County Judge/Executive's responses to the findings identified in our audit are described in the accompanying comments and recommendations. The 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

January 18, 2018

COMMENTS AND RECOMMENDATIONS

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LETCHER COUNTY
DANNY WEBB, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2015

FINANCIAL STATEMENT FINDINGS:

2015-001 The Sheriff's Office Lacks Adequate Segregation Of Duties

This is a repeat finding and was included in the prior year audit report as finding 2014-001. The sheriff's bookkeeper collects payments from customers and prepares receipts. The bookkeeper is also responsible for preparing deposits and posting receipts to the receipts ledger. In addition, the bookkeeper prepares disbursement checks, distributes payroll checks, post checks to the disbursements ledger, and prepares the monthly bank reconciliations. The sheriff has not addressed the increased risk of having one person responsible for so many accounting functions without sufficient oversight. There was not sufficient evidence available that would show that the sheriff or another employee periodically reviews deposits, ledgers, invoices, or the bank reconciliations to offset the risk caused by the lack of segregation of duties. Lack of oversight could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the Department of 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 adequately protect employees in the normal course of performing their duties, and prevent inaccurate financial reporting or misappropriation of assets, we recommend the sheriff implement strong oversight in these areas, either by an employee independent of those functions or by the sheriff, such as:

- The sheriff should compare the daily bank deposit to the daily checkout sheet and then compare the daily cash settlement sheet to the receipts ledger. Any differences should be reconciled. The sheriff could document this by initialing the settlement sheet, daily deposit, and receipts ledger.
- The sheriff should compare supporting documentation to payments. The sheriff could document this by initialing the supporting documentation.
- The sheriff should compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The sheriff could document this by initialing the bank reconciliation.

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

2015-002 The Sheriff Did Not Make Daily Deposits

The sheriff did not make deposits daily as required. The sheriff's office does not collect large amounts of receipts on a daily basis and the daily receipts not deposited are kept in a secure location. The sheriff's office makes deposits when receipts total at least \$500. The receipts are batched and posted to a daily checkout sheet when deposits are made. Making daily deposits reduces the risk of misappropriation of cash, which is the asset most susceptible to theft. The Department for Local Government (DLG) 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 *Instructional Guide for County Budget Preparation and State Local Finance Officer Policy Manual* require deposits to be made daily.

We recommend the sheriff's office implement procedures to ensure receipts are batched daily, posted to a daily checkout sheet, and that deposited are made daily.

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

LETCHER COUNTY
 DANNY WEBB, SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended December 31, 2015
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-003 The Sheriff's Office Lacks Adequate Internal Controls Over Payroll Disbursements And Reconciliations

This is a repeat finding and was included in the prior year audit report as finding 2014-003. Payroll checks are signed only by the bookkeeper. Monthly bank reconciliations are not prepared and the account is not reconciled to zero at year end. The payroll is prepared by an outside CPA firm. The sheriff does not have access to the checks prepared by the CPA and the bank statements are not reconciled at the sheriff's office. Not having strong internal controls in place that requires 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 fiscal court due to not reconciling the payroll bank balance to zero at year end. Strong internal controls over the payroll process or the implementing of compensating controls is essential for accurate payroll recording and reporting.

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

Sheriff's Response: This has also been corrected since the 2014 audit. Payroll account is reconciled monthly and the Sheriff signs the payroll check.

2015-004 The Sheriff Did Not Properly Approve Timesheets

This is a repeat finding and was included in the prior year audit report as finding 2014-004. Timesheets are not approved and signed by the sheriff or a designated supervisor. The sheriff's office was aware of this requirement; however, due to lack of management oversight and weak internal controls over payroll, it has not been implemented. When timesheets are not properly reviewed and approved, risk increases that hours worked are not accurately reported and employees are not paid correctly. KRS 337.320 requires that all employers keep a record of the hours worked each day and week by each employee. Strong internal controls dictate payments to employees for hours worked should be supported by a timesheet to ensure employees are accurately paid for hours worked. Employee timesheets should be signed by the employee and by the supervisor or the official. Strong internal controls require accurate employee records to be maintained for proper reporting to external agencies such as the IRS and Kentucky Retirement Systems.

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

Sheriff's Response: This has been corrected since the 2014 audit.

2015-005 The Sheriff Did Not Deposit Personal Funds For Disallowed Disbursement To The Drug Fund

This is a repeat finding and was included in the prior year audit report as finding 2014-006. The sheriff paid \$111 in late fees to PNC bank from the drug account. In addition, the sheriff's prior year audit report recommended that the sheriff deposit personal funds of \$1,446 for disallowed disbursements made from the drug forfeiture account for calendar year ended December 31, 2014. The sheriff paid \$111 disallowed late fee for a vehicle lease. The drug fund disbursements are to be used for direct law enforcement purposes. In the prior year, the sheriff's office purchased books totaling \$1,402 from the drug forfeiture account that included the sheriff's name. In addition, \$44 was spent for coffee supplies. The sheriff stated that his name being on the books was an error made by the company they have used for many years. The

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 COMMENTS AND RECOMMENDATIONS
 For The Year Ended December 31, 2015
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FINANCIAL STATEMENT FINDINGS: (Continued)

2015-005 The Sheriff Did Not Deposit Personal Funds For Disallowed Disbursement To The Drug Fund (Continued)

sheriff indicated that the books should not be disallowed since they are for "Support of Community-Based Program." He also stated that the coffee supplies were available to the public and to juveniles who are detained for long periods of time. The sheriff did not question whether or not coffee supplies are an allowable supply expense. When drug forfeiture is spent on disallowed disbursements, the drug money is not available for its intended purpose which is to be spent for direct law enforcement purposes. KRS 218A.420 requires drug funds forfeited to the sheriff's office to be used for "direct law enforcement purposes."

We recommend that the sheriff reimburse the drug forfeiture account \$1,557 with personal funds for these disallowed disbursements.

Sheriff's Response: The books that were given out to the schools "The Little People's Guide to the Big World" did read "Sheriff Danny Webb Letcher County Sheriff's Department" but 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 the 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 the public. There are also time that a juvenile is detained for a long period of time and providing something to drink for said juvenile is one of the Sheriff's Office duties. That being said I feel like cups are required office supply expense. Therefore I do not believe this comment is fair and should be removed from the audit.

Auditor's Reply: We acknowledge the sheriff's comments that his name was printed on the books in error. Due to this error, however, the promotional nature of this matter makes the expenditure disallowed. The cups were purchased from the drug forfeiture fund. KRS 218A.420 requires drug funds forfeited to the sheriff's office to be used for "direct law enforcement purposes."

2015-006 The Sheriff's 2011 Fee Account Has A Deficit Of \$23,004 That Has Not Been Settled

This is a repeat finding and was included in the prior year audit report as finding 2014-007. The sheriff's deficit for the 2011 fee account has not been resolved. The deficit is personally due from sheriff and has not been paid. Good internal controls dictate that all receivables and liabilities are settled for each fee year when an official makes their annual settlement with the fiscal court. By not doing so, the sheriff is depriving the fiscal court of excess fees. KRS 134.192 requires the sheriff to settle excess fees with the fiscal court at the time he files his annual settlement.

We recommend that the sheriff open an escrow account and deposit \$3,720 receivables due from the payroll account and personal funds of \$23,004 to cover the deficit in the 2011 fee account. The liabilities will need to be paid once all funds are deposited, which include \$16,302 due to the 2012 fee account and \$10,422 excess fess due fiscal court. This finding has been referred to the Letcher County Attorney.

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

County Judge/Executive's Response: Refer to County Attorney.

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FINANCIAL STATEMENT FINDINGS: (Continued)

2015-007 The Sheriff Has Not Settled His 2012 Fee Account

This is a repeat finding and was included in the prior year audit report as finding 2014-008. The sheriff's 2012 fee account has not been settled and excess fees due fiscal court total \$26,163. The 2012 fee account balance was \$11,485, received \$8 interest, and had an outstanding liability of \$1,968 due to the 2012 tax account that has been paid. The sheriff made partial payment on January 31, 2017, of \$9,525 to 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 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 fiscal court for the balance of excess. Good internal controls dictate that all receivables and liabilities are settled for each fee year when an official makes their annual settlement with the fiscal court. By not doing so, the sheriff is depriving the fiscal court of excess fees. KRS 134.192 requires the sheriff to settle excess fees with the fiscal court at the time he files his annual settlement.

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

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

2015-008 The Sheriff Has Not Settled His 2013 Fee Account

This is a repeat finding and was included in the prior year audit as finding 2014-009. The sheriff's 2013 fee account has not been settled. The 2013 fee account had a beginning balance of \$851 and received \$1,165 from the fiscal court. A receivable of \$135 is due from the 2012 unmined coal account and \$690 is due from the 2012 tax account. These amounts have not been deposited to the 2013 fee account.

Good internal controls dictate that all receivables and liabilities are settled for each fee year when an official makes their annual settlement with the fiscal court. By not doing so, the sheriff is denying the fiscal court of excess fees. KRS 134.192 requires the sheriff to settle excess fees with the fiscal court at the time he files his annual settlement.

We recommend the sheriff deposit \$135 due from the 2012 unmined coal account and \$690 from the 2012 tax account to the 2013 fee account. Once all funds are deposited, the fund balance will total \$2,841. Liabilities to be paid from the account are \$344 to the 2012 fee account, \$1,871 to the 2013 tax account, and \$626 to the 2012 tax account. This will close out the 2013 fee account.

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