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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2017 financial statement of former Letcher County Sheriff Danny Webb. State law requires the auditor to annually audit the accounts of each county sheriff. In compliance with this law, the auditor issues two sheriff's reports each year: one reporting on the audit of the sheriff's tax account, and the other reporting on the audit of the fee account used to operate the office.

Auditing standards require the auditor's letter to communicate whether the financial statement presents fairly the receipts, disbursements and excess fees of the former Letcher County Sheriff in accordance with accounting principles generally accepted in the United States of America. The former sheriff's financial statement did not follow this format. However, the former sheriff's financial statement is fairly presented in conformity with the regulatory basis of accounting, which is an acceptable reporting methodology. This reporting methodology is followed for all 120 sheriff audits in Kentucky.

As part of the audit process, the auditor must comment on noncompliance with laws, regulations, contracts, and grants. The auditor must also comment on material weaknesses involving the internal control over financial operations and reporting.

The audit contains the following comments:

The former sheriff's 2011 fee account has a deficit of \$23,004 that has not been settled: This is a repeat finding and was reported in the prior year audit report as Finding 2016-005. The former sheriff's deficit for the 2011 fee account has not been resolved. The deficit is personally due from the former sheriff and has not been paid. 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 former sheriff is denying the fiscal court 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 former sheriff open an escrow account and deposit \$3,720

receivable due from the payroll account and personal funds of \$23,004 to cover the deficit in the 2011 fee account. The liabilities will need to be paid once all funds are deposited, which include \$16,302 due to the 2012 fee account and \$10,422 excess fees due to the fiscal court. This finding will be referred to the Letcher County Attorney.

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

The former sheriff has not settled his 2012 fee account: This is a repeat finding and was reported in the prior year audit report as Finding 2016-006. The former sheriff's 2012 fee account has not been settled and excess fees due to the fiscal court total \$26,163. The 2012 fee account balance was \$11,485, received \$8 interest, and had an outstanding liability of \$1,968 due to the 2012 tax account that has been paid. The former sheriff made a partial payment of \$9,525 to the fiscal court for 2012 excess fees due, which included interest of \$8 earned since the prior year. The 2012 fee account was closed. The 2012 fee account has a receivable due from the 2011 fee account of \$16,302. In addition, \$344 is due from the 2013 fee account. The former sheriff has not personally deposited funds to the 2011 fee account to cover the deficit in order to have funds available to settle the 2012 fee account. When these funds are received, \$16,646 is due to the fiscal court for the balance of excess fees. 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 former sheriff is denying the fiscal court 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 former 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 also recommend the former sheriff pay \$16,646 excess fees due to the fiscal court for the calendar year ended December 31, 2012.

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

The former sheriff did not deposit personal funds to the drug fund for disallowed disbursements: This is a repeat finding and was included in the prior year audit report as Finding 2016-003. The former sheriff paid \$111 in late fees to PNC bank from the drug account. In addition, the former sheriff's prior year audit report recommended the former sheriff deposit personal funds of \$1,466 for disallowed disbursements made from the drug forfeiture fund account for calendar year ended December 31, 2014. The former sheriff paid \$111 disallowed late fees for a vehicle lease. The drug fund disbursements are to be used for direct law enforcement purposes. In a prior year, the former sheriff's office purchased books totaling \$1,402 that included the sheriff's name from the drug forfeiture account. In addition, \$44 was spent for coffee supplies. The former sheriff stated that his name being on the books was an error made by the company they have used for many years. The former 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 former sheriff did not question whether or not coffee supplies are an allowable supply expense. When drug forfeiture is spent on disallowed disbursements, the money is not available for its intended purpose, which is to be spent for "direct law enforcement purposes" pursuant to KRS 218A.420.

We recommend the former sheriff reimburse the drug forfeiture account \$1,577 with personal funds for these disallowed disbursements.

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

The former sheriff did not deposit federal forfeiture funds in a separate account: This is a repeat finding and was included in the prior year audit report as Finding 2016-004. The former sheriff's office received \$35,279 from the Federal Bureau of Investigations (FBI) for federal forfeiture funds in calendar year 2015, and \$4,709 in calendar year 2016. These funds are restricted and are to be deposited in a fund separate from other drug funds received. Since both state and federal monies were deposited to the same account, the auditor was unable to distinguish federal expenditures from state expenditures. The former sheriff stated that he was not aware that the federal funds had to be deposited in a separate account. The sheriff did submit annual forfeiture reports to the state and federal agencies as required. By not depositing federal forfeiture funds in a separate account, the former sheriff's office is in violation of state law. In addition, federal guidelines were not followed and disbursements may have not been allowed, resulting in noncompliance. Restrictions and practices differ on the use of the two funds. State funds are governed by state law. Federal funds are governed by the *Guide to Equitable Sharing for State and Local Law Enforcement Agencies* published by the U.S. Department of Justice (April 2009), which requires law enforcement agencies receiving federal forfeiture funds to maintain separate accounts for assets forfeited pursuant to state law and proceeds of the federal equitable sharing program. We recommend the sheriff's office deposit federal forfeiture funds in a separate account.

Former Sheriff's Response: After being made aware of this change this was corrected.

The former sheriff did not make daily deposits: This is a repeat finding and was included in the prior year audit report as Finding 2016-001. The former sheriff did not make deposits on a daily basis as required. The sheriff's office does not collect large amounts of receipts on a daily basis. The daily receipts not deposited are kept in a secure location. The former sheriff's office made deposits when receipts totaled at least \$500. The receipts were batched and posted to a daily checkout sheet when deposits were 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 *County Budget Preparation and State Local Finance Officer Policy Manual* requires 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 deposits are made on a daily basis.

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

The former sheriff's office lacked adequate internal controls over payroll disbursements and bank reconciliations: This is a repeat finding and was reported in the prior year audit report as Finding 2016-007. Payroll checks were signed only by the bookkeeper, monthly bank reconciliations were not prepared, and the account was not reconciled to zero at year end. The payroll is prepared by an outside CPA firm. The former sheriff did not have access to the checks

prepared by the firm, and the bank statements were not reconciled at the former sheriff's office. Not having strong internal controls in place that require two signatures for payroll distribution and preparation of monthly bank reconciliations could result in improper checks issued and excess funds not paid to the fiscal court. Strong internal controls over the payroll process, or the implementation of compensating controls, is essential for accurate payroll recording and reporting.

We recommend the sheriff's office 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 and after review, initialed by the sheriff. At year end, the payroll bank account should be balanced to zero.

Former Sheriff's Response: The CPA has these checkbooks, therefore they balance these books monthly after we fax the statements to them.

The former sheriff was underpaid his statutory maximum for calendar year 2017: The maximum salary set for the former Letcher County Sheriff in calendar year 2017 was \$91,163. The former sheriff was also due \$4,052 for training incentive in accordance with KRS 64.5275(6). The former sheriff should have been paid a total of \$95,215. The former sheriff was paid \$93,412, which is \$1,803 less than what he should have received for calendar year 2017. As stated in comment 2017-006, the payroll is prepared by an outside CPA firm. The former sheriff did not examine the payroll to determine if he was being paid the correct salary each pay period. By not having strong internal controls over payroll, the former sheriff was underpaid \$1,803 for calendar year 2017. Per KRS 64.5275, the sheriff shall receive an annual salary pursuant to the salary schedule set by the Kentucky Department for Local Government (DLG). We recommend the former sheriff receive the additional salary he is due for calendar year 2017 in the amount of \$1,803.

Former Sheriff's Response: This will be taken care of.

The former sheriff's office lacked adequate segregation of duties: This is a repeat finding and was reported in the prior year audit report as Finding 2016-008. The former sheriff's bookkeeper collected payments from customers and prepared receipts, prepared deposits, and posted receipts to the receipts ledger. In addition, the bookkeeper prepared disbursement checks, distributed payroll checks, posted checks to the disbursements ledger, and prepared the monthly bank reconciliations. The former sheriff does not have enough funds to hire additional personnel to segregate duties. The former sheriff did not address 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 reviewed deposits, ledgers, invoices, or the bank reconciliations to offset the risk caused by the lack of segregation of duties. A lack of oversight could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the Department for Local Government (DLG).

The segregation of duties over various accounting functions such as preparing deposits, recording receipts and disbursements, and preparing bank reconciliation, or the implementation of compensating controls, is essential for providing protection from asset misappropriation and

inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To adequately protect employees, and prevent inaccurate financial reporting or misappropriation of assets, we recommend the sheriff's office implement strong oversight over 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.

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

The sheriff's responsibilities include collecting property taxes, providing law enforcement and performing services for the county fiscal court and courts of justice. The sheriff's office is funded through statutory commissions and fees collected in conjunction with these duties.

The audit report can be found on the [auditor's website](#).

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