Auditor of Public Accounts
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Harmon Releases Audit of Letcher County Sheriff's Gas and Oil Tax Settlement

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2018 gas and oil tax settlement for Letcher County Sheriff Mickey Stines. 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 sheriff's settlement presents fairly the taxes charged, credited and paid in accordance with accounting principles generally accepted in the United States of America. The sheriff's settlement is prepared on the regulatory basis, which is described in the auditor's opinion letter. Regulatory basis reporting for the sheriff's settlement is an acceptable reporting methodology, and this reporting methodology is followed for all 120 sheriff settlements in Kentucky.

The sheriff's financial statement fairly presents the taxes charged, credited, and paid for the period January 7, 2019 through July 15, 2019 in conformity with the regulatory basis of accounting.

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 Letcher County Sheriff's Office does not have adequate segregation of duties: The sheriff's bookkeeper collects payments from customers, prepares receipts, prepares deposits, posts receipts to the receipts ledger, and reconciles the bank statements. The bookkeeper also prepares disbursement checks and monthly tax reports. There is 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. According to the sheriff's office, this condition is 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 protects employees in the normal course of performing their daily responsibilities.

We recommend the sheriff ensure that accounting duties are properly segregated in the future. If this is not feasible, the sheriff should implement adequate compensating controls that would limit the severity of this deficiency in internal controls.

Sheriff's Response: Due to budget constraints this is not possible to attain for our office.

The Letcher County Sheriff did not have a written agreement to protect deposits: The Letcher County Sheriff maintained deposits of public funds with a local financial institution. Acting pursuant to KRS 68.210, the Commonwealth's state local finance officer has established a compilation of minimum accounting and financial reporting standards in the Department for Local Government's County Budget Preparation and State Local Finance Officer Policy Manual. Those standards call for daily deposits in a federally insured institution, the usage of an interest bearing account, and a perfected pledge of collateral to protect deposits in amounts greater than federal insurance limits. For a pledge of collateral to be properly perfected and legally binding, federal law (12 U.S.C.A. § 1823(e)) requires that the agreement be (a) in writing, (b) approved by and recorded in the minutes of the institution's board of directors or its loan committee, and (c) an official record of the depository institution. As of July 15, 2019, the public funds deposited by the sheriff that were in excess of the federal insurance limits were not protected by a properly perfected pledge of collateral, putting public funds in the amount of $76,463 at risk. The sheriff was unaware this agreement needed to be obtained.

We recommend the sheriff work with the depository institution and obtain a written agreement to ensure that deposits are pledged in the future

Sheriff's Response: This has been corrected for the future audits.

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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