

**REPORT OF THE AUDIT OF THE
MAGOFFIN COUNTY
SHERIFF**

**For The Year Ended
December 31, 2017**



**MIKE HARMON
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Matthew Wireman, Magoffin County Judge/Executive
The Honorable Carson Montgomery, Magoffin County Sheriff
Members of the Magoffin County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We were engaged to audit the accompanying Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the Sheriff of Magoffin County, Kentucky, for the year ended December 31, 2017, 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 this 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 and budget laws. 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 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. Because of the matters described in the Basis of Disclaimer of Opinion paragraph; however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer Of Opinion

The Magoffin County Sheriff did not maintain adequate accounting records of the fee account receipts and disbursements to allow us to apply other auditing procedures to satisfy ourselves as to the validity of fee account receipts and disbursements. However, based on available accounting records, material financial statement misstatements were identified along with other significant deficiencies in the sheriff's records and a lack of internal controls. The combination of these items resulted in a high level of audit risk. Due to the apparent lack of internal controls and the above noted issues, we were unable to reduce the audit risk to an acceptable level.

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Members of the Magoffin County Fiscal Court

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statement.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 7, 2019, on our consideration of the Magoffin County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Magoffin County Sheriff's internal control over financial reporting and compliance.

Based on the results of our audit, we have presented the accompanying Schedule of Findings and Responses, included herein, which discusses the following report comment:

2017-001 The Magoffin County Sheriff Did Not Manage The Financial Activities Of His Office

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 7, 2019

MAGOFFIN COUNTY SHERIFF
FINANCIAL STATEMENT

For The Year Ended December 31, 2017

Handwritten: 12/31/2017
443

Form for Budget, Cumulative Quarterly Report and Annual Settlement For Calendar Year 2017

Magoffin County Sheriff

Part One - Summary and Reconciliation of All Accounts

Show & Describe All Accounts	2017 Fee Account Budget Estimate	2017 Fee Account Cumulative Actual	Property Account (Not Fee Account)	Unmined Coal Account (Not Fee Account)	Gas Account (Not Fee Account)	Oil Account (Not Fee Account)	K9 Account (Not Fee Account)
Receipts YTD	576,792.00	570,216.91	5,980,241.56	19,979.02	61,135.71	75,771.52	0.00
Total Disbursements YTD	-576,792.00	-509,379.39	-5,469,958.05	-19,572.99	-50,796.76	-75,741.70	0.00
Book Balance/Excess Fees	0.00	60,837.52	510,283.51	406.03	10,338.95	29.82	0.00
Bank Statement Balance	0.00	61,140.55	0.00	8,141.31	0.00	0.00	0.00
Plus Deposits in Transit	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Less Outstanding Checks	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Reconciled Bank Balance		61,140.55	0.00	8,141.31	0.00	0.00	0.00
Accounts Receivable	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Unpaid Obligations	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Unpaid Obligations	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Excess Fees		-303.03					

Approved by the fiscal court on the ____ day of _____, 20__.

To the best of my knowledge the information reported herein for the budget/quarter ended 12/31/2017 is accurate and complete.

County Judge/Executive _____ Date _____

Handwritten Signature
Signature of County Sheriff _____ Date _____



MAGOFFIN COUNTY SHERIFF
 FINANCIAL STATEMENT
 For The Year Ended December 31, 2017
 (Continued)

	Part Two Receipts	Budget Estimate	1/1 thru 3/31	4/1 thru 6/30	7/1 thru 9/30	10/1 thru 12/31	Total YTD	Accounts Receivable 12/31
01-003-00	KLEFPF	12,400.00	5,934.00	5,934.00	5,950.80	3,972.60	21,791.40	0.00
01-004-00	County Fee Claim	168,480.00	32,068.56	36,903.90	21,125.51	22,847.19	112,945.16	0.00
01-006-00	Civil Process	15,000.00	2,643.40	6,110.70	4,089.00	3,764.70	16,607.80	0.00
01-007-00	Sheriff Security	3,000.00	808.09	701.03	586.77	427.89	2,523.78	0.00
01-010-00	Fiscal Court	103,402.00	17,951.60	21,830.91	21,370.91	16,193.25	77,346.67	0.00
01-011-00	Delinquent Tax	30,000.00	1,042.22	8,977.54	19,895.11	4,685.69	34,600.56	0.00
01-012-00	Tax Commission	175,000.00	73,971.34	29,599.92	221.47	102,901.78	206,694.51	0.00
01-013-00	Arrest Fees	500.00	348.83	60.00	445.00	160.00	1,013.83	0.00
01-014-00	Auto Inspections	3,500.00	1,255.00	965.00	555.00	615.00	3,390.00	0.00
01-015-00	Reports	700.00	210.30	478.00	585.60	431.40	1,705.30	0.00
01-017-00	CCDW	4,000.00	1,340.00	675.00	680.00	860.00	3,555.00	0.00
01-019-00	Transports	0.00	0.00	0.00	357.20	836.86	1,194.06	0.00
01-020-00	Interest	10.00	10.50	12.48	19.26	404.54	446.78	0.00
01-021-00	Miscellaneous	0.00	59,040.74	2,508.10	160.00	12,793.37	74,502.21	0.00
01-025-00	Telecommunication Tax	10,000.00	272.34	272.34	11,173.61	181.56	11,899.85	0.00
01-026-00	Tax Penalty Fee	800.00	0.00	0.00	0.00	0.00	0.00	0.00
01-027-00	State Advancement	50,000.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Revenues		576,792.00	196,896.92	115,028.92	87,215.24	171,075.83	570,216.91	0.00
Total Receipts		576,792.00	196,896.92	115,028.92	87,215.24	171,075.83	570,216.91	0.00

MAGOFFIN COUNTY SHERIFF
 FINANCIAL STATEMENT
 For The Year Ended December 31, 2017
 (Continued)

Part Three Disbursements	Budget Estimate	1/1 thru 3/31	4/1 thru 6/30	7/1 thru 9/30	10/1 thru 12/31	Total YTD	Unpaid Obligations 12/31
01-142-00 Payments to State Treasurer	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total	576,792.00	111,369.73	116,377.94	136,110.56	145,521.16	509,379.39	0.00
Total Disbursements	576,792.00	111,369.73	116,377.94	136,110.56	145,521.16	509,379.39	0.00

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 Matthew Wireman, Magoffin County Judge/Executive
The Honorable Carson Montgomery, Magoffin County Sheriff
Members of the Magoffin 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 were engaged to audit, 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 Magoffin County Sheriff for the year ended December 31, 2017, and the related notes to the financial statement and have issued our report thereon dated August 7, 2019. Our report disclaims an opinion on the Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the Magoffin County Sheriff because of the issues discussed in the Basis for Disclaimer of Opinion paragraph in the Independent Auditor's Report.

Internal Control over Financial Reporting

In connection with our engagement to audit the financial statement, we considered the Magoffin 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 Magoffin County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Magoffin County Sheriff's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control 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 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 Schedule of Findings and Responses as item 2017-001 to be a material weakness.

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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)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Magoffin 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2017-001.

Views of Responsible Official and Planned Corrective Action

The Magoffin County Sheriff's views and planned corrective action for the finding identified in our audit are described in the accompanying Schedule of Findings and Responses. The Magoffin County Sheriff's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

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

August 7, 2019

SCHEDULE OF FINDINGS AND RESPONSES

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MAGOFFIN COUNTY
CARSON MONTGOMERY, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2017

FINANCIAL STATEMENT FINDING:

2017-001 The Magoffin County Sheriff Did Not Manage The Financial Activities Of His Office

The Magoffin County Sheriff did not account for the financial activities of his office. By failing to maintain complete and accurate financial records, the Fourth Quarterly Report given to auditors was not supported by the receipts and disbursements ledgers and did not agree to bank activity for the period. Due to numerous errors noted, auditors cannot verify the accuracy of the financial statement. Inaccurate and incomplete financial reports can lead to improper financial decision making as well as increase the risk that undetected errors and fraud will occur. The serious weakness in design and operation of financial activities materially limited the scope of our audit. We could not perform the necessary procedures to determine the financial statements present fairly, in all material respects, the financial position of the sheriff's office. Therefore, a disclaimer of opinion will be issued.

The noted weaknesses, such as inadequate segregation of duties and inaccurate or incomplete financial reports and ledgers, could affect the sheriff's ability to ensure that financial data is recorded, processed, and reported in an accurate and reliable manner. This impacts the sheriff's ability to ensure that assets were sufficiently safeguarded. The cumulative effect of these control weaknesses increases the risk of material misstatement caused by error or fraud.

The following items were noted during the audit to show the risk of material misstatements to the financial statements:

- The receipts and disbursements ledger did not support the fourth quarter financial statement. The receipts ledger had a variance of \$144,502 and disbursements ledger had a variance of \$36,897.
- A lack of segregation of duties over receipts and disbursements. The bookkeeper and deputy clerks collect tax receipts. The bookkeeper or a deputy clerk prepares a daily bank deposit and reconciles the daily receipts to the daily collection report and posts items to the receipts ledger. The bookkeeper prepares the month-end tax reports, prepares checks for tax distribution based on the month-end tax reports, and posts checks to the disbursements ledger. The bookkeeper and the sheriff sign tax distribution checks. The county treasurer prepares the monthly bank reconciliation, although there is nothing documented to determine who prepared the reconciliation or that it was reviewed by the sheriff.
- The sheriff has not settled the 2012, 2014, 2015, 2016, and 2017 fee accounts with the fiscal court.
- Twenty-seven bank accounts from prior years remain open and continue to have various transfers between them, including transfers involving current year funds being moved into prior year accounts.
- Numerous funds have been deposited into incorrect bank accounts.
- The 2018 fee account was prematurely opened in early November 2017. Property tax funds along with other funds from 2017 were improperly deposited into this account. The property tax funds were repaid to the proper tax account. However, the other monies are due back to the 2017 fee account. Daily checkout sheets are not separated by year. Many records have not been readily available when multiple requests have been made. This activity makes it difficult to determine the actual amount of excess fees that should be made available to the fiscal court, if any.
- 2012 excess fees in the amount of \$58,543 were deposited into the 2017 fee account instead of paid over to the fiscal court.
- November 2016 tax commissions in the amount of \$31,287 were deposited and used for 2017 operations.
- 2017 fee receipts in the amount of \$49,067 were deposited into the 2018 fee account and never paid back.

MAGOFFIN COUNTY
 CARSON MONTGOMERY, SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2017
 (Continued)

FINANCIAL STATEMENT FINDING: (Continued)

2017-001 The Magoffin County Sheriff Did Not Manage The Financial Activities Of His Office (Continued)

- Significant IRS penalties and interest from past years continue to accumulate. The current amount of IRS penalties is \$59,706. The penalties dates back from December 2011, two quarters for 2013, all four quarters of 2014 and 2015, and the first quarter of 2016. To date these penalties have not been paid.
- The sheriff made two duplicate payments of 941 withdrawals (payroll tax withholdings) for a total of \$4,057.
- Retirement withholdings totaling \$70,200 were withheld from employees and not paid to the fiscal court.
- Retirement withholdings for 2014 were incorrectly paid from the 2015 payroll account.
- Three revolving payroll accounts have been opened and/or closed in a few short years.
- A deputy was paid \$1,261 in contract labor during calendar year 2017.
- The sheriff did not deposit federal forfeiture funds in a separate account.

In addition, it should be noted that due to the inaccurate and incomplete financial records noted above and the continuous commingling of various years accounts, auditors could not ensure proper corrective actions had been enacted by the sheriff to clear any prior year findings. Thus, we will not present or carry forward any prior year findings as part of this audit report.

The Magoffin County Sheriff needs to improve his financial practices and internal controls to ensure that proper information is submitted and is not misleading to users of the information. Additionally, complete and accurate financial records can ensure expenditures are made only when sufficient funds are available. The Magoffin County Sheriff's current practices create an environment for potential undetected material misstatements to occur in the financial statements either by error or fraud. If the Magoffin County Sheriff continues his poor financial practices and does not improve the internal control structure, taxpayer monies will continue to be at risk. In addition, various local and state agencies that rely on and monitor the financial and program activity of the Magoffin County Sheriff cannot rely on nor have any confidence in the reports submitted by the Magoffin County Sheriff.

We recommend the Magoffin County Sheriff improve his overall control environment in order to prepare complete and accurate financial reports that are supported by the receipts and disbursement ledgers. The ledgers should also be supported by the daily activity of his office, and these documents should agree to the bank activity of his office. In addition, we recommend that he cease the commingling of his open accounts.

Sheriff's Response:

1

For some reason, our November and December 2017 receipts and appropriations, which were made correctly and on time, were erased from our program that logs this information. Entries have been entered and re-entered, twice and are now in agreement with the 2017 4th Quarter report. We have no explanation as to why our system drops information that requires re-entry. This has happened on multiple occasions and the system administrator has had to recover the data, which is a lengthy process. We have no control over the mandatory system we are required to use. If we could afford a more efficient, dependable program, we would gladly purchase one.

#2

This is a standard comment for all offices with limited employees and funds.

MAGOFFIN COUNTY
CARSON MONTGOMERY, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2017
(Continued)

FINANCIAL STATEMENT FINDING: (Continued)

2017-001 The Magoffin County Sheriff Did Not Manage The Financial Activities Of His Office (Continued)

Sheriff's Response: (Continued)

#3

We maintain that these fees are ours and were given to us by the Magoffin County Fiscal Court.

#4

I have been told to not close accounts, then told to close accounts. It all depends on which auditor you are speaking with. But, I will close unused accounts.

#5

When you have four tax accounts simultaneously, human error can occur. Especially when you are trying to accommodate the public, answer the telephone, do car inspections and get information for 3-4 auditors at the same time. All funds are returned to proper accounts when funds were discovered in wrong accounts during monthly bank reconciliations. Problem is, even when finding mistakes and correcting mistakes, it is still considered "moving money"!

#6

The Fee account was not opened prematurely. The system uploaded into the wrong month. Again, we depend on the best system we can afford, and it is not always dependable.

I disagree with the comment regarding daily check out sheets. We have always done our daily checkout process based on the advice of several auditors. This same process has been used in previous years, yet this is a new comment.

This comment is false! Daily check outs are kept separated by years and are kept straight. If they aren't in order, we didn't do it. We maintain a very nice, neat filing system. Once 3-4 auditors shuffle through paperwork, we can't find what WE need.

As for records not being readily available, my small staff cannot turn away paying customers to satisfy every request. They provide information as soon as they possibly can. I do not feel this comment is appropriate. We have always made the state auditors a priority and have allowed them unlimited access to any aspect of our office. Apparently, this is still not good enough!

#7

Once again, I thought these fees were ours and transferred fees into the 2017 account.

#8

This money was used for payroll and has since been paid back into the proper account.

MAGOFFIN COUNTY
CARSON MONTGOMERY, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2017
(Continued)

FINANCIAL STATEMENT FINDING: (Continued)

2017-001 The Magoffin County Sheriff Did Not Manage The Financial Activities Of His Office (Continued)

Sheriff's Response: (Continued)

#9

Again, the system lost information. Our system administrator re-uploaded the information incorrectly. During our look back after reading this comment, we do not feel this is correct. I cannot find where this amount came from. I do not agree!

#10

These are old penalties that our current Judge refuses to work out an agreement for payment. We have money in old Fee accounts that would pay this off immediately, but it requires his approval. Meanwhile, interest continues to accrue.

#11

We overpaid the IRS due to the QuickBooks system stating we owed them. We follow QuickBooks payment schedule. This was probably due to two differing payment schedules, one for deputies and one for court security.

#12

These have all been paid in full to the Fiscal Court!

#13

A payroll account is where we pay retirement from, so what does it matter?

#14

We open a new payroll account each time the Sheriff begins a new term.

15

This is not contract labor. This employee has a business and we have invoices to support this explanation.

#16

Bookkeeper is in the process of separating Federal money and State money and will open an additional account.

Auditor's Reply: As recommended, the Magoffin County Sheriff should improve his overall internal control environment in order to prepare complete and accurate financial reports that are supported by the receipts and disbursement ledgers. The ledgers should also be supported by the daily activity of his office and these documents should agree to the bank activity of his office. Since each fee year stands alone, the settling and closing of old accounts is essential to ensure payments are made to the correct entities and to reduce the risk of error or fraud. Additionally, KRS 134.192 requires the sheriff to annually settle his accounts with the county and other entities for which the sheriff collects taxes. The accumulation of IRS penalties is not the best use of taxpayer funds.