

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

**For The Year Ended  
December 31, 2018**



**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

The enclosed report prepared by Tichenor & Associates, LLP, Certified Public Accountants, presents the Statement of Receipts, Disbursements, and Excess - Regulatory Basis of the Sheriff of Magoffin County, Kentucky, for the year ended December 31, 2018.

We engaged Tichenor & Associates, LLP, to perform the audit of this financial statement. We worked closely with the firm during our report review process; Tichenor & Associates, LLP, evaluated the Magoffin County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Mike Harmon  
Auditor of Public Accounts  
Enclosure



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

Independent Auditors' Report

**Report on the Financial Statement**

We have audited the accompanying Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the Sheriff of Magoffin County, Kentucky, for the year ended December 31, 2018, 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.

**Auditors' 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.

The Honorable Matthew C. Wireman, Magoffin County Judge/Executive  
The Honorable Carson Montgomery, Magoffin County Sheriff  
Members of the Magoffin 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 Magoffin 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 the Magoffin County Sheriff, as of December 31, 2018, 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 Magoffin County Sheriff for the year ended December 31, 2018, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

### **Other Matter**

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole. The Schedule of Excess Liabilities Over Assets is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 25, 2021, 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.



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

**Other Reporting Required by *Government Auditing Standards* (Continued)**

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

- 2018-001 The Magoffin County Sheriff's Office Lacks Adequate Internal Controls Over Financial Records and Reporting
- 2018-002 The Magoffin County Sheriff's 2018 Fourth Quarter Financial Statement Was Materially Misstated
- 2018-003 The Magoffin County Sheriff Failed To Settle Prior Year Fee Accounts And Owes The Magoffin County Fiscal Court \$145,109 Of Excess Fees
- 2018-004 The Magoffin County Sheriff Has Significant Internal Revenue Service (IRS) Penalties And Interest From Past Years That Continue To Accumulate And Need To Be Settled With The IRS
- 2018-005 The Magoffin County Sheriff's Payroll Account Was Not Reconciled To Zero At The End Of The Calendar Year 2018 And Owes Money To Various Entities
- 2018-006 The Magoffin County Sheriff Failed To Make Settlement of His 2018 Fee Account
- 2018-007 The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

*Tichenor & Associates, LLP*

Tichenor & Associates, LLP  
Louisville, Kentucky

May 25, 2021

MAGOFFIN COUNTY  
 CARSON MONTGOMERY, SHERIFF  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2018

Receipts

State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)	\$	24,171
State Fees For Services:		
Finance and Administration Cabinet	\$ 135,334	
Sheriff Security Service	19,950	155,284
Circuit Court Clerk:		
Fines and Fees Collected		18,025
Fiscal Court		212,406
County Clerk - Delinquent Taxes		33,384
Commission On Taxes Collected		195,712
Fees Collected For Services:		
Auto Inspections	2,705	
Accident and Police Reports	1,998	
Accident Photos	1,265	
Arrest Fees	931	
Fingerprints	385	
Patient Transports	726	
Carry Concealed Deadly Weapon Permits	6,200	14,210
Other:		
Telecommunication Tax Commissions	1,302	
Miscellaneous	3,983	5,285
Interest Earned		53
Total Receipts		658,530

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

MAGOFFINCOUNTY  
 CARSON MONTGOMERY, SHERIFF  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2018  
 (Continued)

Disbursements

Operating Disbursements:

Personnel Services		
Deputies' Salaries	\$	98,758
Court Security Salaries		166,813
Clerk Gross Salaries		93,985
Employee Benefits		
Employer's Share Social Security		25,051
Employer's Share Retirement		23,590
Employer Paid Health Insurance		46,578
Contracted Services		
Advertising		125
Vehicle Maintenance and Repairs		14,931
Training Expense		2,190
Phones		9,513
Materials and Supplies		
Office Materials and Supplies		25,721
Uniforms		9,728
Auto Expense		
Gasoline		23,053
Maintenance and Repairs		585
Vehicle Insurance		9,390
Other Charges		
Conventions and Travel		714
Dues		495
Postage		400
Bond		1,731
Insurance		2,066
Miscellaneous		14,823
Prisoner Meal		<u>10</u>
Total Disbursements	\$	<u>570,250</u>

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

MAGOFFIN COUNTY  
CARSON MONTGOMERY, SHERIFF  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
For The Year Ended December 31, 2018  
(Continued)

Net Receipts	\$	88,280
Less: Statutory Maximum		<u>86,880</u>
Excess Fees		1,400
Less: Training Incentive Benefits		<u>4,137</u>
2018 Deficit Due from Sheriff at Completion of Audit	\$	<u>(2,737)</u>

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

MAGOFFIN COUNTY  
CARSON MONTGOMERY, SHERIFF  
NOTES TO FINANCIAL STATEMENT

December 31, 2018

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 is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. This basis 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 2018 services
- Reimbursements for 2018 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2018

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).

MAGOFFIN COUNTY  
 CARSON MONTGOMERY, SHERIFF  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2018  
 (Continued)

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

The sheriff's office has elected to participate, pursuant to KRS 78.530, in the County Employees Retirement System (CERS), which is 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.

The sheriff's contribution for calendar year 2018 was \$23,590.

Nonhazardous

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 be allocated as follows: five percent will go to the member's account and one percent will go to the KRS insurance fund.

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. Nonhazardous covered employees contribute five percent of their annual creditable compensation. Nonhazardous members also contribute 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 KRS Board of Directors 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 employer pay credit. The employer pay credit represents a portion of the employer contribution.

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.

The county's contribution rate for nonhazardous employees was 19.18 percent for the first half of the year and 21.48 percent for the second half of the year.

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS 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:

MAGOFFIN COUNTY  
 CARSON MONTGOMERY, SHERIFF  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2018  
 (Continued)

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

Other Post-Employment Benefits (OPEB) (Continued)

A. Health Insurance Coverage - Tier 1 (Continued)

<b>Years of Service</b>	<b>% Paid by Insurance Fund</b>	<b>% Paid by Member through Payroll Deduction</b>
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

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.

Benefits are covered under KRS 161.714 with exception of COLA and retiree health benefits after July 2003.

A. Health Insurance Coverage - Tier 2 and Tier 3 - Nonhazardous

Once members reach a minimum vesting period of 15 years, 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 by 1.5 percent. This was established for Tier 2 members during the 2008 Special Legislative Session by House Bill 1. During the 2013 Legislative Session, Senate Bill 2 was enacted, creating Tier 3 benefits for members.

The monthly insurance benefit has been increased annually as a 1.5 percent cost of living adjustment (COLA) since July 2003 when the law changed. The annual increase is cumulative and continues to accrue after the member's retirement.

Tier 2 member benefits are covered by KRS 161.714 with exception of COLA and retiree health benefits after July 2003. Tier 3 members are not covered by the same provisions.

B. Cost of Living Adjustments - Tier 1

The 1996 General Assembly enacted an automatic cost of living adjustment (COLA) provision for all recipients of KRS benefits. During the 2008 Special Session, the General Assembly determined that each July beginning in 2009, retirees who have been receiving a retirement allowance for at least 12 months will receive an automatic COLA of 1.5 percent. The COLA is not a guaranteed benefit. If a retiree has been receiving a benefit for less than 12 months, and a COLA is provided, it will be prorated based on the number of months the recipient has been receiving a benefit.

MAGOFFIN COUNTY  
CARSON MONTGOMERY, SHERIFF  
NOTES TO FINANCIAL STATEMENT  
December 31, 2018  
(Continued)

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

Other Post-Employment Benefits (OPEB) (Continued)

C. Cost of Living Adjustments - Tier 2 and Tier 3

No COLA is given unless authorized by the legislature with specific criteria. To this point, no COLA has been authorized by the legislature for Tier 2 or Tier 3 members.

D. Death Benefit

If a retired member is receiving a monthly benefit based on at least 48 months of service credit, KRS will pay a \$5,000 death benefit payment to the beneficiary designated by the member specifically for this benefit. Members with multiple accounts are entitled to only one death benefit.

KRS Annual Financial Report and Proportionate Share Audit Report

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.

KRS also issues proportionate share audit reports for both total pension liability and other post-employment benefits for CERS determined by actuarial valuation as well as each participating county's proportionate share. Both the Schedules of Employer Allocations and Pension Amounts by Employer and the Schedules of Employer Allocations and OPEB Amounts by Employer reports and the related actuarial tables are available online at <https://kyret.ky.gov>. The complete actuarial valuation report, including all actuarial assumptions and methods, is also available on the website or can be obtained as described in the paragraph above.

Note 3. Deposits

The Magoffin 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 Magoffin 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, 2018, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.



MAGOFFIN COUNTY  
CARSON MONTGOMERY, SHERIFF  
NOTES TO FINANCIAL STATEMENT  
December 31, 2018  
(Continued)

Note 4. Asset Forfeiture Account

The Magoffin County Sheriff's office maintains an official bank account for monies obtained from seizures and sales of assets forfeited as a result of successful drug-related court convictions. The fund is used to purchase equipment for the sheriff's office. The beginning balance as of January 1, 2018, was \$57,576. The sheriff received and expended \$9,923 and \$296, respectively, of forfeiture funds and earned interest in the amount of \$32, leaving a balance of \$67,235, as of December 31, 2018.

MAGOFFIN COUNTY  
CARSON MONTGOMERY, SHERIFF  
SCHEDULE OF EXCESS LIABILITIES OVER ASSETS - REGULATORY BASIS

December 31, 2018

Bank Balance December 31, 2018	\$ 71,291
Liabilities:	
Due Sheriff For Underpayment Of Salary	(69)
Due to 2017 For Commissions and Other Deposit Errors	(56,162)
Due to 2019 for Deposit Error	<u>(17,797)</u>
Total Liabilities	<u>(74,028)</u>
Deficit Due From Sheriff As of December 31, 2018	<u>\$ (2,737)</u>
Payroll Account Reconciled Balance At December 31, 2018	\$ (12,850)
2018 Fee Account Deficit (Finding 2018-006)	<u>(2,737)</u>
Total Deficit Due From Sheriff As of December 31, 2018	<u>\$ (15,587)</u>

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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The Honorable Matthew C. 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 Auditors' 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 Magoffin County Sheriff for the year ended December 31, 2018, and the related notes to the financial statement and have issued our report thereon dated May 25, 2021. The Magoffin 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 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 certain deficiencies in internal control that we consider to be material weaknesses.

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 Schedule of Findings and Responses as items 2018-001, 2018-002, 2018-003, 2018-004, 2018-005, 2018-006, and 2018-007 to be material weaknesses.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2018-002, 2018-003, 2018-004, and 2018-006.

**Views of Responsible Official and Planned Corrective Action**

The Magoffin County Sheriff's views and planned corrective action for the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Magoffin County Sheriff's 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,

*Tichenor & Associates, LLP*

Tichenor & Associates, LLP  
Louisville, Kentucky

May 25, 2021

## 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, 2018

FINANCIAL STATEMENT FINDINGS:

2018-001    The Magoffin County Sheriff's Office Lacks Adequate Internal Controls Over Financial Records  
                  And Reporting

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This is a repeat finding and was included in the prior year audit report as finding 2017-001. The sheriff's office lacks adequate segregation of duties and internal controls over financial record keeping and financial reporting. The bookkeeper and/or office manager was responsible for collecting money, preparing deposits, writing checks, posting to ledgers, performing and maintaining monthly bank reconciliations, and maintaining bank statements and financial reports. There was no documentation of compensating controls, such as oversight by the sheriff or other employees.

The sheriff did not implement an adequate internal control system to allow for the proper segregation of duties or provide any oversight to ensure that financial records and financial reports were prepared correctly.

The inadequate segregation of duties and inaccurate or incomplete financial reports and ledgers, affects 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. Adequate internal controls and proper segregation of duties protect employees and the sheriff in the normal course of performing their daily responsibilities and protects the county taxpayer funds.

Good internal controls dictate the same employee should not receive payments, prepare deposits, and post to the receipts ledger. The same employee should not prepare monthly reports, sign checks and post to the disbursements ledger. Also, same employee should not deposit funds, sign checks, post to ledgers, prepare bank reconciliations, and monthly reports.

We recommend the sheriff implement an adequate internal control system and segregate duties. Employees receiving payments and preparing deposits should not be posting to the receipts ledger and preparing bank reconciliations. Employees preparing and signing checks should not be posting to the disbursements ledger and preparing bank reconciliations. The sheriff should take responsibility for preparing or reviewing the daily deposits, receipt and disbursement ledgers, monthly reports, and bank reconciliations. These reviews must be documented in a way that indicates what was reviewed, by whom, and when.

*Sheriff's Response: Due to the size of our office and limited budget, we do not have the number of staff required to implement all of these procedures.*

Auditor's Reply: The sheriff could implement compensating controls by reviewing aforementioned documents and procedures personally or by utilizing existing staff.

2018-002    The Magoffin County Sheriff's Fourth Quarter Financial Statement Was Materially Misstated

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This is a repeat finding and was included in the prior year audit report as finding 2017-001, which stated, "The receipts and disbursements ledger did not support the fourth quarter financial statement." During testing we noted the sheriff's receipts and disbursements ledgers did not agree to the fourth quarter financial statement nor did they agree to underlying supporting records. The sheriff's fourth quarter financial statement was misstated by \$205,990 and the disbursements were misstated by \$133,209. These errors were made due to co-mingling different years' receipts and disbursements. These errors were not caught because the sheriff's office lacks proper internal controls over financial record keeping and reporting. These errors cause the sheriff to make incorrect financial decisions due to relying on incorrect information.

MAGOFFIN COUNTY  
 CARSON MONTGOMERY, SHERIFF  
 SCHEDULE OF FINDINGS AND RESPONSES  
 For The Year Ended December 31, 2018  
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-002 The Magoffin County Sheriff's Fourth Quarter Financial Statement Was Materially Misstated  
 (Continued)

Proper internal controls require policies and procedures to be in place that will prevent and/or detect errors in a timely manner.

We recommend the sheriff's office review their accounting policies and procedures to determine where this failure occurred and redesign their internal control such that the controls will prevent, detect, and correct any errors in a timely manner.

*Sheriff's Response: Current office manager has corrected this problem.*

2018-003 The Magoffin County Sheriff Failed To Settle Prior Year Fee Accounts And Owes The Magoffin County Fiscal Court \$145,109 Of Excess Fees

The Magoffin County Sheriff has not settled his 2011, 2012, 2013, 2014, 2015, 2016, and 2017 fee accounts. The table below summarizes the total amounts due to the sheriff, his liabilities, as well as the total amount due to the Magoffin County Fiscal Court:

	CY 2011	CY 2012	CY 2013	CY 2014	CY 2015	CY 2016	CY 2017	Totals
Bank Balance December 31, 2018	\$	\$ 48	\$	\$ 10,478	\$ 8,891	\$ 20,415	\$ 48,147	\$ 87,979
<u>Receivables:</u>								
2011 Fee Account	17,978							17,978
2012 Fee Account		69,278						69,278
2013 Fee Account			32,841					32,841
2014 Fee Account				14,158				14,158
2015 Fee Account					32,496			32,496
2016 Fee Account						62,139		62,139
2017 Fee Account							59,185	59,185
Total Assets	17,978	69,326	32,841	24,636	41,387	82,554	107,332	376,054
<u>Liabilities:</u>								
2013 Fee Account			25,618					25,618
2014 Fee Account				38,944				38,944
2015 Fee Account					18,721			18,721
2016 Fee Account						64,290		64,290
2017 Fee Account							97,680	97,680
Total Liabilities			25,618	38,944	18,721	64,290	97,680	245,253
Due From Sheriff For Deficit				14,308				14,308
Balances Due To Fiscal Court As of December 31, 2018	<u>\$17,978</u>	<u>\$69,326</u>	<u>\$7,223</u>	<u>\$</u>	<u>\$22,666</u>	<u>\$18,264</u>	<u>\$9,652</u>	<u>\$145,109</u>

MAGOFFIN COUNTY  
 CARSON MONTGOMERY, SHERIFF  
 SCHEDULE OF FINDINGS AND RESPONSES  
 For The Year Ended December 31, 2018  
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-003 The Magoffin County Sheriff Failed To Settle Prior Year Fee Accounts And Owes The Magoffin County Fiscal Court \$145,109 Of Excess Fees (Continued)

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The amounts that make up the receivables and liabilities of the individual fee accounts are listed in the following tables:

2011 Fee Account

Bank Balance December 31, 2018	\$	0
Receivables:		
Commissions Due From 2010 Tax Account		1,169
Due From 2010 Tax For Refunds Paid		498
Commissions Due From 2010 Unmined Coal Tax Account		6,026
Interest Due From 2010 Unmined Coal Tax Account		37
Add On Fees Due From 2010 Unmined Coal Tax Account		2,059
Due From Payroll Account		2,385
Due from Sheriff Personal Funds For Disallowed Disbursements		<u>5,804</u>
Total Due Fiscal Court As of December 31, 2018	<u>\$</u>	<u>17,978</u>

2012 Fee Account

Bank Balance December 31, 2018	\$	48
Receivables:		
Due From Payroll Account For Balance As Of 12/31/2012		6,061
Due From 2013 Fee Account For January 2013 Payroll Paid From 2012 Fee		4,674
Due From Deposit of 2012 Excess Fees Into The 2017 Fee Account		<u>58,543</u>
Total Due Fiscal Court As of December 31, 2018	<u>\$</u>	<u>69,326</u>

MAGOFFIN COUNTY  
 CARSON MONTGOMERY, SHERIFF  
 SCHEDULE OF FINDINGS AND RESPONSES  
 For The Year Ended December 31, 2018  
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-003 The Magoffin County Sheriff Failed To Settle Prior Year Fee Accounts And Owes The Magoffin County Fiscal Court \$145,109 Of Excess Fees (Continued)

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2013 Fee Account

Bank Balance December 31, 2018	\$	0
Receivables:		
Sheriff Add-On Fees Due From 2012 Tax Account		5,688
Interest Due From 2012 Tax Account		162
Commission Due From 2012 Tax Account		497
Interest Due From 2012 UMC Tax Account		4
Payroll Due From 2014 Payroll Account For January 2014 Payroll		10,954
Delinquent Tax Commissions Due From 2014 Fee Account		603
Due Personally From Sheriff For Disallowed Donation		41
Payroll Ending Cash Balance As Of December 31, 2013		1,211
Due From Payroll Account For Transfer		3,110
Due From Calendar Year 2016 Fee Account		<u>10,571</u>
Total Assets		32,841
Liabilities:		
Due 2012 Fee Account For January 2013 Payroll		(4,674)
Due 2013 Fee Account - January Payroll		(896)
Due 2013 Fee Account - Delinquent Tax Payments		(2,637)
Due Payroll Account For 2014		(40)
Due To Sheriff For Unpaid Salary		(358)
Occupational Tax Due The City Of Salyersville		(640)
Retirement Withholdings Due Magoffin County Fiscal Court		<u>(16,373)</u>
Total Liabilities		<u>(25,618)</u>
Total Due Fiscal Court As of December 31, 2018	<u>\$</u>	<u>7,223</u>

MAGOFFIN COUNTY  
 CARSON MONTGOMERY, SHERIFF  
 SCHEDULE OF FINDINGS AND RESPONSES  
 For The Year Ended December 31, 2018  
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-003 The Magoffin County Sheriff Failed To Settle Prior Year Fee Accounts And Owes The Magoffin  
 County Fiscal Court \$145,109 Of Excess Fees (Continued)

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2014 Fee Account

Bank Balance December 31, 2018	\$ 10,478
Receivables:	
Due From 2015 Fee Account For January Payroll	11,928
Due From Sheriff For Disallowed Expenditures	1,600
Due From 2015 Fee Account For Prisoner Transport	<u>630</u>
Total Assets	24,636
Liabilities:	
Due 2013 Fee Account - For January 2014 Payroll	(7,844)
Due 2013 Fee Account - For Delinquent Tax Commissions	(602)
Due 2013 Fee Account - For Delinquent Tax Payments	(252)
Due to Payroll Revolving Account For Payroll Liabilities	<u>(30,246)</u>
Total Liabilities	<u>(38,944)</u>
Total Deficit Due From Sheriff As of December 31, 2018	<u>\$ (14,308)</u>

2015 Fee Account

Bank Balance December 31, 2018	\$ 8,891
Receivables:	
Due From 2016 Fee for December Oil Commissions	1,337
Due From 2014 Tax For Add-On Fees Per Tax Audit	3,882
Due From 2014 Tax For Receipts From KST	369
Due From Payroll Account For Excessive Transfer	<u>26,908</u>
Total Assets	41,387
Liabilities:	
Payable To 2014 Fee Account For Payment of January 2015 Payroll	(11,928)
Payable to 2014 Fee Account For AOC Claim	(630)
Payable To Payroll Account For January 2015 Liabilities Paid	(5,971)
Payable To 2014 UMC Tax Account For Overpayment Of Commissions	<u>(192)</u>
Total Liabilities	<u>(18,721)</u>
Total Due Fiscal Court As of December 31, 2018	<u>\$ 22,666</u>

MAGOFFIN COUNTY  
 CARSON MONTGOMERY, SHERIFF  
 SCHEDULE OF FINDINGS AND RESPONSES  
 For The Year Ended December 31, 2018  
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-003 The Magoffin County Sheriff Failed To Settle Prior Year Fee Accounts And Owes The Magoffin County Fiscal Court \$145,109 Of Excess Fees (Continued)

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2016 Fee Account

Bank Balance December 31, 2018	\$ 20,415
Receivables:	
Payroll Account for Excess Transfers	17,789
2015 STS for Add On Fees Due	747
2015 Gas & Oil for Deposit Error	20
2015 UMC for Deposit Error	2,988
2017 Fee for Receipt from Fiscal Court	7,850
2015 STS for Deposit Error	458
2017 Fee for 2016 School Tax Commission	31,287
2016 Tax Account for Change Drawer	<u>1,000</u>
Total Assets	82,554
Liabilities:	
Due to 2017 Fee for Fiscal Court Receipt	(3,023)
Due to 2015 STS for Overpaid Commissions	(2,649)
Due to 2015 Fee for Oil Commission received from BOE	(1,337)
Due to 2015 Gas & Oil for Overpaid Commissions	(39)
Due to 2015 UMC for Overpaid Commissions	(944)
Due to Payroll Account for January 2016 expenses	(26,908)
Due to Closed Accounts	<u>(29,390)</u>
Total Liabilities	<u>(64,290)</u>
Total Due Fiscal Court As of December 31, 2018	<u>\$ 18,264</u>

MAGOFFIN COUNTY  
 CARSON MONTGOMERY, SHERIFF  
 SCHEDULE OF FINDINGS AND RESPONSES  
 For The Year Ended December 31, 2018  
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-003 The Magoffin County Sheriff Failed To Settle Prior Year Fee Accounts And Owes The Magoffin County Fiscal Court \$145,109 Of Excess Fees (Continued)

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2017 Fee Account

Bank Balance December 31, 2018	\$ 48,147
Receivables:	
2016 Fee For Fiscal Court Receipt	3,023
2018 Fee For 2017 Tax Commissions	<u>56,162</u>
Total Assets	107,332
Liabilities:	
2016 Fee For Fiscal Court Receipt	(7,850)
2016 Fee For Tax Commission	(31,287)
2012 Fee Excess Fees Deposited Into 2018 Fee	<u>(58,543)</u>
Total Liabilities	<u>(97,680)</u>
Total Due Fiscal Court As of December 31, 2018	<u>\$ 9,652</u>

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\*\*\* The prior year audit received a disclaimer of opinion. The amounts for the 2017 fee account were derived from the 2018 audited amounts discovered during testing.

The sheriff did not have qualified accounting staff who were trained on the uniform system of accounts set forth in KRS 68.210 and failed to oversee the daily activities of his office. The sheriff's staff failed to reconcile all accounts properly and remit excess fees after the prior year audits were complete. Additionally, the sheriff did not have proper internal controls in place to ensure that his annual settlements were presented to the fiscal court and any excess fees were paid timely.

Due to lack of oversight, the amounts due per the calendar year 2011 through 2017 audits were not collected, liabilities were not properly paid, and excess fees were not paid to the fiscal court. This denied the fiscal court funds totaling \$145,109 that could have been used towards expenses. Failure to settle accounts timely increases the risk that misappropriation occur and deprives the fiscal court of much needed resources for a significant time period. As a result of the issues above, the sheriff still personally owes \$14,308 to cover the deficit in his calendar year 2014 fee account.

Good internal controls dictate a documented review of the financial activity, which includes the settlement of fee accounts each year.

MAGOFFIN COUNTY  
 CARSON MONTGOMERY, SHERIFF  
 SCHEDULE OF FINDINGS AND RESPONSES  
 For The Year Ended December 31, 2018  
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-003 The Magoffin County Sheriff Failed To Settle Prior Year Fee Accounts And Owes The Magoffin County Fiscal Court \$145,109 Of Excess Fees (Continued)

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KRS 68.210 authorizes the state local finance officer to implement a system of uniform accounts that set the minimum requirements for the handling of public funds for government officials. Books of original entry for receipts and disbursements along with monthly bank reconciliations are included in these requirements. Receipts and disbursements ledgers should be prepared from source documents and should be updated daily. Receipts should be posted from daily checkout sheets, while disbursements should be posted from the actual checks and debit memos, if applicable. Monthly bank reconciliations should also be prepared and should include all receivables and liabilities for that month. Each month, bank reconciliation should be reconciled to the receipts and disbursements ledgers.

KRS 134.192(1) states in part, “[e]ach sheriff shall annually settle his or her . . . . before September 1 of each year.” KRS 134.192(11) states, “[i]n counties containing a population of less than seventy thousand (70,000) the sheriff shall file annually with his or her settlement:

- (a) A complete statement of all funds received by his or her office for official services, showing separately the total income received by his or her office for services rendered, exclusive of his or her commissions for collecting taxes, and the funds received as commissions for collecting state, county and school taxes; and
- (b) A complete statement of all expenditures of his or her office, including his or her salary, compensation of deputies and assistants, and reasonable expenses.”

Additionally KRS 64.820 states:

- (1) The fiscal court shall collect any amount due the county from county officials as determined by the audit of the official conducted pursuant to KRS 43.070 and 64.810 if the amount can be collected without suit.
- (2) In the event the fiscal court cannot collect the amount due the county from the county official without suit, the fiscal court shall then direct the county attorney to institute suit for the collection of the amount reported by the Auditor or certified public accountant to be due the county within ninety (90) days from the date of receiving the Auditor's or certified public accountant's report.

We recommend the sheriff establish procedures to ensure an annual settlement is presented to the fiscal court as prescribed in KRS 134.192 and excess fees be paid at that time. We also recommend the sheriff collect all receivables, pay all liabilities, personally pay fund deficits, and remit excess fees due to the fiscal court for the 2011, 2012, 2013, 2014, 2015, 2016, and 2017 calendar years.

*Sheriff's Response:*

*2011 Fee - Excess awarded to Sheriff office by former judge. \$5,804 due from Sheriff paid on 1/29/19.*  
*2012 Fee - Excess awarded to Sheriff office by former judge.*  
*2013 Fee - Excess awarded to Sheriff office by former judge. \$41 owed by Sheriff was paid on 1/15/19.*  
*2014 Fee - Excess awarded to Sheriff office by former judge.*  
*2015 Fee - Excess paid on 11/18/19.*  
*2016 Fee - Excess paid on 11/18/19.*  
*2017 Fee - Excess will be paid per auditor's instructions.*



MAGOFFIN COUNTY  
 CARSON MONTGOMERY, SHERIFF  
 SCHEDULE OF FINDINGS AND RESPONSES  
 For The Year Ended December 31, 2018  
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-003 The Magoffin County Sheriff Failed To Settle Prior Year Fee Accounts And Owes The Magoffin County Fiscal Court \$145,109 Of Excess Fees (Continued)

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Auditor's Reply: KRS 64.820 states: (1) The fiscal court shall collect any amount due the county from county officials as determined by the audit of the official conducted pursuant to KRS 43.070 and 64.810 if the amount can be collected without suit. (2) In the event the fiscal court cannot collect the amount due the county from the county official without suit, the fiscal court shall then direct the county attorney to institute suit for the collection of the amount reported by the Auditor or certified public accountant to be due the county within ninety (90) days from the date of receiving the Auditor's or certified public accountant's report.

2018-004 Significant Internal Revenue Service (IRS) Penalties And Interest From Past Years Continue To Accumulate And Need To Be Settled With The IRS

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During our audit we followed up on prior year finding number 2017-001, which stated; "Significant IRS penalties and interest from past years continue to accumulate. The current amount of IRS penalties and interest is \$59,706. The penalties and interest date 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 and interest have not been paid." We reviewed 12 invoices from the sheriff's office that were received from the IRS stating a total penalties and interest due in the amount of \$62,935.26, which has not been paid at the date of the report. See the table below for the breakdown of the 12 invoices that the sheriff's office received from the IRS.

**Summary of IRS Penalties and Interest**

<u>Tax Period</u>	<u>Tax Form</u>	<u>Amount Due</u>	<u>Notice Date</u>
December 31, 2011	CVL PEN	\$ 1,506.46	March 16, 2020
September 30, 2013	941	3,236.34	March 16, 2020
December 31, 2013	941	13,369.70	March 16, 2020
March 31, 2014	941	10,062.96	March 16, 2020
June 30, 2014	941	10,469.12	March 16, 2020
September 30, 2014	941	8,719.05	March 16, 2020
December 30, 2014	941	7,228.43	March 16, 2020
March 31, 2015	941	1,563.15	March 16, 2020
June 30, 2015	941	1,670.44	March 16, 2020
September 30, 2015	941	1,335.18	March 16, 2020
December 31, 2015	941	1,977.63	March 16, 2020
March 31, 2016	941	1,796.80	March 16, 2020
Total		<u>\$ 62,935.26</u>	

The sheriff's office lacked proper internal controls related to paying the taxes due on the 941 tax forms timely from the last calendar quarter in 2011 through the first calendar quarter in 2016. The employee/employer payroll taxes have been paid, but not timely. Since these payroll taxes were not paid timely the IRS assessed penalties and interest on the late payment of these payroll taxes. The sheriff's office stated that if these penalties and interest were paid, they would be deemed unallowable expenses from the fee account; therefore, the sheriff has no way to pay them. By not paying the penalties and interest, they will continue to increase every year causing a larger cash flow burden on Magoffin County taxpayers.

MAGOFFIN COUNTY  
 CARSON MONTGOMERY, SHERIFF  
 SCHEDULE OF FINDINGS AND RESPONSES  
 For The Year Ended December 31, 2018  
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-004 Significant Internal Revenue Service (IRS) Penalties And Interest From Past Years Continue To Accumulate And Need To Be Settled With The IRS (Continued)

IRS Publication 15, Section 11. Depositing Taxes states:

- “Generally, you must deposit federal income tax withheld and both the employer and employee social security and Medicare taxes.”
- “There are two deposit schedules—monthly and semiweekly—for determining when you deposit social security, Medicare, and withheld federal income taxes. These schedules tell you when a deposit is due after a tax liability arises. Your tax liability is based on the dates payments were made or wages were paid.”
- “Penalties may apply if you don't make required deposits on time or if you make deposits for less than the required amount.”
- For amounts not properly or timely deposited, the penalty rates are as follows.

Penalty	Charged For....
2%	Deposits made 1 to 5 days late
5%	Deposits made 6 to 15 days late.
10%	Deposits made 16 or more days late, but before 10 days from the date of the first notice the IRS sent asking for the tax due.
10%	Amounts that should have been deposited, but instead were paid directly to the IRS, or paid with your tax return. But see Payment with return, earlier in this section, for exceptions.
15%	Amounts still unpaid more than 10 days after the date of the first notice the IRS sent asking for the tax due or the day on which you received notice and demand for immediate payment, whichever is earlier.

Late deposit penalty amounts are determined using calendar days, starting from the due date of the liability.

IRS Publication 15, Section 12. Filing Form 941 or Form 944 states:

- Penalties. For each whole or part month a return isn't filed when required, there is a failure-to-file (FTF) penalty of 5% of the unpaid tax due with that return. The maximum penalty is generally 25% of the tax due. Also, for each whole or part month the tax is paid late, there is a failure-to-pay (FTP) penalty of 0.5% per month of the amount of tax. For individual filers only, the FTP penalty is reduced from 0.5% per month to 0.25% per month if an installment agreement is in effect. You must have filed your return on or before the due date of the return to qualify for the reduced penalty. The maximum amount of the FTP penalty is also 25% of the tax due. If both penalties apply in any month, the FTF penalty is reduced by the amount of the FTP penalty. The penalties won't be charged if you have a reasonable cause for failing to file or pay. If you receive a penalty notice, you can provide an explanation of why you believe reasonable cause exists.
- Note. In addition to any penalties, interest accrues from the due date of the tax on any unpaid balance.

We recommend the sheriff to contact the IRS to get the penalties and interest waved, or to personally settle these funds with the IRS, as these penalties are not allowable expenses of the sheriff's fee account.

*Sheriff's Response: We will follow the recommendation of the auditor.*

MAGOFFIN COUNTY  
CARSON MONTGOMERY, SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended December 31, 2018  
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-005 Magoffin County Sheriff's Payroll Account Was Not Reconciled To Zero At The End Of The Calendar Year 2018 And Owes Money To Various Entities

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During testing, we noted that the sheriff's payroll account was not being reconciled to zero at the end of the calendar year. The reconciliation of the payroll account showed a calculated ending balance of (\$12,850).

The sheriff's office lacks proper internal controls over the payroll reconciliation process. Due to lack of proper internal controls, the payroll account has a negative ending balance and there are over and under payments of payroll liabilities. Additionally, the deficit in the payroll account should be paid for by the fee account and will cause fee to have a total deficit of (\$15,587).

Proper internal controls dictate that the sheriff should require the payroll account be reconciled to zero and to pay the payroll liabilities timely.

We recommend the sheriff's office implement internal controls to ensure that the payroll account will be reconciled to zero annually and that all payroll liabilities will be paid timely. In addition, we recommend the sheriff's office pay the liabilities and collect the overpayments noted above.

*Sheriff's Response: We contend that this account does not have any outstanding liabilities. Account has no outstanding checks and has been dormant for over 2 years. As far as the Sheriff owing over \$12,000...a transfer was made from the payroll account to the 2017 Fee account on 11/18/17 in the amount of \$12,000. This clearly belongs back in the payroll account. Proof of this transfer was provided to the auditor by the Office Manager.*

**Auditor's Response:** The fact that this account has been dormant for two years has not been confirmed by the auditor and has no bearing on the condition of this finding. In addition, after the auditors completed their reconciliation of this payroll account, the auditors reviewed their reconciliation with the sheriff's office manager and the county's finance officer, who was the county treasurer during the period under audit. Both individuals concurred with the auditors' reconciliation after agreed upon adjustments. Lastly, if the sheriff's office transfers the \$12,000 from the 2017 fee account back into this payroll account, it will cause the 2017 fee account to have a deficit of \$2,348 which the sheriff will be personally liable for.

MAGOFFIN COUNTY  
 CARSON MONTGOMERY, SHERIFF  
 SCHEDULE OF FINDINGS AND RESPONSES  
 For The Year Ended December 31, 2018  
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-006 The Sheriff Did Not Settle His 2018 Fee Account

The sheriff has not presented a settlement to the fiscal court or remitted excess fees due for calendar year 2018. The chart below details the liabilities the sheriff still owes for his 2018 fee account.

Bank Balance December 31, 2018	\$ 71,291
Liabilities:	
Due Sheriff For Underpayment Of Salary	(69)
Due to 2017 For Commissions and Other Deposit Errors	(56,162)
Due to 2019 for Deposit Error	<u>(17,797)</u>
Total Liabilities	<u>(74,028)</u>
Deficit Due From Sheriff As of December 31, 2018	<u>\$ (2,737)</u>
Payroll Account Reconciled Balance At December 31, 2018	\$ (12,850)
2018 Fee Account Deficit	<u>(2,737)</u>
Total Deficit Due From Sheriff As of December 31, 2018	<u>\$ (15,587)</u>

The sheriff stated that he was not aware of the requirement to submit his final settlement by September 1 of every year and was waiting until the audit was completed to settle the 2018 fee account with the fiscal court to ensure the figures are accurate. When the sheriff does not settle his fee account timely, he runs the risk of overspending the fee account, and becoming personally liable for the amount overspent.

KRS 134.192(1) states in part, “[e]ach sheriff shall annually settle his or her ..... before September 1 of each year.” KRS 134.192(11) states, “[i]n counties containing a population of less than seventy thousand (70,000) the sheriff shall file annually with his or her settlement:

- (a) A complete statement of all funds received by his or her office for official services, showing separately the total income received by his or her office for services rendered, exclusive of his or her commissions for collecting taxes, and the funds received as commissions for collecting state, county and school taxes; and
- (b) A complete statement of all expenditures of his or her office, including his or her salary, compensation of deputies and assistants, and reasonable expenses.”

We recommend the sheriff establish procedures to ensure an annual settlement is presented to fiscal court in a reasonable time period and excess fees be paid at that time. We also recommend the sheriff pay all the liabilities and remit personal funds of \$2,737 for the 2018 deficit he has incurred.

*Sheriff's Response: I will settle this account per auditors instructions. Settlements are now being presented on time as of this date.*

MAGOFFIN COUNTY  
CARSON MONTGOMERY, SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended December 31, 2018  
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-007 The Sheriff's Office Lacks Adequate Segregation Of Duties

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The sheriff's office lacks adequate segregation of duties and internal controls. The bookkeeper and/or office manager was responsible for collecting money, preparing deposits, writing checks, posting to ledgers, performing, and maintaining monthly bank reconciliations, and maintaining bank statements and financial reports. This was previously communicated in finding 2017-001.

The sheriff did not implement an adequate internal control system to allow for the proper segregation of duties.

By not segregating these duties, there is an increased risk of misappropriation of assets either by undetected error or fraud. Internal controls and proper segregation of duties protect employees and the sheriff in the normal course of performing their daily responsibilities and protects the county taxpayer funds.

Good internal controls dictate the same employee should not receive payments, prepare deposits, and post to the receipt ledger. The same employee should not prepare monthly reports, sign checks and post to the disbursement ledger. Also, same employee should not deposit funds, sign checks, post to ledgers, prepare bank reconciliations, and monthly reports.

We recommend the sheriff's office implement an adequate internal control system and segregate duties. Employees receiving payments and preparing deposits should not be posting to the receipts ledger and preparing bank reconciliations. Employees preparing and signing checks should not be posting to the disbursements ledger and preparing bank reconciliations. The sheriff should take on the responsibility of preparing or reviewing the daily deposits, receipt and disbursement ledgers, monthly reports, and bank reconciliations. These reviews must be documented in a way that indicates what was reviewed, by whom, and when, because signing off on inaccurate information does not adequately provide internal control.

*Sheriff's Response: We are doing the best we can with the manpower and budget we have available.*