



Auditor of Public Accounts  
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**FOR IMMEDIATE RELEASE**

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**Harmon Releases Audit of Magoffin Sheriff's Gas and Oil Coal Tax  
Settlement**

**FRANKFORT, Ky.** – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2019 gas and oil tax settlement for Magoffin County Sheriff Carson Montgomery. 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 July 16, 2019 through August 17, 2020 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 sheriff's annual settlement was not submitted in a timely manner:** The sheriff's 2019 gas and oil tax accounts were not submitted and approved by the fiscal court and filed with the clerk on or before September 1, 2020. The following assets and liabilities will result in a \$0 balance within the fund.

Assets

Cash in Bank (All Tax Accounts)	\$ 113
Receivables Per Draft:	
Due From Fee Account	<u>1</u>
Total Assets	<u>114</u>

Liabilities

Outstanding Checks at Year End	65
Paid Obligations	<u>48</u>
Total Paid Obligations	113
Unpaid Obligations -	
Interest Due Sheriff's Fee Account	<u>1</u>
Total Unpaid Obligations	<u>1</u>
Total Liabilities	<u>114</u>
Total Fund Balance	<u><u>\$ 0</u></u>

Failure to pay liabilities timely causes taxing districts and other governmental agencies to be deprived of funds.

KRS 134.192(1) states, “[e]ach sheriff shall annually settle his or her accounts with the department, the county, and any district for which the sheriff collects taxes on or before September 1 of each year.” KRS 134.192(5) states, “[t]he report of the state and local settlement shall be filed in the county clerk's office and approved by the governing body of the county no later than September 1 of each year.” Additionally, good internal controls ensure that all receivables and liabilities are settled for each tax year.

We recommend the sheriff complete the required settlement activity addressed above and submit the tax settlement on or before the stated deadline.

*County Sheriff's Response: Mineral collections began in March and did not end until August 17. I did not have sufficient time to prepare the settlement before the August meeting of the Fiscal Court. Settlement was presented at the September meeting.*

**The sheriff's office lacks adequate segregation of duties:** This is a repeat finding and was included in the prior year audit report as Finding 2018-001. The sheriff's office lacks adequate segregation of duties and internal controls over tax receipts and disbursements. The office manager and deputy clerks collect tax receipts. The office manager or a deputy clerk prepares a daily bank deposit and reconcile the daily receipts to the daily collection report and post items to the receipts ledger. The office manager 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 sheriff and the office manager sign tax distribution checks. The office manager prepares the monthly bank reconciliation, although there is nothing documented to determine who prepared the reconciliation or that it was reviewed by the sheriff.

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.

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, the same employee should not deposit funds, sign checks, post to ledgers, prepare bank reconciliations and monthly reports.

We recommend the sheriff's office implement internal controls and segregate duties as much as possible. 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. A proper segregation of duties may not be possible with a limited number of employees, and in that case, the sheriff could take on the responsibility of reviewing the daily deposits, receipts and disbursements ledgers, monthly reports, and bank reconciliations. These reviews must be documented in a way that indicates what was reviewed, by whom and when.

*County Sheriff's Response: Office Manager handles all financial responsibilities and her work is checked by the Sheriff. We are a small office with limited manpower.*

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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