

**REPORT OF THE AUDIT OF THE
MAGOFFIN COUNTY
SHERIFF'S TAX SETTLEMENT - 2019 TAXES**

**For The Period
April 16, 2019 Through May 15, 2020**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE 502.564.5841
FACSIMILE 502.564.2912**



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 Magoffin County Sheriff's Settlement - 2019 Taxes for the period April 16, 2019 through May 15, 2020.

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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TICHENOR & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS and MANAGEMENT CONSULTANTS
1700 EASTPOINT PARKWAY, SUITE 270
LOUISVILLE, KY 40223
BUSINESS: (502) 245-0775
FAX: (502) 245-0725
E-MAIL: dhesse@tichenorassociates.com

To the People of Kentucky

The Honorable Andy Beshear, Governor

Holly M. Johnson, Secretary

Finance and Administration Cabinet

The Honorable Matthew 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 Magoffin County Sheriff's Tax Settlement - 2019 for the period April 16, 2019 through May 15, 2020 - Regulatory Basis, 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 the 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 as described in Note 1. 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 Sheriff's Tax Settlements*, 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 auditors' 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.

To the People of Kentucky
The Honorable Andy Beshear, Governor
Holly M. Johnson, Secretary
Finance and Administration Cabinet
The Honorable Matthew 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 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 taxes charged, credited, and paid of the Magoffin County Sheriff, for the period April 16, 2019 through May 15, 2020.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the taxes charged, credited, and paid for the period April 16, 2019 through May 15, 2020 of the Magoffin County Sheriff, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2022, 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 and grant agreements, and other matters. The purpose of that report is 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. That 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.

To the People of Kentucky
The Honorable Andy Beshear, Governor
Holly M. Johnson, Secretary
Finance and Administration Cabinet
The Honorable Matthew 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:

2019-001 The Sheriff's Annual Settlement Was Not Submitted In A Timely Manner
2019-002 The Sheriff's Office Failed To Bill Franchise Tax To One Company
2019-003 The Sheriff Did Not Settle His 2018, 2017, 2014, And 2013 Tax Accounts
2019-004 The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

Tichenor & Associates, LLP

Tichenor & Associates, LLP
Louisville, Kentucky

May 18, 2022

MAGOFFIN COUNTY
CARSON MONTGOMERY, SHERIFF
SHERIFF'S SETTLEMENT - 2019 TAXES

For The Period April 16, 2019 Through May 15, 2020

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 954,252	\$ 751,348	\$ 1,245,550	\$ 245,092
Tangible Personal Property	154,209	117,679	152,002	73,585
Fire Protection	2,948			
Franchise Taxes	275,865	209,578	258,497	
Unmined Coal - 2019 Taxes	17,214	13,554	22,469	4,421
Bank Franchises	29,222			
Supplemental	22,059	16,834	21,744	14,346
Penalties	6,858	5,375	8,807	1,824
FY2018 Additional Billing	400	313	501	101
Adjusted to Sheriff's Receipt	(33,059)	(25,855)	(42,860)	(8,455)
Gross Chargeable to Sheriff	<u>1,429,968</u>	<u>1,088,826</u>	<u>1,666,710</u>	<u>330,914</u>
<u>Credits</u>				
Exonerations	9,145	7,192	11,768	2,587
Discounts	18,327	14,264	22,245	4,648
Delinquents:				
Real Estate	45,319	35,587	58,995	11,609
Tangible Personal Property	22,984	17,539	22,655	15,116
Unmined Coal - 2019 Taxes	15,496	12,201	20,227	3,980
Franchise Taxes	<u>5,175</u>	<u>204</u>	<u>263</u>	
Total Credits	<u>116,446</u>	<u>86,987</u>	<u>136,153</u>	<u>37,940</u>
Taxes Collected	1,313,522	1,001,839	1,530,557	292,974
Less: Commissions *	<u>55,825</u>	<u>42,578</u>	<u>61,222</u>	<u>12,451</u>
Taxes Due	1,257,697	959,261	1,469,335	280,523
Taxes Paid	1,244,269	949,453	1,456,322	274,822
Refunds (Current and Prior Year)	<u>13,906</u>	<u>10,158</u>	<u>13,424</u>	<u>5,925</u>
(Refunds Due Sheriff)	<u>\$ (478)</u>	<u>\$ (350)</u>	<u>\$ (411)</u>	<u>\$ (224)</u>

**

* and ** See next page.

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

MAGOFFIN COUNTY
CARSON MONTGOMERY, SHERIFF
SHERIFF'S SETTLEMENT - 2019 TAXES
For The Period April 16, 2019 Through May 15, 2020
(Continued)

* Commissions:

4.25% on \$ 2,608,335

4% on \$ 1,530,557

** Special Taxing Districts:

Library District \$ (146)

Health District (66)

Extension District (138)

(Refunds Due Sheriff) \$ (350)

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT

May 15, 2020

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. 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.

B. Basis of Accounting

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

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).

D. Preparation of State Settlement

The Kentucky Department of Revenue prepares the settlement relating to taxes collected for the state under the provision of KRS 134.192(2)(a). This is reported as the "State Taxes" column on the financial statement.

Note 2. Deposits

The Magoffin County Sheriff maintained deposits of public funds with federally insured banking institutions as required by the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*. The DLG Manual strongly recommends perfected pledges of securities covering all public funds except direct federal obligations and funds protected by federal insurance. In order to be perfected 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. These requirements were met.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT
May 15, 2020
(Continued)

Note 2. Deposits (Continued)

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 the DLG *County Budget Preparation and State Local Finance Officer Policy Manual*. As of May 15, 2020, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2019. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2020. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 28, 2019 through May 15, 2020.

B. Unmined Coal Property Taxes

The unmined coal property tax assessments were levied as of January 1, 2019. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was February 25, 2020 through September 15, 2020.

C. Franchise Taxes

The franchise tax assessments were levied by the Department of Revenue for various tax years. Franchise taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was April 16, 2019 through May 15, 2020.

Note 4. Interest Income

The Magoffin County Sheriff earned \$152 as interest income on 2019 taxes. As of May 18, 2022, the sheriff owed \$9 in interest to the school district and overpaid \$60 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Magoffin County Sheriff collected \$18,313 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the sheriff's office.

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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*

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TICHENOR & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS and MANAGEMENT CONSULTANTS
1700 EASTPOINT PARKWAY, SUITE 270
LOUISVILLE, KY 40223
BUSINESS: (502) 245-0775
FAX: (502) 245-0725
E-MAIL: dhesse@tichenorassociates.com

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 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 Magoffin County Sheriff's Tax Settlement - 2019 for the period April 16, 2019 through May 15, 2020 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated May 18, 2022. 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 over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting 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 and other deficiencies that we consider to be significant deficiencies.

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 2019-001 and 2019-004 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies describe in the accompanying Schedule of Findings and Responses as items 2019-002 and 2019-003 to be significant deficiencies.

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 matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2019-001.

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 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 18, 2022

SCHEDULE OF FINDINGS AND RESPONSES

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MAGOFFIN COUNTY
CARSON MONTGOMERY, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Period April 16, 2019 through May 15, 2020

FINANCIAL STATEMENT FINDINGS:

2019-001 The Sheriff's Annual Settlement Was Not Submitted In A Timely Manner

This is a repeat finding and was included in the prior year audit report as finding 2018-002. The sheriff's 2019 property and unmined coal tax accounts were not settled or approved by the fiscal court on or before September 1, 2020. The following receivables and liabilities are due to be collected and paid to settle the 2019 property and unmined coal accounts. The settlement activity will result in a surplus of \$26 that should be put in an escrow account.

The sheriff's office did not submit the tax settlement to the fiscal court for approval to meet the deadline set by KRS 134.192.

Failure to pay liabilities timely causes taxing districts and other governmental agencies to be deprived of necessary funds. After all receivables are collected and all liabilities are paid, the sheriff will be able to close his 2019 property, franchise, and unmined coal tax accounts.

Assets

Cash in Bank (All Tax Accounts)	\$ 152
Receivables:	
Unpaid Obligations Per Draft-	
State	129
County	478
School	411
Library	147
Health	66
Extension	138
Interest Overpaid Sheriff's Fee Account	<u>60</u>
Total Assets	<u><u>\$ 1,581</u></u>

Liabilities

Tax Commissions Due Fee Account	\$ 1,545
Interest Due School	<u>9</u>
Total Unpaid Obligations	<u>1,554</u>
Total Fund Balance	<u><u>\$ 26</u></u>

MAGOFFIN COUNTY
 CARSON MONTGOMERY, SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Period April 16, 2019 through May 15, 2020
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued))

2019-001 The Sheriff's Annual Settlement Was Not Submitted In A Timely Manner (Continued)

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. The settlement shall show the amount of ad valorem tax collected for the county, the school district, and all taxing districts, and an itemized statement of the money disbursed to or on behalf of the county, the school district, and all taxing districts."

Good internal controls ensure that all receivables and liabilities are settled for each tax year.

We recommend the sheriff's office comply with KRS 134.192 by presenting the tax settlement to the fiscal court by September 1. The remaining surplus should be put into an escrow account.

Sheriff's Response: Due to the late release of mineral bills, we were unable to finish with disbursements and bank reconciliations by Sept. 1st.

2019-002 The Sheriff's Office Failed To Bill Franchise Tax To One Company

This is a repeat finding and was included in the prior year audit report as finding 2018-005. The sheriff's office failed to bill franchise tax to one company. The sheriff's office and county clerk's office operate two separate systems for generating tax bills. Therefore, when the county clerk's office gives the sheriff's office the franchise bills, the sheriff's office re-creates these bills in their system. During this process, the sheriff's office failed to bill one company.

The total amount due to the taxing districts from these errors are the following amounts:

Taxing District	Amount Not Billed
County	\$ 36
School	36
Library	12
Health	6
Extension	10
Soil	-
	<u>\$ 100</u>

Due to lack of internal controls, the sheriff's office failed to bill a company when re-calculating the franchise tax bills in the sheriff's office tax system. When companies are not billed and/or properly billed, the taxing districts are not receiving all of the funds to which they are entitled and the company is not paying its share of taxes due.

KRS 133.220(4) states, "[u]pon delivery to him or her of the tax bills, the sheriff or collector shall mail a notice to each taxpayer, showing the total amount of taxes due the state, county, school district, and any other taxing district for which the sheriff collects taxes, the date on which the taxes are due, and any discount to which the taxpayer may be entitled upon payment of the taxes prior to a designated date. The sheriff shall not mail tax notices prior to September 15."

MAGOFFIN COUNTY
 CARSON MONTGOMERY, SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Period April 16, 2019 through May 15, 2020
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-002 The Sheriff's Office Failed To Bill Franchise Tax To One Company (Continued)

Proper internal controls require a review system to be in place to check for and correct errors in the operation of the sheriff's office.

We recommend the sheriff's office implement proper internal controls to ensure that every franchise bill is prepared and without error. In addition, we recommend that the sheriff's office bill the company the franchise tax that it is legally obligated to pay.

Sheriff's Response: I did not receive an assessment for this bill, therefore I could not create it. I will be speaking with revenue cabinet regarding this matter. Bill will be created when I receive the assessment.

2019-003 The Sheriff Did Not Settle His 2018, 2017, 2014, And 2013 Tax Accounts

This is a repeat finding and was included in the prior year audit report as finding 2018-003. The sheriff failed to settle his 2018 property and unmined coal taxes by September 1, 2019. Additionally, the following receivables and liabilities are due to be collected and paid to completely settle the 2018 property and unmined coal tax accounts.

Assets

Cash in Bank (All Tax Accounts)	\$	90
Receivables Per Draft:		
County		1,049
School		1,259
Library		334
Health		224
Extension		310
Soil		5
Interest Overpaid to School		3
Amount Due Back from 2018 Fee for Overpaid Commissions		<u>1,710</u>
Total Assets	\$	<u><u>4,984</u></u>

Liabilities

Unpaid Obligations Per Draft - State	\$	1,679
Interest Due Sheriff's Fee Account		<u>34</u>
Total Unpaid Obligations		<u>1,713</u>
Total Fund Balance as of April 15, 2019	\$	<u><u>3,271</u></u>

MAGOFFIN COUNTY
 CARSON MONTGOMERY, SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Period April 16, 2019 through May 15, 2020
 (Continued)

FINANCIAL STATEMENT FINDING: (Continued)

2019-003 The Sheriff Did Not Settle His 2018, 2017, 2014, And 2013 Tax Accounts (Continued)

The sheriff has not settled the 2017 property and unmined coal tax accounts due to the following reasons:

- The 2018 fee account owes \$1,078 to the 2017 franchise account.
- Overpayments to the following districts need to be billed and collected:

County	\$ 416
School	311
Library	49
Health	66
Extension	96
Total	<u>\$ 938</u>

Collection efforts have been made, but with no follow up on billing.

- 2017 franchise account owes payments to the following districts and account:

State	\$ 1,499
Soil	176
2017 Fee Account	55
Total	<u>\$ 1,730</u>

The sheriff has not settled the 2014 property tax accounts due to the following reason:

- The sheriff has not collected on its bill to the soil district for \$24. In addition, there were no follow up collection actions performed.

The sheriff has not settled the 2013 unmined coal tax accounts due to the following reason:

- The 2013 unmined coal tax account and the 2014 fee account has been closed and the remaining funds were transferred into the 2017 fee account.
- The sheriff has not paid the \$2,772 owed to the county.
- The sheriff has not collected \$71 from the state. In addition, there were no follow-up collection actions performed.

The sheriff failed to oversee the daily operations of his tax office. As a result, receivables and liabilities were not addressed as part of the settlement process.

Failure to pay liabilities timely causes taxing districts and other governmental agencies to be deprived of funds for significant time periods. After all receivables are collected and all liabilities are paid, the sheriff will be able to close his prior years' property and unmined coal tax accounts.

MAGOFFIN COUNTY
 CARSON MONTGOMERY, SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Period April 16, 2019 through May 15, 2020
 (Continued)

FINANCIAL STATEMENT FINDING: (Continued)

2019-003 The Sheriff Did Not Settle His 2018, 2017, 2014, And 2013 Tax Accounts (Continued)

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. The settlement shall show the amount of ad valorem tax collected for the county, the school district, and all taxing districts, and an itemized statement of the money disbursed to or on behalf of the county, the school district, and all taxing districts.”

Good internal controls ensure that all receivables and liabilities are settled for each tax year.

We recommend the sheriff take the necessary steps to ensure his prior years’ property and unmined coal tax accounts collected and the items listed above disbursed in order to completely settle these accounts. The remaining surplus should be put into an escrow account.

Sheriff's response: These accounts have been settled to zero and this will be reflected in future audits.

2019-004 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 reconciles the daily receipts to the daily collection report and posts 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 his 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. As stated previously, much of the lack of segregation of duties is attributed to limited resources. As such, the sheriff and office manager should consider various methods to increase segregation of duties while working within a restricted budget.

The sheriff was unable to implement an adequate internal control system to improve 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.

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 prepare monthly reports.

MAGOFFIN COUNTY
CARSON MONTGOMERY, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Period April 16, 2019 through May 15, 2020
(Continued)

FINANCIAL STATEMENT FINDING: (Continued)

2019-004 The Sheriff's Office Lacks Adequate Segregation Of Duties (Continued)

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 preparing or 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, because signing off on inaccurate information does not provide internal control.

Sheriff's Response: This is a problem in all small offices, but we will try to comply.