

**REPORT OF THE AUDIT OF THE  
MAGOFFIN COUNTY  
SHERIFF'S SETTLEMENT - 2015 TAXES**

**For The Period  
May 17, 2015 Through April 16, 2016**



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**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

The Honorable Matthew G. Bevin, Governor  
William M. Landrum III, 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 Auditor's Report

**Report on the Financial Statement**

We have audited the Magoffin County Sheriff's Settlement - 2015 Taxes for the period May 17, 2015 through April 16, 2016 - 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.

**Auditor's Responsibility**

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Audit Guide for 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 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.



To the People of Kentucky  
The Honorable Matthew G. Bevin, Governor  
William M. Landrum III, 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 May 17, 2015 through April 16, 2016.

### **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 May 17, 2015 through April 16, 2016 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 October 1, 2018, 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 Matthew G. Bevin, Governor  
William M. Landrum III, 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:

- 2015-001 The Sheriff Has Unpaid Liabilities of \$18,808 And A Deficit In His 2014 Tax Account
- 2015-002 The Sheriff Did Not Distribute Interest Payments To The School And The Fee Account
- 2015-003 The Sheriff Did Not Properly Distribute 10% Add-On Fees
- 2015-004 The Sheriff Did Not Prepare The Annual Settlement Of Tax Collections Timely And Accurately
- 2015-005 The Sheriff Over Paid Tax Commissions To The Fee Account
- 2015-006 The Sheriff Failed To Eliminate The Deficit In His 2010 Tax Account
- 2015-007 The Sheriff Did Not Settle His 2011 Tax Account
- 2015-008 The Sheriff Used 2012 Tax Surplus Money To Operate His Office
- 2015-009 The Sheriff Did Not Settle His 2013 Tax Account
- 2015-010 The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,



Mike Harmon  
Auditor of Public Accounts

October 1, 2018

MAGOFFIN COUNTY  
CARSON MONTGOMERY, SHERIFF  
SHERIFF'S SETTLEMENT - 2015 TAXES

For The Period May 17, 2015 Through April 16, 2016

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 868,044	\$ 563,432	\$ 949,672	\$ 242,893
Tangible Personal Property	211,236	129,360	141,298	107,377
Fire Protection	2,958			
Increases Through Exonerations				15
Franchise Taxes	327,734	200,625	223,719	
Bank Franchises	28,612			
Penalties	6,585	4,245	6,994	1,941
Adjusted to Sheriff's Receipt	(225)	(18)	(24)	(18)
Gross Chargeable to Sheriff	<u>1,444,944</u>	<u>897,644</u>	<u>1,321,659</u>	<u>352,208</u>
 <u>Credits</u>				
Exonerations	34,790	22,536	37,558	9,839
Discounts	17,819	11,285	16,662	4,557
Delinquents:				
Real Estate	64,104	41,492	69,936	17,887
Tangible Personal Property	46,706	28,603	31,242	29,451
Uncollected Franchise Taxes	25,925	15,767	21,085	
Total Credits	<u>189,344</u>	<u>119,683</u>	<u>176,483</u>	<u>61,734</u>
Taxes Collected	1,255,600	777,961	1,145,176	290,474
Less: Commissions *	53,363	33,063	45,807	12,345
Taxes Due	1,202,237	744,898	1,099,369	278,129
Taxes Paid	1,202,454	745,000	1,099,299	278,083
Refunds (Current and Prior Year)	342	242	454	117
(Refunds Due Sheriff) as of Completion of Audit	<u>\$ (559)</u>	<u>\$ (344)</u>	<u>\$ (384)</u>	<u>\$ (71)</u>

\*\*

\* and \*\* See next page.

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



MAGOFFIN COUNTY  
CARSON MONTGOMERY, SHERIFF  
SHERIFF'S SETTLEMENT - 2015 TAXES  
For The Period May 17, 2015 Through April 16, 2016  
(Continued)

\* Commissions:

4.25% on \$ 2,324,035

4% on \$ 1,145,176

\*\* Special Taxing Districts:

Library District \$ (126)

Health District (67)

Extension District (151)

(Refunds Due Sheriff) \$ (344)

MAGOFFIN COUNTY  
NOTES TO FINANCIAL STATEMENT

April 16, 2016

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).

Note 2. Deposits

The Magoffin County Sheriff maintained deposits of public funds with depository institutions insured by the 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 April 16, 2016, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

MAGOFFIN COUNTY  
NOTES TO FINANCIAL STATEMENT  
April 16, 2016  
(Continued)

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2015. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2016. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 23, 2015 through April 16, 2016.

Note 4. Interest Income

The Magoffin County Sheriff earned \$111 as interest income on 2015 taxes. As of October 1, 2018, the sheriff owed \$35 in interest to the school district and \$76 in interest to his fee account.

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

The Magoffin County Sheriff collected \$16,086 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the sheriff's office. As of October 1, 2018, the sheriff owed \$747 in 10% add-on fees to his fee account.

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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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**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

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

Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With *Government Auditing Standards*

Independent Auditor's Report

We 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 Settlement - 2015 Taxes for the period May 17, 2015 through April 16, 2016 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated October 1, 2018. 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 a certain deficiency in internal control that we consider to be a 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 2015-001, 2015-002, 2015-003, 2015-004, 2015-005, 2015-006, 2015-007, 2015-008, 2015-009, and 2015-010 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 2015-001, 2015-002, 2015-003, 2015-004, 2015-005, 2015-006, 2015-007, 2015-008, and 2015-009.

**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,



Mike Harmon  
Auditor of Public Accounts

October 1, 2018



SCHEDULE OF FINDINGS AND RESPONSES

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MAGOFFIN COUNTY  
 CARSON MONTGOMERY, SHERIFF  
 SCHEDULE OF FINDINGS AND RESPONSES  
 For The Period May 17, 2015 Through April 16, 2016

FINANCIAL STATEMENT FINDINGS:

2015-001 The Sheriff Has Unpaid Liabilities of \$18,808 And A Deficit In His 2014 Tax Account

The sheriff has a deficit of \$622 in his 2014 tax account. Deficits are primarily due to undeposited receipts. This was previously communicated in the prior year audit report as Finding 2014-002. The 2014 tax account cannot be closed until all receivables and liabilities are resolved. In order to settle the account, the sheriff should collect and pay the following:

Assets

Cash in Bank	\$	15,330
Due From School District		2,832
Due From Soil District		24
		<u>24</u>
Total Assets		18,186
Unpaid Obligations:		
Other Taxing Districts-		
County	\$	13,550
Library		407
Health		149
Extension		316
Add on fees due 2015 Fee Account-Property		3,840
Add on fees due 2015 Fee Account-Gas & Oil		42
Interest Due Sheriff's Fee Account		88
Interest Due School		47
Deposit Errors Due 2015 Fee Account		369
		<u>369</u>
Total Unpaid Obligations		<u>18,808</u>
Total Fund Deficit as of Exit Conference Date	\$	<u>(622)</u>

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 2014 tax account. KRS 134.192 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." Furthermore, 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.

MAGOFFIN COUNTY  
 CARSON MONTGOMERY, SHERIFF  
 SCHEDULE OF FINDINGS AND RESPONSES  
 For The Period May 17, 2015 Through April 16, 2016  
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-001 The Sheriff Has Unpaid Liabilities of \$18,808 And A Deficit In His 2014 Tax Account  
 (Continued)

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In order to pay the liabilities due the districts and the other accounts noted above, \$622 should be collected from the sheriff personally and deposited into the 2014 tax account. We recommend the sheriff collect all receivables and pay all the liabilities to close this account.

*Sheriff's Response: We are working diligently to correct this matter by the date listed below. (12/21/18)*

2015-002 The Sheriff Did Not Distribute Interest Payments To The School And The Fee Account

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The sheriff did not distribute interest earned on tax collections to either the school or the fee account. This was previously communicated in the prior year audit report as finding 2014-004. The sheriff did not implement proper internal control procedures that ensured interest was paid to the fee and tax account monthly. By not paying interest monthly, the sheriff was not in compliance with statutes. KRS 134.140(2) requires the sheriff to pay monthly "that part of the investment earnings for the month which are attributable to the investment of school taxes." KRS 134.140(4) requires the remaining monthly interest to be transferred to the sheriff's fee account. We recommend the sheriff implement procedures to ensure the sheriff pay the amount of interest due to the school and fee account on a monthly basis.

*Sheriff's Response: We are working diligently to correct this matter by the date listed below. (12/21/18)*

2015-003 The Sheriff Did Not Properly Distribute 10% Add-On Fees

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The sheriff collected \$16,086 in 10% add-on fees for 2015 property tax collections and \$747 remains undisbursed to his fee account. The sheriff did not implement proper internal control procedures that ensured add-on fees were calculated and paid to the fee account properly. By not distributing add-on fees properly, the sheriff was not in compliance with statutes. KRS 134.119(7) states, "the sheriff shall be entitled to an amount equal to ten percent (10%) of the total taxes due plus ten percent (10%) of the ten percent (10%) penalty for all delinquent taxes." This fee shall be added to the total amount due and paid by the person paying the delinquent tax bill and then distributed to the sheriff's fee account monthly. We recommend the sheriff calculate and pay add-on fees as required.

*Sheriff's Response: Add-on fees affect only those monies which are owed to the Sheriff for commissions. Our tax program failed to take excess fees into consideration. Money is still in the accounts and all funds are accounted for.*

2015-004 The Sheriff Did Not Prepare The Annual Settlement Of Tax Collections Timely And Accurately

---

The annual tax settlement was materially misstated and was not presented to the fiscal court timely. It was approved by the fiscal court on October 25, 2016. Gross charges were understated by \$232,983, total credits were understated by \$452,007, and taxes paid were overstated by \$44,747. The overall misstatement was due to the sheriff using a settlement format that did not separate charges and credits but rather began with a net tax amount due to the districts.

MAGOFFIN COUNTY  
 CARSON MONTGOMERY, SHERIFF  
 SCHEDULE OF FINDINGS AND RESPONSES  
 For The Period May 17, 2015 Through April 16, 2016  
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-004 The Sheriff Did Not Prepare The Annual Settlement Of Tax Collections Timely And Accurately  
 (Continued)

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The sheriff did not implement proper control procedures to ensure the annual tax settlement was prepared timely. Due to poor oversight, the tax settlement was materially misstated. By not preparing the annual tax settlement timely, the sheriff was not in compliance with statutes. In addition, having an accurate tax settlement assists the fiscal court's ability to hold the sheriff's office accountable for tax collections and disbursements. KRS 134.192 requires each sheriff to annually settle his tax accounts on or before September 1 of each year. Furthermore, the annual 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 taxes collected and disbursed for the county, school district, and all tax districts.

While the sheriff agreed with the adjustments to his tax settlement to make it accurate, we recommend that in the future, the sheriff's office prepare an accurate annual tax settlement and comply with KRS 134.192 by presenting it in a timely manner.

*Sheriff's Response: The sheriff did not provide a response.*

2015-005 The Sheriff Over Paid Tax Commissions To The Fee Account

---

The sheriff overpaid tax commissions to the fee account by \$5,068. The tax program utilized by the sheriff's office automatically applies compensation rates to taxes collected. It then shows total tax commissions due to the sheriff's fee account on the monthly reports. An error in the tax software program caused the state taxing district commissions to be calculated incorrectly. \$2,419 was reimbursed to the tax account from the fee account leaving a balance of \$2,649 due from the fee account.

The sheriff did not implement proper internal control procedures to ensure that the monthly tax reports were completed accurately. Due to the incorrect compensation rate, not only was the sheriff not in compliance with tax collection statutes, the state taxing district was also under paid causing penalties to be assessed. KRS 134.119(6)(a)(1) states, "[f]rom the Commonwealth the sheriff shall be paid four and one-quarter percent (4.25%) of the amount collected on behalf of the Commonwealth[.]"

We recommend the sheriff implement procedures to ensure the accurate commissions are assessed for tax collections.

*Sheriff's Response: We are working diligently to correct this matter by the date listed below. (12/21/18)*

MAGOFFIN COUNTY  
 CARSON MONTGOMERY, SHERIFF  
 SCHEDULE OF FINDINGS AND RESPONSES  
 For The Period May 17, 2015 Through April 16, 2016  
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-006 The Sheriff Failed To Eliminate The Deficit In His 2010 Tax Account

The sheriff has a deficit of \$2,961 in his 2010 tax account. On September 7, 2016, the sheriff's bookkeeper transferred the remaining cash balance of \$4,056 from the 2010 tax account to his 2016 operating account. This was previously communicated in the prior year audit report as finding 2014-010. Deficits are primarily due to undeposited receipts. In order to settle the account, the sheriff should collect and pay the following:

Cash in Bank		\$ 0
Due From 2016 Fee Account		<u>4,056</u>
Total Assets		4,056
Unpaid Obligations:		
County	\$ 1,143	
School	3,788	
Health	242	
2010 Refunds Paid By 2011 Fee Due 2011 Fee	498	
2010 Unmined Coal Deposit Error Due 2011 Fee	1,169	
Commission Due 2011 Fee Account	<u>177</u>	
Total Unpaid Obligations		<u>7,017</u>
Total Fund Deficit		<u>\$ (2,961)</u>

Because the sheriff transferred 2010 tax account money into his 2016 operating account, the 2016 fee account owes the 2010 tax account \$4,056. In addition, 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 2010 tax account.

KRS 134.192 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." Furthermore, 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.

In order to pay the liabilities due the districts and the other accounts noted above, \$2,961 should be collected from the sheriff personally and deposited into the 2010 tax account. We recommend the sheriff collect all receivables and pay all the liabilities to close this account.

*Sheriff's Response: We are working diligently to correct this matter by the date listed below. (12/21/18)*

MAGOFFIN COUNTY  
CARSON MONTGOMERY, SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Period May 17, 2015 Through April 16, 2016  
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-007 The Sheriff Did Not Settle His 2011 Tax Account

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The sheriff had a cash balance of \$2,092 in his 2011 tax account. Of this amount, \$520 is due to the Kentucky State Treasurer as tax surplus money and \$1,572 is due to the sheriff's 2012 tax account for commissions earned. However, on September 7, 2016, the sheriff transferred the balance of the 2011 tax account into his 2016 operating account. This was previously communicated in the prior year audit report as finding 2014-009. The sheriff failed to direct his staff to follow the recommendations of the 2011 tax audit. As a result, the 2016 fee account owes \$520 to the Kentucky State Treasurer for 2011 tax surplus funds. Tax commissions of \$1,572 are also due to the 2012 fee account from the 2016 fee account. Failure to pay liabilities timely causes governmental agencies to be deprived of funds for significant time periods. After all liabilities are paid, the sheriff will have settled his 2011 tax account. KRS 134.192 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."

We recommend the sheriff take the necessary steps to settle his 2011 tax account by paying commissions of \$1,572 to the 2012 fee account and \$520 to the Kentucky State Treasurer as unexplained tax receipt.

*Sheriff's Response: We are working diligently to correct this matter by the date listed below. (12/21/18)*

2015-008 The Sheriff Used 2012 Tax Surplus Money To Operate His Office

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The sheriff had a tax surplus of \$5,685 in his 2012 tax account. The 2012 tax audit directed the sheriff to turn over the unexplained tax surplus money to the Kentucky State Treasurer. However, on September 7, 2016, the sheriff transferred this tax money into his 2016 operating account. This was previously communicated in the prior year audit report as finding 2014-008. The sheriff failed to direct his staff to follow the recommendations of the 2012 tax audit. As a result, the 2016 fee account owes \$5,685 to the Kentucky State Treasurer for 2012 tax surplus funds. When the sheriff has unexplained receipts in the tax account, the money should be turned over the Kentucky State Treasurer in accordance with KRS 393.090 and KRS 393.110. We recommend the sheriff pay \$5,685 of tax surplus money from his 2016 fee account to the Kentucky State Treasurer for unexplained receipts.

*Sheriff's Response: We are working diligently to correct this matter by the date listed below. (12/21/18)*

MAGOFFIN COUNTY  
 CARSON MONTGOMERY, SHERIFF  
 SCHEDULE OF FINDINGS AND RESPONSES  
 For The Period May 17, 2015 Through April 16, 2016  
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-009 The Sheriff Did Not Settle His 2013 Tax Account

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The sheriff did not settle his 2013 tax account. This was previously communicated in the prior year audit report as finding 2014-007. The sheriff failed to oversee the daily operations of his tax office. As a result, the following receivables and liabilities should be collected and paid:

Cash in Bank		\$	0
Due From 2016 Fee Account			6
Receivables:			
State	\$	769	
County		2,108	
School		2,854	
Library		415	
Extension		490	
Soil Conservation		89	
2014 Fee Account For Commission Overpayment		1,652	
2014 Fee Account For Check Purchase		242	
Total Assets			8,619
Unpaid Obligations:			
Health		5,633	
State Gas and Oil		498	
County Gas and Oil		586	
Health Gas and Oil		303	
Extension Gas and Oil		1,294	
Interest Due Sheriff's 2014 Fee Account		199	
Interest Due School		112	
Total Unpaid Obligations			<u>8,625</u>
Total Fund Balance		\$	<u><u>0</u></u>



MAGOFFIN COUNTY  
 CARSON MONTGOMERY, SHERIFF  
 SCHEDULE OF FINDINGS AND RESPONSES  
 For The Period May 17, 2015 Through April 16, 2016  
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-009 The Sheriff Did Not Settle His 2013 Tax Account (Continued)

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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 2013 Tax Account. KRS 134.192 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.” We recommend the sheriff take the necessary steps to ensure the 2013 tax account collects and disburses the items listed above in order to completely settle the account.

*Sheriff's Response: We are working diligently to correct this matter by the date listed below. (12/21/18)*

2015-010 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 over tax receipts and disbursements. This was previously communicated in the prior year audit report finding 2014-001. The bookkeeper and deputy clerks collect tax receipts. The bookkeeper 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 bookkeeper prepares the month-end tax reports, prepares checks for tax distribution based on the month-end tax reports, and posts checks to the disbursements ledger. The bookkeeper and the sheriff sign tax distribution checks. The county treasurer prepares the monthly bank reconciliation, although there is nothing documented to determine who prepared the reconciliation or that it was reviewed by the sheriff.

The sheriff failed to implement proper internal control procedures. 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, and the same employee should not deposit funds, sign checks, post to ledgers, and 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 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: Due to the size of our budget and the limited number of staff, we cannot segregate duties at the level expected.*

**Auditor's Reply:** As noted in the comment, when staffing limitations prevent adequate segregation of duties, compensating controls and strong management oversight should be put into place to mitigate the risks.