



Auditor of Public Accounts
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FOR IMMEDIATE RELEASE

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Harmon Releases Audit of Magoffin County Sheriff's Fee Account

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2017 financial statement of 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 financial statement presents fairly the receipts, disbursements and excess fees of the Magoffin County Sheriff in accordance with accounting principles generally accepted in the United States of America.

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Audit Guide for County Fee Officials* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement. Because of the matters described in the Basis of Disclaimer of Opinion paragraph; however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

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

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

The audit contains the following comment:

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

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

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

- The receipts and disbursements ledger did not support the fourth quarter financial statement. The receipts ledger had a variance of \$144,502 and disbursements ledger had a variance of \$36,897.
- A lack of segregation of duties over receipts and disbursements. The bookkeeper and deputy clerks collect tax receipts. The bookkeeper or a deputy clerk prepares a daily bank deposit and reconciles the daily receipts to the daily collection report and posts items to the receipts ledger. The bookkeeper prepares the month-end tax reports, prepares checks for tax distribution based on the month-end tax reports, and posts checks to the disbursements ledger. The bookkeeper and the sheriff sign tax distribution checks. The county treasurer prepares the monthly bank reconciliation, although there is nothing documented to determine who prepared the reconciliation or that it was reviewed by the sheriff.
- The sheriff has not settled the 2012, 2014, 2015, 2016, and 2017 fee accounts with the fiscal court.
- Twenty-seven bank accounts from prior years remain open and continue to have various transfers between them, including transfers involving current year funds being moved into prior year accounts.
- Numerous funds have been deposited into incorrect bank accounts.
- The 2018 fee account was prematurely opened in early November 2017. Property tax funds along with other funds from 2017 were improperly deposited into this account. The property tax funds were repaid to the proper tax account. However, the other monies are

due back to the 2017 fee account. Daily checkout sheets are not separated by year. Many records have not been readily available when multiple requests have been made. This activity makes it difficult to determine the actual amount of excess fees that should be made available to the fiscal court, if any.

- 2012 excess fees in the amount of \$58,543 were deposited into the 2017 fee account instead of paid over to the fiscal court.
- November 2016 tax commissions in the amount of \$31,287 were deposited and used for 2017 operations.
- 2017 fee receipts in the amount of \$49,067 were deposited into the 2018 fee account and never paid back.
- Significant Internal Revenue Service (IRS) penalties and interest from past years continue to accumulate. The current amount of IRS penalties is \$59,706. The penalties dates back from December 2011, two quarters for 2013, all four quarters of 2014 and 2015, and the first quarter of 2016. To date these penalties have not been paid.
- The sheriff made two duplicate payments of 941 withdrawals (payroll tax withholdings) for a total of \$4,057.
- Retirement withholdings totaling \$70,200 were withheld from employees and not paid to the fiscal court.
- Retirement withholdings for 2014 were incorrectly paid from the 2015 payroll account.
- Three revolving payroll accounts have been opened and/or closed in a few short years.
- A deputy was paid \$1,261 in contract labor during calendar year 2017.
- The sheriff did not deposit federal forfeiture funds in a separate account.

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

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

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

County Sheriff's Response:

1

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

#2

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

#3

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

#4

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

#5

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

#6

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

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

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

As for records not being readily available, my small staff cannot turn away paying customers to satisfy every request. They provide information as soon as they possibly can. I do not feel this

comment is appropriate. We have always made the state auditors a priority and have allowed them unlimited access to any aspect of our office. Apparently, this is still not good enough!

#7

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

#8

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

#9

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

#10

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

#11

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

#12

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

#13

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

#14

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

15

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

#16

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

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

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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