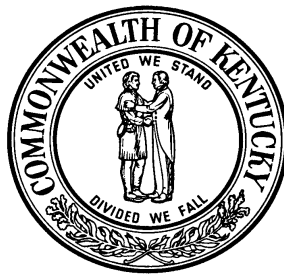


**REPORT OF THE AUDIT OF THE
MAGOFFIN COUNTY
SHERIFF'S TAX SETTLEMENT - 2018 Taxes**

**For The Period
April 17, 2018 Through April 15, 2019**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
www.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 - 2018 Taxes for the period April 17, 2018 through April 15, 2019.

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

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 - 2018 for the period April 17, 2018 through April 15, 2019 - 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 17, 2018 through April 15, 2019.

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 17, 2018 through April 15, 2019 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 December 21, 2021, on our consideration of the Magoffin County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts 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:

- 2018-001 The Magoffin County Sheriff's Office Lacks Adequate Segregation Of Duties
- 2018-002 The Magoffin County Sheriff Failed To Settle His 2018 Tax Accounts
- 2018-003 The Magoffin County Sheriff Failed To Settle Taxes Associated With The 2017, 2014, And 2013 Tax Years
- 2018-004 The Magoffin County Sheriff Failed To Remit All State Taxes Due To Incorrectly Computing Commissions Earned On State Tax Collections
- 2018-005 The Magoffin County Sheriff Failed To Properly Bill Franchise Taxes

Respectfully submitted,

Tichenor & Associates, LLP

Tichenor & Associates, LLP
Louisville, Kentucky

December 21, 2021

MAGOFFIN COUNTY
CARSON MONTGOMERY, SHERIFF
SHERIFF'S SETTLEMENT - 2018 TAXES

For The Period April 17, 2018 Through April 15, 2019

<u>Charges</u>	County Taxes	Special Taxing Districts	School Taxes	State Taxes
Real Estate	\$ 951,491	\$ 745,302	\$ 1,192,797	\$ 239,344
Tangible Personal Property	197,241	148,949	186,186	100,931
Fire Protection	2,948			
Franchise Taxes	276,550	207,502	261,664	
Unmined Coal - 2018 Taxes	40,856	32,002	51,218	10,277
Bank Franchises	29,255			
Supplemental	23	17	22	2
Penalties	8,500	6,618	10,422	2,227
Adjusted to Sheriff's Receipt	(228)	(14)	(35)	(17)
Gross Chargeable to Sheriff	<u>1,506,636</u>	<u>1,140,376</u>	<u>1,702,274</u>	<u>352,764</u>
<u>Credits</u>				
Exonerations	10,306	8,056	12,847	2,666
Discounts	19,950	15,019	22,539	4,772
Delinquents:				
Real Estate	52,492	41,004	65,623	13,168
Tangible Personal Property	26,437	20,052	24,955	18,397
Unmined Coal - 2018 Taxes	18,464	14,463	23,146	4,645
Franchise Taxes	118	89	111	
Total Credits	<u>127,767</u>	<u>98,683</u>	<u>149,221</u>	<u>43,648</u>
Taxes Collected	1,378,869	1,041,693	1,553,053	309,116
Less: Commissions *	<u>58,602</u>	<u>44,272</u>	<u>62,122</u>	<u>13,137</u>
Taxes Due	1,320,267	997,421	1,490,931	295,979
Taxes Paid	1,320,285	997,493	1,490,951	293,965
Refunds (Current and Prior Year)	<u>1,031</u>	<u>801</u>	<u>1,239</u>	<u>335</u>
Due Districts as of Completion of Audit	<u>\$ (1,049)</u>	<u>\$ (873)</u>	<u>\$ (1,259)</u>	<u>\$ 1,679</u>

**

* Commissions:

4.25% on	\$ 2,729,678
4% on	\$ 1,553,053

** Special Taxing Districts:

Library District	\$ (334)
Health District	(224)
Extension District	(310)
Soil District	<u>(5)</u>

Due Districts (Due to Sheriff) \$ (873)

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

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2019

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 conducts 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 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.

MAGOFFIN COUNTY
 NOTES TO FINANCIAL STATEMENT
 April 15, 2019
 (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 KRS 66.480(1)(d) and KRS 41.240. As of April 15, 2019, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of December 7, 2018, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$40,485

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2018. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2019. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 26, 2018 through April 15, 2019.

B. Unmined Coal Property Taxes

The unmined coal property tax assessments were levied as of January 1, 2018. 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 27, 2019 through September 16, 2019.

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 17, 2018 through April 15, 2019.

Note 4. Interest Income

The Magoffin County Sheriff earned \$137 as interest income on 2018 taxes. The sheriff was in substantial compliance with his statutory responsibilities.

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

The Magoffin County Sheriff collected \$18,135 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the sheriff's office.

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 - 2018 for the period April 17, 2018 through April 15, 2019 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated December 21, 2021. The Magoffin County Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Magoffin County Sheriff's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Magoffin County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Magoffin County Sheriff's internal control.

Our consideration of internal control 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 2018-001, 2018-002, and 2018-003 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 described in the accompanying Schedule of Findings and Responses as items 2018-004 and 2018-005 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2018-002 and 2018-003.

Views of Responsible Official and Planned Corrective Action

The Magoffin County Sheriff's views and planned corrective action for the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Magoffin County Sheriff's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

Tichenor & Associates, LLP

Tichenor & Associates, LLP
Louisville, Kentucky

December 21, 2021

SCHEDULE OF FINDINGS AND RESPONSES

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MAGOFFIN COUNTY
CARSON MONTGOMERY, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Period April 17, 2018 Through April 15, 2019

FINANCIAL STATEMENT FINDINGS:

2018-001 The Magoffin County Sheriff's Office Lacks Adequate Segregation of Duties

This is a repeat finding and was included in the prior year audit report as finding 2017-010. The sheriff's office lacks adequate segregation of duties and internal controls over tax receipts and disbursements. The bookkeeper and/or office manager and deputy clerks collect tax receipts. The bookkeeper and/or 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 bookkeeper and/or 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 bookkeeper and/or office manager and the sheriff sign tax distribution checks. The bookkeeper and/or 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.

According to the sheriff, the lack of segregation of duties is attributed to limited resources. 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.

We recommend the sheriff 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 should 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 limited staff, we cannot segregate duties as requested. However, we do our best to ensure that all duties are performed and completed accurately.

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

MAGOFFIN COUNTY
 CARSON MONTGOMERY, SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Period April 17, 2018 Through April 15, 2019
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-002 The Magoffin County Sheriff Failed To Settle His 2018 Tax Accounts

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>	<u>4,984</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>	<u>3,271</u>

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

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 settlement activity above. The resulting surplus should be remitted to the county treasurer.

Sheriff's Response: 2018 tax accounts will be settled according to auditor's instructions.

MAGOFFIN COUNTY
 CARSON MONTGOMERY, SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Period April 17, 2018 Through April 15, 2019
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-003 The Magoffin County Sheriff Failed to Settle Taxes Associated With The 2017, 2014, And 2013 Tax Years

The Magoffin County Sheriff failed to completely settle the 2017, 2014, and 2013 tax accounts. Per prior year audits, there are outstanding receivables and liabilities that need to be collected and paid out to the appropriate districts. 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 county and the following districts need to be billed and collected:

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

- The 2017 franchise account owes payments to the following state, district, and fee account:

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

The sheriff has not settled the 2014 property tax account due to the following reasons:

- The 2014 property tax account now has a deficit of \$622. In an effort to settle the account, the sheriff made a deposit but to the wrong account. On January 15, 2019, a deposit of \$622 was made into to the 2014 fee account (ending 5435) instead of the 2014 property tax account (ending 5526).
- The sheriff has not collected a receivable from the soil district for \$24. In addition, there were no follow-up collection actions performed in accordance with the 2014 determination of fund balance.

The sheriff has not settled the 2013 unmined coal tax account and the fee account due to the following reason:

- The 2013 unmined coal tax account and the 2014 fee account have 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 in accordance with the 2013 determination of fund balance

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.

MAGOFFIN COUNTY
 CARSON MONTGOMERY, SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Period April 17, 2018 Through April 15, 2019
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-003 The Magoffin County Sheriff Failed to Settle Taxes Associated With The 2017, 2014, And 2013 Tax Years (Continued)

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.” 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.” Additionally, 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 collect and disburse the items listed above to completely settle these accounts.

Sheriff’s Response: All accounts except for 2018 have been settled to the best of my (office manager) ability.

2018-004 The Magoffin County Sheriff Failed To Remit All State Taxes Due To Incorrectly Computing Commissions Earned On State Tax Collections

This is a repeat finding and was included in the prior year audit report as finding 2017-004. The sheriff’s compensation for collecting property taxes was more than what is allowed per KRS. During our audit of the 2018 property tax settlement, we noted that the sheriff retained 4.81 percent of collection for the state for his commission rather than the 4.25 percent per the KRS and collected \$1,691 more than allowable. The total amount of overpayment to the sheriff’s 2018 fee account was \$1,710, including the \$1,691 above.

The sheriff failed to implement proper control procedures to ensure the sheriff’s commission was computed correctly. Due to this error, the sheriff underpaid state taxes \$1,691 and incurred a 10% penalty. The Commonwealth is not receiving all the taxes due to the Department of Revenue.

KRS 134.119(6)(a)(1) requires as compensation for collecting property taxes the sheriff shall be paid the following amounts, regardless of whether the amounts are collected by the sheriff prior to filing the tax claims with the county clerk, or by the county clerk after the tax claims become certificates of delinquency or personal property certificates of delinquency: 1. From 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’s office put controls in place to ensure that the sheriff’s office is compliant with KRS 134.119(6)(a)(1).

Sheriff’s Response: This has been addressed by the tax software provider.

MAGOFFIN COUNTY
 CARSON MONTGOMERY, SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Period April 17, 2018 Through April 15, 2019
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-005 The Magoffin County Sheriff Failed To Properly Bill Franchise Taxes

This is a repeat finding and was included in the prior year audit report as finding 2017-009. The sheriff's office improved upon a previously stated finding regarding franchise collections and exemplify improved internal controls over collections and preparation; however, the sheriff's office failed to bill franchise tax to one company and failed to bill two other companies franchise tax for the soil conservation district only, thereby demonstrating a continuous lack of internal control.

The sheriff's office and county clerk's office operate two different tax systems. 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 two companies.

In reviewing the franchise bills from the county clerk's office, it was noted that two companies were not billed franchise tax for the soil conservation district. When the sheriff's office re-created the franchise tax bills, the county clerk's office error was not noticed or corrected.

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

<u>Taxing District</u>	<u>Amount Not Billed</u>
County	\$ 89
School	77
Library	25
Health	10
Extension	24
Soil	14
Total	<u>\$ 239</u>

Due to lack of internal controls, the sheriff's office failed to bill one company when re-calculating the franchise tax bills in the sheriff's office tax system and during the re-calculation, the sheriff's office failed to notice the county clerk's office error in not billing franchise tax to two other companies for the soil conservation district.

When companies are not billed and/ or properly billed, the taxing districts are not receiving all the funds that they have a legal right to and the companies are not paying their 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."

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.

MAGOFFIN COUNTY
CARSON MONTGOMERY, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Period April 17, 2018 Through April 15, 2019
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-005 The Magoffin County Sheriff Failed To Properly Bill Franchise Taxes (Continued)

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 these three companies the franchise tax that they are legally obligated to pay.

Sheriff's Response: Franchise bills will be created per auditor's instructions.