

**REPORT OF THE AUDIT OF THE
FORMER MAGOFFIN COUNTY
SHERIFF'S SETTLEMENT – 2022 TAXES**

**For The Period
September 1, 2022 Through December 31, 2022**



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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

Independent Auditor's Report

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, Former Magoffin County Sheriff

The Honorable Bill Meade, Magoffin County Sheriff

Members of the Magoffin County Fiscal Court

Report on the Audit of the Financial Statement

Opinions

We have audited the accompanying former Magoffin County Sheriff's Settlement – 2022 Taxes for the period September 1, 2022 through December 31, 2022 - Regulatory Basis, and the related notes to the financial statement.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the accompanying financial statement presents fairly, in all material respects, the taxes charged, credited, and paid for the period September 1, 2022 through December 31, 2022 of the former Magoffin County Sheriff, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

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 section of our report, the financial statement 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 former Magoffin County Sheriff, for the period September 1, 2022 through December 31, 2022.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Audit Program for Sheriffs' Tax Settlements*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statement section of our report. We are required to be independent of the former Magoffin County Sheriff and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



To the People of Kentucky
The Honorable Andy Beshear, Governor
Holly M. Johnson, Secretary
Finance and Administration Cabinet
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The Honorable Carson Montgomery, Former Magoffin County Sheriff
The Honorable Bill Meade, Magoffin County Sheriff
Members of the Magoffin County Fiscal Court

Basis for Opinions (Continued)

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 former 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 and budget laws, 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 and pervasive.

Responsibilities of Management 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 and budget laws. 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 Responsibilities for the Audit of the Financial Statement

Our objectives are to obtain reasonable assurance about whether the financial statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not an absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statement.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement.
- Obtain an understanding of internal control relevant to the audit 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 former Magoffin County Sheriff's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statement.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the former Magoffin County Sheriff's ability to continue as a going concern for a reasonable period of time.

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, Former Magoffin County Sheriff
The Honorable Bill Meade, Magoffin County Sheriff
Members of the Magoffin County Fiscal Court

Auditor's Responsibilities for the Audit of the Financial Statement (Continued)

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2023, on our consideration of the former 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 effectiveness of 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 former Magoffin County Sheriff's internal control over financial reporting and compliance.

Based on the results of our audit, we have presented the accompanying Schedule of Findings and Responses, included herein, which discusses the following report findings:

- 2021-001 The Former Sheriff's Office Did Not Have Adequate Segregation Of Duties
- 2021-002 The Former Sheriff Did Not Settle Prior Year Property Tax Accounts

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts
Frankfort, Ky

November 6, 2023

MAGOFFIN COUNTY
CARSON MONTGOMERY, FORMER SHERIFF
SHERIFF'S SETTLEMENT – 2022 TAXES

For The Period September 1, 2022 Through December 31, 2022

	Special Taxing			
	County	Districts	School	State
<u>Charges</u>				
Real Estate	\$ 1,005,816	\$ 805,906	\$ 1,309,754	\$ 251,853
Tangible	77,141	68,541	103,901	53,144
Fire Protection	2,703			
Total Per Sheriff's Official Receipt	<u>1,085,660</u>	<u>874,447</u>	<u>1,413,655</u>	<u>304,997</u>
<u>Other Taxes & Charges</u>				
Franchise Taxes	5,094	4,409	6,742	
Additional Billings	472	428	636	51
Bank Franchises	<u>30,738</u>			
Gross Chargeable to Sheriff	1,121,964	879,284	1,421,033	305,048
<u>Credits</u>				
Exonerations	7,954	6,356	10,346	1,986
Discounts	13,732	11,044	17,888	3,798
Transfer to Incoming Sheriff	<u>216,885</u>	<u>174,941</u>	<u>282,682</u>	<u>63,916</u>
Total Credits	238,571	192,341	310,916	69,700
Taxes Collected	883,393	686,943	1,110,117	235,348
Less: Sheriff's Commissions*	<u>37,544</u>	<u>29,195</u>	<u>44,405</u>	<u>10,002</u>
Taxes Due Districts	845,849	657,748	1,065,712	225,346
Taxes Paid	844,809	656,915	1,064,366	225,088
Refunds (Current and Prior Year)	<u>1,040</u>	<u>833</u>	<u>1,346</u>	<u>258</u>
Taxes Due Districts	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

* Commissions:

4.25% on \$ 1,805,684

4% on \$ 1,110,117

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

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2022

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 former 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
December 31, 2022
(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 former Magoffin County Sheriff did not have a deposit policy for custodial credit risk, but rather followed the requirements of the *DLG County Budget Preparation and State Local Finance Officer Policy Manual*. As of December 31, 2022, 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, 2022. Property taxes were billed to finance governmental services for the fiscal year ending June 30, 2023. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 26, 2022 through December 31, 2022.

B. 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 August 18, 2022 through December 31, 2022.

Note 4. Interest Income

The former Magoffin County Sheriff earned \$115 as interest income on 2022 taxes. The former sheriff was in substantial compliance with his statutory responsibilities.

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

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

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

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 former Magoffin County Sheriff's Settlement – 2022 Taxes for the period September 1, 2022 through December 31, 2022 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated November 6, 2023. The former Magoffin County Sheriff's financial statement was 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.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the former Magoffin County Sheriff's internal control over financial reporting (internal control) as a basis for designing 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 former Magoffin County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the former 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 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.

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 2022-001 and 2022-002 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)

Report on Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Magoffin County Sheriff's financial statement is free from 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 financial statement. 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 2022-002.

Views of Responsible Official and Planned Corrective Action

The former 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 former 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,



Mike Harmon
Auditor of Public Accounts
Frankfort, Ky

November 6, 2023

SCHEDULE OF FINDINGS AND RESPONSES

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MAGOFFIN COUNTY
CARSON MONTGOMERY, FORMER SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Period September 1, 2022 Through December 31, 2022

FINANCIAL STATEMENT FINDINGS:

2022-001 The Former Sheriff's Office Did Not Have Adequate Segregation Of Duties

This is a repeat finding and was included in the prior year audit report as finding 2021-001. The former sheriff's office did not have adequate segregation of duties and internal controls over tax receipts and disbursements. The office manager and deputy clerks collected tax receipts. The office manager or a deputy clerk prepared a daily bank deposit and reconciled the daily receipts to the daily collection report and posted items to the receipts ledger. The office manager prepared the month-end tax reports, prepared checks for tax distribution based on the month-end tax reports and posted checks to the disbursements ledger. The former sheriff and the office manager signed tax distribution checks. The office manager prepared the monthly bank reconciliation, although there is nothing documented to determine who prepared the reconciliation or that it was reviewed by the former sheriff.

The former sheriff did not implement an adequate internal control system to improve segregation of duties.

By not segregating these duties, there was 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, 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.

Former Sheriff's Response: The former official did not provide a response.

2022-002 The Former Sheriff Did Not Settle Prior Year Property Tax Accounts

This is a repeat finding and was included in the prior year audit report as finding 2021-002. The former Magoffin County Sheriff has not properly settled the 2013, 2014, 2017, and 2018 tax accounts. The former sheriff closed these prior year accounts and paid the remaining balance left in those accounts to the fiscal court. The former sheriff did not follow the procedures provided in detailed schedules per the prior audit reports to properly settle these accounts. Per the prior year audit report, the amounts due to or due from taxing districts for 2013, 2014, 2017, and 2018 are as follows:

MAGOFFIN COUNTY
 CARSON MONTGOMERY, FORMER SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Period September 1, 2022 Through December 31, 2022
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2022-002 The Former Sheriff Did Not Settle Prior Year Property Tax Accounts (Continued)

2018 Tax Account

Assets

Reconciled Cash Balance	\$ 90
Receivables Per Draft:	
County	1,049
School	1,259
Library	334
Health	224
Extension	310
Soil	5
Interest Overpaid School	3
Amount Due Back From 2018 Fee for Overpaid Commissions	<u>1,710</u>
Total Assets	<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>\$ 3,271</u></u>

MAGOFFIN COUNTY
 CARSON MONTGOMERY, FORMER SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Period September 1, 2022 Through December 31, 2022
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2022-002 The Former Sheriff Did Not Settle Prior Year Property Tax Accounts (Continued)

2017 Tax Account

Assets

Reconciled Cash Balance	\$ 40
Receivables Per Draft:	
County	416
School	311
Library	49
Health	66
Extension	<u>96</u>
Total Assets	<u>978</u>

Liabilities

Unpaid Obligations Per Draft -	
State	\$ 1,499
Soil	176
2017 Fee Account	<u>55</u>
Total Unpaid Obligations	<u>1,730</u>
Total Fund Balance as of April 16, 2018	<u>\$ (752)</u>

2016 Tax Account

Assets

Receivables Per Draft:	
Soil	<u>\$ 24</u>
Total Assets	<u>24</u>

Liabilities

Total Unpaid Obligations	<u>0</u>
Total Fund Balance as of April 17, 2017	<u>\$ 24</u>

MAGOFFIN COUNTY
 CARSON MONTGOMERY, FORMER SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Period September 1, 2022 Through December 31, 2022
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2022-002 The Former Sheriff Did Not Settle Prior Year Property Tax Accounts (Continued)

2014 Tax Account

Assets

Receivables Per Draft:

State	\$ 37
Extension	<u>15</u>
Total Assets	<u>52</u>

Liabilities

Total Unpaid Obligations	<u>0</u>
Total Fund Balance as of May 16, 2015	<u>\$ 52</u>

2013 Tax Account

Assets

Receivables Per Draft:

State	<u>\$ 71</u>
Total Assets	<u>71</u>

Liabilities

Unpaid Obligations	<u>2,772</u>
Total Fund Balance as of October 15, 2014	<u>\$ (2,701)</u>

The former sheriff did not follow the guidelines to settle prior year accounts. Furthermore, he closed accounts by paying remaining funds within these accounts to the fiscal court instead of following the recommendations of prior audits to properly settle each account.

As a result, amounts due were not properly remitted to taxing districts. Taxpayers cannot be assured the sheriff's prior tax accounts were properly settled.

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." In addition, KRS 134.192(7) requires the sheriff to pay to the county treasurer all money that remains in his or her hands.

We recommend the former sheriff consult with the county attorney and the fiscal court to come up with a solution to resolve prior accounts, properly settle those accounts, and resolve any unpaid deficits.

Former Sheriff's Response: We are working to correct this issue.