

**REPORT OF THE AUDIT OF THE
MAGOFFIN COUNTY
SHERIFF'S SETTLEMENT - 2013 UNMINED COAL
TAXES**

**For The Period
September 2, 2013 Through October 15, 2014**



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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 - 2013 Unmined Coal Taxes for the period September 2, 2013 through October 15, 2014 - 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.



To the People of Kentucky
The Honorable Matthew G. Bevin, Governor
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Auditor's Responsibility (Continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 the 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 financial position of each fund of the Magoffin County Sheriff, for the period September 2, 2013 through October 15, 2014, or changes in financial position or cash flows thereof for the year then ended.

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 September 2, 2013 through October 15, 2014 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 solely 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 the Magoffin County Sheriff's internal control over financial reporting 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 over financial reporting and compliance.

To the People of Kentucky

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William M. Landrum III, Secretary

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The Honorable Carson Montgomery, Magoffin County Sheriff

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Other Reporting Required by *Government Auditing Standards* (Continued)

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

- 2013-001 The Sheriff Did Not Comply With The Uniform System Of Accounts
- 2013-002 The Sheriff Did Not Distribute 10% Add-On Fees On A Monthly Basis
- 2013-003 The Annual Settlement Of Tax Collections Was Not Prepared Timely
- 2013-004 The Sheriff's Office Did Not Report And Distribute Taxes Collected By The Tenth Of Each Month
- 2013-005 The Sheriff Did Not Settle His 2010 Unmined Coal Account
- 2013-006 The Sheriff Did Not Settle His 2012 Unmined Coal Account
- 2013-007 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 - 2013 UNMINED COAL TAXES

For The Period September 2, 2013 Through October 15, 2014

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Unmined Coal - 2013 Taxes	\$ 139,008	\$ 102,857	\$ 198,398	\$ 52,504
Penalties	321	237	458	121
Gross Chargeable to Sheriff	<u>139,329</u>	<u>103,094</u>	<u>198,856</u>	<u>52,625</u>
<u>Credits</u>				
Exonerations	533	395	761	201
Discounts	1,313	972	1,874	496
Delinquents:				
Unmined Coal - 2013 Taxes	<u>68,686</u>	<u>50,823</u>	<u>98,031</u>	<u>25,943</u>
Total Credits	<u>70,532</u>	<u>52,190</u>	<u>100,666</u>	<u>26,640</u>
Taxes Collected	68,797	50,904	98,190	25,985
Less: Commissions *	<u>2,924</u>	<u>2,163</u>	<u>3,928</u>	<u>1,104</u>
Taxes Due	65,873	48,741	94,262	24,881
Taxes Paid	62,190	48,577	93,632	24,780
Refunds (Current and Prior Year)	<u>911</u>	<u>356</u>	<u>630</u>	<u>172</u>
Due Districts or (Refunds Due Sheriff) as of Completion of Audit	<u>\$ 2,772</u>	<u>\$ (192)</u>	<u>\$ 0</u>	<u>\$ (71)</u>
		**		
* Commissions:				
4.25% on \$ 145,686				
4% on \$ 98,190				
** Special Taxing Districts:				
Library District		<u>\$ (192)</u>		
(Refund Due Sheriff)		<u>\$ (192)</u>		

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

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT

October 15, 2014

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 Federal Deposit Insurance Corporation (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 October 15, 2014, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT
October 15, 2014
(Continued)

Note 3. Tax Collection Period

The unmined coal property tax assessments were levied as of January 1, 2014. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was March 26, 2014 through October 15, 2014.

Note 4. Interest Income

The Magoffin County Sheriff earned \$22 as interest income on 2013 unmined coal taxes. The sheriff was in substantial compliance with his statutory responsibility regarding interest.

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

The Magoffin County Sheriff collected \$1,047 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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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 - 2013 Unmined Coal Taxes for the period September 2, 2013 through October 15, 2014 - 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 laws of Kentucky and is a special purpose framework.

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 over financial reporting.

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 comments and recommendations, we identified a certain deficiency in internal control that we consider to be a material weakness.

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 deficiency described in the accompanying comments and recommendations as item 2013-007 to be a material weakness.



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 comments and recommendations as items 2013-001, 2013-002, 2013-003, 2013-004, 2013-005, and 2013-006.

Views of Responsible Official and Planned Corrective Action

The Magoffin County Sheriff's views and planned corrective actions for the findings identified in our audit are described in the accompanying comments and recommendations. 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,



Mike Harmon
Auditor of Public Accounts

October 1, 2018

COMMENTS AND RECOMMENDATIONS

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MAGOFFIN COUNTY
CARSON MONTGOMERY, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period September 2, 2013 Through October 15, 2014

STATE LAWS AND REGULATIONS:

2013-001 The Sheriff Did Not Comply With The Uniform System Of Accounts

The sheriff failed to maintain receipts and disbursements ledgers for his tax account. The sheriff also failed to prepare monthly bank reconciliations. KRS 68.210 requires the state local finance officer to implement a system of uniform accounts that details minimum requirements for the handling of public funds, which includes, but is not limited to, maintaining books of original entry for receipts and disbursements and preparing monthly bank reconciliations.

The preparation of receipts and disbursements ledgers along with monthly bank reconciliations ensures that all tax receipts and disbursements have been properly accounted for. By not maintaining the proper records, it allowed the sheriff to overpay tax commissions causing the account to overdraw and funds having to be transferred back from the fee account.

The sheriff should comply with KRS 68.210 by maintaining receipts and disbursements ledgers along with monthly bank reconciliations.

Sheriff's Response: New staff have been delegated specific task. The preparation of receipts and disbursements ledger along with monthly bank reconciliations ensures that all tax receipts and disbursement have been properly accounted for. All errors have been corrected and a maintaining of books of original entry for receipts and disbursements and prepared monthly bank reconciliations is prepared appropriately and timely.

2013-002 The Sheriff Did Not Distribute 10% Add-On Fees On A Monthly Basis

The sheriff did not distribute 10% add-on fees on a monthly basis. 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." Add-on fee are to be distributed to the sheriff's fee accounted monthly. Since the sheriff failed to comply with KRS 134.119(7), the fee account was deprived of resources that could have been utilized by the sheriff for other activities of the office. The sheriff collected \$1,085 for 10% add on fees for 2013 collections. We recommend the sheriff pay add-on fees as required.

Sheriff's Response: We have purchased a new tax system that is calculating add-on fees and penalty's properly now. The account was deprived because the old system over calculated add-on fees and penalty's. This error has been corrected.

2013-003 The Annual Settlement Of Tax Collections Was Not Prepared Timely

The annual tax settlement was not presented to and approved by the fiscal court until December 29, 2014. 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. The sheriff's lack of oversight and inadequate internal controls resulted in the failure to prepare a timely settlement of tax collections. A timely settlement of tax collections can detect overpayments and underpayments to

MAGOFFIN COUNTY
CARSON MONTGOMERY, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period September 2, 2013 Through October 15, 2014
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2013-003 The Annual Settlement Of Tax Collections Was Not Prepared Timely (Continued)

taxing districts and allow these issues to be resolved in a timely manner. We recommend the sheriff's office comply with KRS 134.192 by timely preparing an annual tax settlement.

Sheriff's Response: This is prepared by a CPA outside of our office. It is out of our control as to when they have it prepared and ready. We try to retrieve any and all information they require timely and mannerly.

2013-004 The Sheriff's Office Did Not Report And Distribute Taxes Collected By The Tenth Of Each Month

The sheriff did not report and distribute taxes collected by the tenth of each month. KRS 134.191 requires the sheriff's office to report and distribute taxes collected by the tenth of each month. By not preparing monthly reports and paying the districts timely, the sheriff was not in compliance with statutes and taxing districts were deprived of much needed resources for significant time periods. We recommend the sheriff report and distribute taxes collected by the tenth of each month.

Sheriff's Response: A new office manager has been hired fulltime to handle tax collection disbursement. This has been corrected and all tax disbursements are done timely and mannerly.

2013-005 The Sheriff Did Not Settle His 2010 Unmined Coal Account

The sheriff did not settle his 2010 unmined coal account. During the 2010 tax collections, there were penalties paid to the state in the amount of \$899 and undeposited receipts which caused a deficit in the amount of \$3,128. The \$3,128 is owed to the 2011 fee account, which is closed and should be turned over to the fiscal court as remaining 2011 excess fees.

This was caused by poor record keeping. As a result, the sheriff is required to deposit personal funds in the amount of \$3,128.

KRS 64.820 states, "[T]he fiscal court shall collect any amount due the county from county officials as determined by the audit of the official[.]"

We recommend the sheriff resolve this deficit as soon as possible and settle his 2010 unmined coal account.

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

MAGOFFIN COUNTY
 CARSON MONTGOMERY, SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Period September 2, 2013 Through October 15, 2014
 (Continued)

STATE LAWS AND REGULATIONS: (Continued)

2013-006 The Sheriff Did Not Settle His 2012 Unmined Coal Account

The sheriff did not settle his 2012 unmined coal account. The account was in a deficit in the amount of \$972. In order to settle the account, the sheriff should collect and pay the following:

<u>Due From:</u>		<u>Due To:</u>	
Personally From Sheriff	\$ 972	County	\$ 331
		School	61
		Library	8
		Health	11
		Extension	10
		Soil	2
		2013 Fee Account	<u>549</u>
 Total Due From	 <u>\$ 972</u>	 Total Due To	 <u>\$ 972</u>

We were unable to determine the cause of this deficit. As a result, the sheriff is required to deposit personal funds in the amount of \$972.

KRS 64.820 states, “[T]he fiscal court shall collect any amount due the county from county officials as determined by the audit of the official[.]”

We recommend the sheriff resolve this deficit as soon as possible and settle his 2012 unmined coal account.

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

INTERNAL CONTROL - MATERIAL WEAKNESS:

2013-007 The Sheriff's Office Lacks Adequate Segregation Of Duties

The sheriff's office lacks adequate segregation of duties for receipts and disbursements. The sheriff has not implemented proper internal control procedures. Good internal controls dictate the same employee should not be handling receipts and disbursements, recording in the ledger, and preparing monthly reports.

Lack of oversight could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the Department of Revenue and other taxing districts.

Additionally, because a lack of adequate segregation of duties existed and because the sheriff did not provide strong oversight over the office, the following occurred:

MAGOFFIN COUNTY
CARSON MONTGOMERY, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period September 2, 2013 Through October 15, 2014
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESS: (Continued)

2013-007 The Sheriff's Office Lacks Adequate Segregation Of Duties (Continued)

- The sheriff's office did not report and did not distribute tax collections timely to the taxing districts.
- The sheriff's office did not distribute interest income timely to the school district.
- The sheriff's office did not distribute add-ons fees timely.
- Tax commissions were not calculated properly for unmined coal taxes for the state, county, and extension districts.

If the sheriff cannot adequately segregate duties we recommend he implement compensating controls such as periodically performing surprise cash counts, reviewing the bank reconciliations, and comparing the daily deposits to the daily checkouts and the receipts ledger, reconciling any differences. In addition, the sheriff could compare the monthly reports to the receipts and disbursements ledger for accuracy. Compensating controls that are performed should be documented by initialing and dating the bank reconciliations, bank deposits, daily checkout sheets, receipts and disbursements ledger, and reports.

Sheriff's Response: New staff has been placed in new positions and the distributions are now handled by the office manager timely, interest is being distributing timely, the school district. Add on fees are also handled timely and the new tax master system is calculating properly for Tax Commission for Unmined Coal Taxes for the county and state.