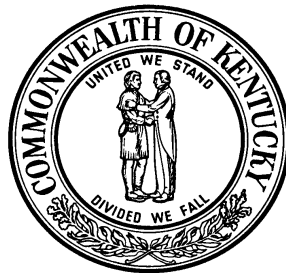


**REPORT OF THE AUDIT OF THE
MAGOFFIN COUNTY
SHERIFF'S SETTLEMENT - 2016 TAXES**

**For The Period
April 17, 2016 Through April 17, 2017**



**MIKE HARMON
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

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 Auditor's Report

Report on the Financial Statement

We have audited the Magoffin County Sheriff's Settlement - 2016 Taxes for the period April 17, 2016 through April 17, 2017 - Regulatory Basis, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Audit Guide for Sheriff's Tax Settlements*, issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

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



To the People of Kentucky
The Honorable 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, 2016 through April 17, 2017.

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, 2016 through April 17, 2017 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 August 7, 2019, 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:

- 2016-001 The Sheriff Has Unpaid Liabilities of \$18,808 And A Deficit In His 2014 Tax Account
- 2016-002 The Sheriff Did Not Distribute Interest Payments To The School And The Fee Account
- 2016-003 The Sheriff's Annual Settlement Was Materially Misstated
- 2016-004 The Sheriff Does Not Have Adequate Internal Controls Over Bank Franchises
- 2016-005 The Sheriff Did Not Settle His 2013 Tax Account
- 2016-006 The Sheriff Did Not Settle His 2015 Tax Account
- 2016-007 The Sheriff Has Not Settled His 2013 Unmined Coal Tax Account
- 2016-008 The Sheriff Has A Surplus Of \$267 In His 2014 Unmined Coal Tax Account
- 2016-009 The Sheriff's Office Lacks Adequate Internal Controls Over Franchise Collections
- 2016-010 The Sheriff's Office Lacks Adequate Segregation Of Duties
- 2016-011 The Sheriff Did Not Ensure Accurate Bank Reconciliations Were Completed

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

August 7, 2019

MAGOFFIN COUNTY
CARSON MONTGOMERY, SHERIFF
SHERIFF'S SETTLEMENT - 2016 TAXES

For The Period April 17, 2016 Through April 17, 2017

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 982,098	\$ 536,226	\$ 1,088,165	\$ 239,632
Tangible Personal Property	202,525	124,912	161,344	106,796
Fire Protection	2,958			
Franchise Taxes	317,568	195,675	255,505	
Unmined Coal - 2016 Taxes	19,584	10,693	21,699	4,778
Bank Franchises	23,377			
Penalties	8,932	4,997	9,243	2,629
Adjusted to Sheriff's Receipt	(242)	(22)	(40)	(66)
Gross Chargeable to Sheriff	<u>1,556,800</u>	<u>872,481</u>	<u>1,535,916</u>	<u>353,769</u>
 <u>Credits</u>				
Exonerations	8,363	4,566	9,348	2,040
Discounts	19,272	10,887	19,555	4,404
Delinquents:				
Real Estate	72,525	39,509	80,175	17,656
Tangible Personal Property	19,117	11,791	15,230	7,834
Unmined Coal - 2016 Taxes	12,885	7,036	14,277	3,144
Total Credits	<u>132,162</u>	<u>73,789</u>	<u>138,585</u>	<u>35,078</u>
Taxes Collected	1,424,638	798,692	1,397,331	318,691
Less: Commissions *	<u>60,547</u>	<u>33,944</u>	<u>55,893</u>	<u>13,544</u>
Taxes Due	1,364,091	764,748	1,341,438	305,147
Taxes Paid	1,361,923	762,878	1,340,265	304,545
Refunds (Current and Prior Year)	<u>2,183</u>	<u>1,425</u>	<u>2,448</u>	<u>639</u>
Due District or (Refunds Due Sheriff) as of Completion of Audit	<u>\$ (15)</u>	<u>\$ 445</u>	<u>\$ (1,275)</u>	<u>\$ (37)</u>

**

* and ** See next page.

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

MAGOFFIN COUNTY
CARSON MONTGOMERY, SHERIFF
SHERIFF'S SETTLEMENT - 2016 TAXES
For The Period April 17, 2016 Through April 17, 2017
(Continued)

* Commissions:

4.25% on	\$	2,542,021
4% on	\$	1,397,331

** Special Taxing Districts:

Extension District	\$	<u>445</u>
Due District	\$	<u><u>445</u></u>

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT

April 17, 2017

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

KRS 66.480 authorizes the sheriff's office to invest in obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Magoffin County Sheriff maintained deposits of public funds with depository institutions insured by the FDIC as required by KRS 66.480(1)(d). According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the sheriff's deposits may not be returned. The Magoffin County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of April 17, 2017, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT
April 17, 2017
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2016. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2017. Liens are effective when the tax bills become delinquent. The collection period for these assessments was April 17, 2016 through April 17, 2017.

B. Unmined Coal Property Taxes

The unmined coal property tax assessments were levied as of January 1, 2016. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was July 19, 2016 through October 16, 2017.

C. Franchise Taxes

The franchise tax assessments were levied by the Kentucky 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, 2016 through April 17, 2017.

Note 4. Interest Income

The Magoffin County Sheriff earned \$163 as interest income on 2016 taxes. The sheriff did not distribute the appropriate amount to the school district as required by statute. As of August 7, 2019, the sheriff owed \$57 in interest to the school district and \$106 in interest to his fee account.

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

The Magoffin County Sheriff collected \$14,085 of 10% add-on fees allowed by KRS 134.119(7). As of August 7, 2019, the Sheriff owed \$749 in 10% add-on fees to his fee account.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

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

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

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Magoffin County Sheriff's Settlement - 2016 Taxes for the period April 17, 2016 through April 17, 2017 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated August 7, 2019. 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 2016-001, 2016-002, 2016-003, 2016-004, 2016-005, 2016-009, 2016-010, and 2016-011 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)

Internal Control Over Financial Reporting (Continued)

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 2016-006, 2016-007, and 2016-008 to be significant deficiencies.

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 2016-001, 2016-002, 2016-003, 2016-004, 2016-005, 2016-006, 2016-007, 2016-008, 2016-009, and 2016-011.

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

August 7, 2019

SCHEDULE OF FINDINGS AND RESPONSES

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MAGOFFIN COUNTY
CARSON MONTGOMERY, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Period April 17, 2016 Through April 17, 2017

FINANCIAL STATEMENT FINDINGS:

2016-001 The Sheriff Has Unpaid Liabilities of \$18,808 And A Deficit In His 2014 Tax Account

The sheriff has a deficit of \$622 in his 2014 tax account. Deficits are primarily due to undeposited receipts. This was previously communicated in the prior year audit report as finding 2015-001. The 2014 tax account cannot be closed until all receivables and liabilities are resolved. In order to settle the account, the sheriff should collect and pay the following:

Assets

Cash in Bank	\$	15,330
Due From School District		2,832
Due From Soil District		24
		<u>24</u>
Total Assets		18,186

Unpaid Obligations:

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

Failure to pay liabilities timely causes taxing districts and other governmental agencies to be deprived of funds for significant time periods. After all receivables are collected and all liabilities are paid, the sheriff will be able to close his 2014 tax account. KRS 134.192 states, "[e]ach sheriff shall annually settle his or her accounts with the department, the county, and any district for which the sheriff collects taxes on or before September 1 of each year." Good internal controls ensure that all receivables and liabilities are settled for each tax year. Furthermore, KRS 64.820 states:

- (1) The fiscal court shall collect any amount due the county from county officials as determined by the audit of the official conducted pursuant to KRS 43.070 and 64.810 if the amount can be collected without suit.
- (2) In the event the fiscal court cannot collect the amount due the county from the county official without suit, the fiscal court shall then direct the county attorney to institute suit for the collection of the amount reported by the Auditor or certified public accountant to be due the county within ninety (90) days from the date of receiving the Auditor's or certified public accountant's report.

MAGOFFIN COUNTY
 CARSON MONTGOMERY, SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Period April 17, 2016 Through April 17, 2017
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-001 The Sheriff Has Unpaid Liabilities of \$18,808 And A Deficit In His 2014 Tax Account (Continued)

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

Sheriff's Response: We are waiting on funds from the soil conservation district and then we will settle this account. In the meantime, Sheriff Montgomery deposited \$622 from his personal funds to insure there would not be a deficit after all monies have been collected and disbursed properly.

2016-002 The Sheriff Did Not Distribute Interest Payments To The School And The Fee Account

The sheriff did not distribute \$163 in interest payments earned on tax collections of which the school portion of interest is \$57 and the fee account portion of interest is \$106. This was previously communicated in the prior year audit report as Finding 2015-002. The sheriff did not implement proper internal controls to ensure that interest was paid to the school and fee account monthly. As a result, the sheriff is not in compliance with KRS 134.140. KRS 134.140(3) states, "the sheriff shall pay to the county treasurer the investment earnings, other than those paid to the board of education in compliance with subsection (2) of this section, at the time of his or her monthly distribution of taxes to the county required by KRS 134.191." KRS 134.140(4) states, "the sheriff may use investment earnings, other than those which must be paid to the board of education in compliance with subsection (2) of this section, to pay lawful expenses of his or her office." Good internal controls ensure that interest is remitted in accordance with state law. We recommend the sheriff implement procedures to ensure the sheriff pays the amount of interest due the school and fee account on a monthly basis.

Sheriff's Response: Interest payments are now being made and will continue to be made as required.

2016-003 The Sheriff's Annual Settlement Was Materially Misstated

The sheriff's annual settlement was materially misstated and was not presented to the fiscal court in a timely manner. The sheriff's annual settlement did not include the following:

- Taxes Paid of 3,768,033
- Tax Commissions of \$163,859
- Discounts of \$54,099
- Penalties of \$25,767

Since these items were not included, the amount owed or due the taxing districts cannot be determined. The annual settlement was approved by the fiscal court on October 20, 2017. This was previously communicated in the prior year audit report as finding 2015-004.

The sheriff did not implement proper internal control procedures to ensure the annual tax settlement was prepared timely. Due to poor oversight, the tax settlement was materially misstated. By not preparing the annual settlement timely, the sheriff was not in compliance with statutes. In addition, having an accurate tax settlement assists the fiscal court's ability to hold the sheriff's office accountable for tax collections and disbursements.

MAGOFFIN COUNTY
CARSON MONTGOMERY, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Period April 17, 2016 Through April 17, 2017
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-003 The Sheriff's Annual Settlement Was Materially Misstated (Continued)

KRS 134.192 requires each sheriff to annually settle his or her 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, and each taxing district.

While the sheriff agreed with the recommended adjustments to his tax settlement to make it accurate, we recommend that in the future, the sheriff's office prepare an accurate annual tax settlement and comply with KRS 134.192 by presenting it to fiscal court by September 1.

Sheriff's Response: Sheriff settlements are now being prepared by a CPA and will contain all information needed.

2016-004 The Sheriff Does Not Have Adequate Internal Controls Over Bank Franchises

Internal controls over bank franchises need to be improved. The sheriff did not collect bank franchise from a local bank, and this unpaid bill was not turned over as delinquent to the county clerk as required. This also occurred for bank franchise bills in 2011 and 2012 for another local bank. In addition, the 2016 bank franchise bill that the sheriff had on file and in the tax collection system did not agree to the actual certification that was sent from the Kentucky Department of Revenue.

The sheriff did not implement proper internal controls to ensure that bank franchises are billed correctly. When a bill is given to the sheriff's office, good internal controls call for the bookkeeper to recalculate the bill, check the year, rate, and taxing districts to ensure the bill is correct. Once the bill is determined to be correct, it then should be put into the system for collection. After the tax collection is complete, a list of unpaid or delinquent bills needs to be prepared and turned over to the county clerk's office.

Without good internal controls, the sheriff could collect incorrect tax bills that could potentially make him liable. The sheriff did not comply with KRS 134.122.

KRS 134.122(1)(a) states, "[t]he sheriff shall, on April 15 or three (3) months and fifteen (15) days from the date the taxes were due under an alternative collection schedule, file all tax claims on real and personal property remaining in his or her possession with the county clerk[.]"

We recommend the sheriff implement procedures to ensure bank franchise bills are correctly billed by recalculating bills, checking the year, rates, and taxing districts to ensure the bills are correct. Once a bill is determined to be correct, the bill then should be put into the tax collection system. After tax collections are complete, a list of unpaid or delinquent bills needs to be prepared and turned over to the county clerk's office.

Sheriff's Response: Bookkeeper is working with county clerk to correct prior mistakes. Bookkeeper is now checking bills for accuracy before mailing to taxpayer. Any unpaid bills are being reported to the clerks office.

MAGOFFIN COUNTY
 CARSON MONTGOMERY, SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Period April 17, 2016 Through April 17, 2017
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-005 The Sheriff Did Not Settle His 2013 Tax Account

The sheriff did not settle his 2013 tax account. This was previously communicated in the prior year audit report as finding 2015-009. The sheriff failed to oversee the daily operations of his tax office. As a result, the following receivables and liabilities should be collected and paid:

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

Failure to pay liabilities timely causes taxing districts and other governmental agencies to be deprived of funds for significant time periods. After all receivables are collected and all liabilities are paid, the sheriff will be able to close his 2013 Tax Account. KRS 134.192 states, "[e]ach sheriff shall annually settle his or her accounts with the department, the county, and any district for which the sheriff collects taxes on or before September 1 of each year." 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 the 2013 tax account collects and disburses the items listed above in order to completely settle the account.

Sheriff's Response: Bookkeeper is waiting on funds from state in order to finish settling this account. Every other district has paid. Funds will be disbursed as soon as they become available.

MAGOFFIN COUNTY
 CARSON MONTGOMERY, SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Period April 17, 2016 Through April 17, 2017
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-006 The Sheriff Did Not Settle His 2015 Tax Account

The sheriff's 2015 Property Tax account has not been closed out. The following receivables and liabilities are due to be collected and paid. The settlement activity will result in a surplus of \$560 that should be put into an escrow account.

Cash in Bank (Property Tax Account)	\$	331
Due from 2016 Fee Account for overpaid commission		2,649
Due from State		71
Due from Fiscal Court		559
Due from School District		384
Due From Library District		126
Due From Health District		67
Due From Extension District		<u>151</u>
Total Assets		<u>4,338</u>
<u>Liabilities</u>		
Unpaid Obligations-		
Add on fees due 2016 Fee Account	747	
Due to 2016 Fee for Deposit Error	458	
Due To 2015 UMC For Deposit Error	2,462	
Interest Due Sheriff's Fee Account	76	
Interest Due School	<u>35</u>	
Total Unpaid Obligations		<u>3,778</u>
Total Fund Balance as of April 16, 2016	\$	<u>560</u>

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. After all receivables are collected and all liabilities are paid, the sheriff will be able to close his 2015 Tax Account.

KRS 134.192 states, "[e]ach sheriff shall annually settle his or her accounts with the department, the county, and any district for which the sheriff collects taxes on or before September 1 of each year." Good internal controls ensure that all receivables and liabilities are settled for each tax year. Furthermore, KRS 64.820 states:

- (1) The fiscal court shall collect any amount due the county from county officials as determined by the audit of the official conducted pursuant to KRS 43.070 and 64.810 if the amount can be collected without suit.
- (2) In the event the fiscal court cannot collect the amount due the county from the county official without suit, the fiscal court shall then direct the county attorney to institute suit for the collection of the amount reported by the Auditor or certified public accountant to be due the county within ninety (90) days from the date of receiving the Auditor's or certified public accountant's report.

MAGOFFIN COUNTY
 CARSON MONTGOMERY, SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Period April 17, 2016 Through April 17, 2017
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-006 The Sheriff Did Not Settle His 2015 Tax Account (Continued)

We recommend the sheriff take the necessary steps to ensure the 2015 tax account collects and disburses the items listed above in order to completely settle the account. The remaining surplus should be put into an escrow account.

Sheriff's Response: Bookkeeper is in the process of settling this account. We are currently waiting on funds from the state and extension districts. Account will be settled as soon as those monies are received.

2016-007 The Sheriff Has Not Settled His 2013 Unmined Coal Tax Account

The sheriff did not settle his 2013 unmined coal tax account. This was previously communicated in the prior year unmined coal audit report as finding 2015-007. The sheriff failed to oversee the daily operations of his tax office. As a result, the following receivables and liabilities should be collected and paid:

<u>Assets:</u>		<u>Liabilities:</u>	
Cash in bank	\$ 1,862	Due to County	\$ 2,772
Receivables:			
State	71		
County	191		
Commission from 2014 fee account	648		
 Total Assets	 \$ 2,772	 Total Liabilities	 \$ 2,772

Failure to pay liabilities timely causes taxing districts and other governmental agencies to be deprived of funds for significant time periods. After all receivables are collected and the liabilities are paid, the sheriff will be able to close his 2013 unmined coal tax account.

KRS 134.192 states, “[e]ach sheriff shall annually settle his or her accounts with the department, the county, and any district for which the sheriff collects taxes on or before September 1 of each year.” Good internal controls ensure that all receivables and liabilities are settled for each tax year. Furthermore, KRS 64.820 states:

- (1) The fiscal court shall collect any amount due from county officials as determined by the audit of the official conducted pursuant to KRS 43.070 and 64.810 if the amount can be collected without suit.
- (2) In the event the fiscal court cannot collect the amount due the county from the county official without suit, the fiscal court shall then direct the county attorney to institute suit for the collection of the amount reported by the Auditor or certified public accountant to be due the county within ninety (90) days from the date of receiving the Auditor's or certified public accountant's report.

After the above amounts are collected and the liabilities noted above are paid, we recommend the sheriff close his 2013 unmined coal tax account.

Sheriff's Response: Account will be settled as soon as state funds are received.

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 CARSON MONTGOMERY, SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Period April 17, 2016 Through April 17, 2017
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-008 The Sheriff Has A Surplus Of \$267 In His 2014 Unmined Coal Tax Account

The sheriff has a surplus of \$267 in his 2014 unmined coal tax account. This was previously communicated in the prior year unmined coal audit report as finding 2015-008. The following amounts should be collected and paid from the 2014 unmined coal tax account:

Assets	
Cash in Bank (All Tax Accounts)	\$ 125
Receivables:	
Due From 2015 Fee Account (overpaid commissions)	192
Due From School	<u>11</u>
Total Assets	<u>328</u>
<u>Liabilities</u>	
Unpaid Obligations-	
State	9
County	27
Library	5
Health	6
Extension	6
Soil	1
Interest Due School	3
Interest Due Sheriff's Fee Account	<u>4</u>
Total Unpaid Obligations	<u>61</u>
Total Fund Balance as of Audit Date	<u>\$ 267</u>

A tax surplus is due to unrefundable duplicate payments or unexplained receipts in the 2014 unmined coal tax account. The sheriff's staff did not mark all bills collected for 2014 unmined coal tax paid in the computer system. Two unmined coal bills collected on February 14, 2015 and February 24, 2014 were not marked paid in the computer system. Two taxpayers notified the county clerk that they paid their tax bills in the sheriff's office after receiving delinquent tax notices in the mail.

There is no way to determine how many bills the sheriff's office received but did not mark paid for 2014 unmined coal collections. As a result, the 2014 unmined coal tax account owes \$267 to the Kentucky State Treasurer for 2014 unmined coal tax surplus funds. Failure to pay liabilities timely causes governmental agencies to be deprived of funds for significant time periods. After all liabilities are paid, the sheriff will have settled his 2014 unmined coal tax account.

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 SCHEDULE OF FINDINGS AND RESPONSES
 For The Period April 17, 2016 Through April 17, 2017
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-008 The Sheriff Has A Surplus Of \$267 In His 2014 Unmined Coal Tax Account (Continued)

KRS 393.090 states that after three years, if the funds have not been claimed, they are presumed abandoned and abandoned funds are required to be sent to the Kentucky State Treasurer by KRS 393.110. In addition, 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.” Good internal controls ensure that all receivables and liabilities are settled for each tax year.

We recommend the sheriff take the necessary steps to settle his 2014 unmined coal tax account.

Sheriff's Response: Account will be settled as soon as possible.

2016-009 The Sheriff's Office Lacks Adequate Internal Controls Over Franchise Collections

The sheriff's office lacks adequate internal controls over franchise collections. The bookkeeper did not maintain a list of franchise bills that were collected during the year. Therefore, there was no knowledge of the bills that were sent out and the bills that were delinquent. These records had to be obtained from the county clerk's files. In addition, deposit tickets did not have details as to the bills that were deposited. The bills that were accepted and mailed out had one taxing district that was not included at all on the bills. Twenty-one bills were also not found based upon the franchise certification list provided by the Department of Revenue. The sheriff did not prepare a delinquent list of franchise bills and turn over to the county clerk.

The sheriff's office did not implement adequate internal controls over franchise collections. The sheriff did not maintain copies of the franchise bills that were given to them to collect. In addition, no details were maintained to determine which bills were paid. Bills not being prepared properly could result in taxing districts not being paid in a timely manner or not at all.

Good internal controls dictate strong oversight over franchise bill preparation should have been in place, ensuring all bills prepared were accurate. This would have ensured taxpayers paid correct amounts and the taxing districts received the proper amount due. Additionally, KRS 134.122(1)(a) states, “[t]he sheriff shall, on April 15 or three (3) months and fifteen (15) days from the date the taxes were due. . .file all tax claims on real and personal property remaining in his or her possession with the county clerk[.]”

We recommend the sheriff implement adequate internal controls by recomputing tax bills and ensuring that the correct taxing district is listed and all taxing districts are included on the bills before the bills are distributed to taxpayers. Furthermore, we recommend the sheriff prepare a list of delinquent franchise bills for the county clerk at the end of the normal tax collection period.

Sheriff's Response: Current bookkeeper does not accept franchise bills without proper documentation from the state attached. Bills are checked for accuracy before being mailed to the taxpayer. Bookkeeper is in the process of rectifying previous year mistakes. Lists of delinquent or unpaid bills are being turned over to the clerk. As for missing bills, the sheriff does not receive state paperwork, therefore he has no way of knowing how many bills actually need to be created.

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 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-010 The Sheriff's Office Lacks Adequate Segregation of Duties

The sheriff's office lacks adequate segregation of duties and internal controls over tax receipts and disbursements. This was previously communicated in the prior year audit report as finding 2015-010. 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 failed to implement proper internal control procedures. By not segregating these duties, there is an increased risk of undetected misappropriation of assets either by error or fraud. Internal controls and proper segregation of duties protect employees and the sheriff in the normal course of performing their daily responsibilities. Good internal controls dictate the same employee should not receive payments, prepare deposits, and post to the receipts ledger. The same employee should not prepare monthly reports, sign checks, and post to the disbursements ledger, and the same employee should not deposit funds, sign checks, post to ledgers, and prepare bank reconciliations and monthly reports.

We recommend the sheriff's office implement internal controls and segregate duties as much as possible. Employees receiving payments and preparing deposits should not be posting to the receipts ledger and preparing bank reconciliations. Employees preparing and signing checks should not be posting to the disbursements ledger and preparing bank reconciliations. A proper segregation of duties may not be possible with a limited number of employees, and in that case, the sheriff could take on the responsibility of preparing or reviewing the daily deposits, receipts and disbursements ledgers, monthly reports, and bank reconciliations. These reviews must be documented in a way that indicates what was reviewed, by whom, and when, because signing off on inaccurate information does not provide internal control.

Sheriff's Response: Due to the size of our office and budget restraints. It is not possible to implement these procedures.

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

2016-011 The Sheriff Did Not Ensure Accurate Bank Reconciliations Were Completed

The sheriff did not ensure that accurate bank reconciliations were completed. The 2015 unmined coal tax account was over drawn \$2,988. The negative cash balance was due to a deposit error made on April 15, 2016. The bookkeeper deposited \$2,462 into the 2015 property tax account that should have been deposited into the 2015 unmined coal tax account. The bookkeeper deposited \$2,988 from the 2016 fee account in order to eliminate the negative balance in the 2015 unmined coal tax account. This was previously reported in the prior year unmined coal tax audit report as finding 2015-003.

The sheriff relied on accounting staff and did not provide sufficient oversight of accounting and reporting functions to ensure safeguards such as reconciliations were being performed accurately.

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(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-011 The Sheriff Did Not Ensure Accurate Bank Reconciliations Were Completed (Continued)

The lack of reconciliation leaves accounts unbalanced and increases the risk of fraud, misappropriation of funds, and inaccurate financial records. Because the sheriff did not ensure that accurate bank reconciliations were completed, the 2015 unmined coal account was overdrawn. The bookkeeper deposited \$2,988 from the 2016 fee account in order to eliminate the negative balance in the 2015 unmined coal tax account. Timely and accurate bank reconciliations would have allowed the bookkeeper to find and correct the deposit error and prevented the account from being overdrawn.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The minimum requirements for handling public funds as stated in the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* require monthly bank reconciliations.

Additionally, KRS 134.160(2)(c) states, "[t]he sheriff shall balance all accounts on a monthly basis unless otherwise provided by law. The cost of maintaining records and accounts in whatever form shall be paid for as other county records."

We recommend monthly bank reconciliations be performed agreeing the receipts and disbursements ledgers to bank activity (pending and posted). We also recommend the 2015 unmined coal tax account reimburse the 2016 fee account \$2,988 and the 2015 property tax account should reimburse the 2015 unmined tax account \$2,462.

Sheriff's Response: Present bookkeeper does bank reconciliations in a timely manner. This will not happen in the future.