



Auditor of Public Accounts
Mike Harmon

FOR IMMEDIATE RELEASE

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Harmon Releases Audit of Magoffin County Sheriff's Fee Account

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2018 financial statement of Magoffin County Sheriff Carson Montgomery. State law requires the auditor to annually audit the accounts of each county sheriff. In compliance with this law, the auditor issues two sheriff's reports each year: one reporting on the audit of the sheriff's tax account, and the other reporting on the audit of the fee account used to operate the office.

Auditing standards require the auditor's letter to communicate whether the financial statement presents fairly the receipts, disbursements and excess fees of the Magoffin County Sheriff in accordance with accounting principles generally accepted in the United States of America. The sheriff's financial statement did not follow this format. However, the sheriff's financial statement is fairly presented in conformity with the regulatory basis of accounting, which is an acceptable reporting methodology. This reporting methodology is followed for all 120 sheriff audits in Kentucky.

As part of the audit process, the auditor must comment on noncompliance with laws, regulations, contracts, and grants. The auditor must also comment on material weaknesses involving the internal control over financial operations and reporting.

The audit contains the following comments:

The Magoffin County Sheriff's Office lacks adequate internal controls over financial records and reporting: This is a repeat finding and was included in the prior year audit report as Finding 2017-001. The sheriff's office lacks adequate segregation of duties and internal controls over financial record keeping and financial reporting. The bookkeeper and/or office manager was responsible for collecting money, preparing deposits, writing checks, posting to ledgers, performing and maintaining monthly bank reconciliations, and maintaining bank statements and financial reports. There was no documentation of compensating controls, such as oversight by the sheriff or other employees.

The sheriff did not implement an adequate internal control system to allow for the proper segregation of duties or provide any oversight to ensure that financial records and financial reports were prepared correctly.

The inadequate segregation of duties and inaccurate or incomplete financial reports and ledgers, affects the sheriff's ability to ensure that financial data is recorded, processed, and reported in an accurate and reliable manner. This impacts the sheriff's ability to ensure that assets were sufficiently safeguarded. The cumulative effect of these control weaknesses increases the risk of material misstatement caused by error or fraud. Adequate internal controls and proper segregation of duties protect employees and the sheriff in the normal course of performing their daily responsibilities and protects the county taxpayer funds.

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, same employee should not deposit funds, sign checks, post to ledgers, prepare bank reconciliations, and monthly reports.

We recommend the sheriff implement an adequate internal control system and segregate duties. 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. The sheriff should take responsibility for preparing or reviewing the daily deposits, receipt and disbursement ledgers, monthly reports, and bank reconciliations. These reviews must be documented in a way that indicates what was reviewed, by whom, and when.

County Sheriff's Response: Due to the size of our office and limited budget, we do not have the number of staff required to implement all of these procedures.

Auditor's Reply: The sheriff could implement compensating controls by reviewing aforementioned documents and procedures personally or by utilizing existing staff.

The Magoffin County Sheriff's fourth quarter financial statement was materially misstated: This is a repeat finding and was included in the prior year audit report as Finding 2017-001, which stated, "The receipts and disbursements ledger did not support the fourth quarter financial statement." During testing we noted the sheriff's receipts and disbursements ledgers did not agree to the fourth quarter financial statement nor did they agree to underlying supporting records. The sheriff's fourth quarter financial statement was misstated by \$205,990 and the disbursements were misstated by \$133,209. These errors were made due to co-mingling different years' receipts and disbursements. These errors were not caught because the sheriff's office lacks proper internal controls over financial record keeping and reporting. These errors cause the sheriff to make incorrect financial decisions due to relying on incorrect information.

Proper internal controls require policies and procedures to be in place that will prevent and/or detect errors in a timely manner.

We recommend the sheriff's office review their accounting policies and procedures to determine where this failure occurred and redesign their internal control such that the controls will prevent, detect, and correct any errors in a timely manner.

County Sheriff's Response: Current office manager has corrected this problem.

The Magoffin County Sheriff failed to settle prior year fee accounts and owes the Magoffin County Fiscal Court \$145,109 of excess fees: The Magoffin County Sheriff has not settled his 2011, 2012, 2013, 2014, 2015, 2016, and 2017 fee accounts. The table below summarizes the total amounts due to the sheriff, his liabilities, as well as the total amount due to the Magoffin County Fiscal Court:

	CY 2011	CY 2012	CY 2013	CY 2014	CY 2015	CY 2016	CY 2017	Totals
Bank Balance December 31, 2018	\$	\$ 48	\$	\$ 10,478	\$ 8,891	\$ 20,415	\$ 48,147	\$ 87,979
<u>Receivables:</u>								
2011 Fee Account	17,978							17,978
2012 Fee Account		69,278						69,278
2013 Fee Account			32,841					32,841
2014 Fee Account				14,158				14,158
2015 Fee Account					32,496			32,496
2016 Fee Account						62,139		62,139
2017 Fee Account							59,185	59,185
Total Assets	17,978	69,326	32,841	24,636	41,387	82,554	107,332	376,054
<u>Liabilities:</u>								
2013 Fee Account			25,618					25,618
2014 Fee Account				38,944				38,944
2015 Fee Account					18,721			18,721
2016 Fee Account						64,290		64,290
2017 Fee Account							97,680	97,680
Total Liabilities			25,618	38,944	18,721	64,290	97,680	245,253
Due From Sheriff For Deficit				14,308				14,308
Balances Due To Fiscal Court As of December 31, 2018	<u>\$17,978</u>	<u>\$69,326</u>	<u>\$ 7,223</u>	<u>\$</u>	<u>\$22,666</u>	<u>\$ 18,264</u>	<u>\$ 9,652</u>	<u>\$145,109</u>

The amounts that make up the receivables and liabilities of the individual fee accounts are listed in the following tables:

2011 Fee Account

Bank Balance December 31, 2018	\$	0
Receivables:		
Commissions Due From 2010 Tax Account		1,169
Due From 2010 Tax For Refunds Paid		498
Commissions Due From 2010 Unmined Coal Tax Account		6,026
Interest Due From 2010 Unmined Coal Tax Account		37
Add On Fees Due From 2010 Unmined Coal Tax Account		2,059
Due From Payroll Account		2,385
Due from Sheriff Personal Funds For Disallowed Disbursements		<u>5,804</u>
Total Due Fiscal Court As of December 31, 2018	\$	<u>17,978</u>

2012 Fee Account

Bank Balance December 31, 2018	\$	48
Receivables:		
Due From Payroll Account For Balance As Of 12/31/2012		6,061
Due From 2013 Fee Account For January 2013 Payroll Paid From 2012 Fee		4,674
Due From Deposit of 2012 Excess Fees Into The 2017 Fee Account		<u>58,543</u>
Total Due Fiscal Court As of December 31, 2018	\$	<u>69,326</u>

2013 Fee Account

Bank Balance December 31, 2018	\$	0
Receivables:		
Sheriff Add-On Fees Due From 2012 Tax Account		5,688
Interest Due From 2012 Tax Account		162
Commission Due From 2012 Tax Account		497
Interest Due From 2012 UMC Tax Account		4
Payroll Due From 2014 Payroll Account For January 2014 Payroll		10,954
Delinquent Tax Commissions Due From 2014 Fee Account		603
Due Personally From Sheriff For Disallowed Donation		41
Payroll Ending Cash Balance As Of December 31, 2013		1,211
Due From Payroll Account For Transfer		3,110
Due From Calendar Year 2016 Fee Account		<u>10,571</u>
Total Assets		32,841
Liabilities:		
Due 2012 Fee Account For January 2013 Payroll		(4,674)
Due 2013 Fee Account - January Payroll		(896)
Due 2013 Fee Account - Delinquent Tax Payments		(2,637)
Due Payroll Account For 2014		(40)
Due To Sheriff For Unpaid Salary		(358)
Occupational Tax Due The City Of Salyersville		(640)
Retirement Withholdings Due Magoffin County Fiscal Court		<u>(16,373)</u>
Total Liabilities		<u>(25,618)</u>
Total Due Fiscal Court As of December 31, 2018	\$	<u>7,223</u>

2014 Fee Account

Bank Balance December 31, 2018	\$	10,478
Receivables:		
Due From 2015 Fee Account For January Payroll		11,928
Due From Sheriff For Disallowed Expenditures		1,600
Due From 2015 Fee Account For Prisoner Transport		<u>630</u>
Total Assets		24,636
Liabilities:		
Due 2013 Fee Account - For January 2014 Payroll		(7,844)
Due 2013 Fee Account - For Delinquent Tax Commissions		(602)
Due 2013 Fee Account - For Delinquent Tax Payments		(252)
Due to Payroll Revolving Account For Payroll Liabilities		<u>(30,246)</u>
Total Liabilities		<u>(38,944)</u>
Total Deficit Due From Sheriff As of December 31, 2018	\$	<u>(14,308)</u>

2015 Fee Account

Bank Balance December 31, 2018	\$	8,891
Receivables:		
Due From 2016 Fee for December Oil Commissions		1,337
Due From 2014 Tax For Add-On Fees Per Tax Audit		3,882
Due From 2014 Tax For Receipts From KST		369
Due From Payroll Account For Excessive Transfer		<u>26,908</u>
Total Assets		41,387
Liabilities:		
Payable To 2014 Fee Account For Payment of January 2015 Payroll		(11,928)
Payable to 2014 Fee Account For AOC Claim		(630)
Payable To Payroll Account For January 2015 Liabilities Paid		(5,971)
Payable To 2014 UMC Tax Account For Overpayment Of Commissions		<u>(192)</u>
Total Liabilities		<u>(18,721)</u>
Total Due Fiscal Court As of December 31, 2018	\$	<u>22,666</u>

2014 Fee Account

Bank Balance December 31, 2018 \$ 10,478

Receivables:

Due From 2015 Fee Account For January Payroll 11,928
Due From Sheriff For Disallowed Expenditures 1,600
Due From 2015 Fee Account For Prisoner Transport 630
24,636

Total Assets

Liabilities:

Due 2013 Fee Account - For January 2014 Payroll (7,844)
Due 2013 Fee Account - For Delinquent Tax Commissions (602)
Due 2013 Fee Account - For Delinquent Tax Payments (252)
Due to Payroll Revolving Account For Payroll Liabilities (30,246)
(38,944)

Total Liabilities

Total Deficit Due From Sheriff As of December 31, 2018 \$ (14,308)

2015 Fee Account

Bank Balance December 31, 2018 \$ 8,891

Receivables:

Due From 2016 Fee for December Oil Commissions 1,337
Due From 2014 Tax For Add-On Fees Per Tax Audit 3,882
Due From 2014 Tax For Receipts From KST 369
Due From Payroll Account For Excessive Transfer 26,908
26,908

Total Assets

41,387

Liabilities:

Payable To 2014 Fee Account For Payment of January 2015 Payroll (11,928)
Payable to 2014 Fee Account For AOC Claim (630)
Payable To Payroll Account For January 2015 Liabilities Paid (5,971)
Payable To 2014 UMC Tax Account For Overpayment Of Commissions (192)
(18,721)

Total Liabilities

(18,721)

Total Due Fiscal Court As of December 31, 2018 \$ 22,666

2016 Fee Account

Bank Balance December 31, 2018	\$	20,415
Receivables:		
Payroll Account for Excess Transfers		17,789
2015 STS for Add On Fees Due		747
2015 Gas & Oil for Deposit Error		20
2015 UMC for Deposit Error		2,988
2017 Fee for Receipt from Fiscal Court		7,850
2015 STS for Deposit Error		458
2017 Fee for 2016 School Tax Commission		31,287
2016 Tax Account for Change Drawer		<u>1,000</u>
Total Assets		82,554
Liabilities:		
Due to 2017 Fee for Fiscal Court Receipt		(3,023)
Due to 2015 STS for Overpaid Commissions		(2,649)
Due to 2015 Fee for Oil Commission received from BOE		(1,337)
Due to 2015 Gas & Oil for Overpaid Commissions		(39)
Due to 2015 UMC for Overpaid Commissions		(944)
Due to Payroll Account for January 2016 expenses		(26,908)
Due to Closed Accounts		<u>(29,390)</u>
Total Liabilities		<u>(64,290)</u>
Total Due Fiscal Court As of December 31, 2018	\$	<u><u>18,264</u></u>

2017 Fee Account

Bank Balance December 31, 2018	\$	48,147
Receivables:		
2016 Fee For Fiscal Court Receipt		3,023
2018 Fee For 2017 Tax Commissions		<u>56,162</u>
Total Assets		107,332
Liabilities:		
2016 Fee For Fiscal Court Receipt		(7,850)
2016 Fee For Tax Commission		(31,287)
2012 Fee Excess Fees Deposited Into 2018 Fee		<u>(58,543)</u>
Total Liabilities		<u>(97,680)</u>
Total Due Fiscal Court As of December 31, 2018	\$	<u>9,652</u>

*** The prior year audit received a disclaimer of opinion. The amounts for the 2017 fee account were derived from the 2018 audited amounts discovered during testing.

The sheriff did not have qualified accounting staff who were trained on the uniform system of accounts set forth in KRS 68.210 and failed to oversee the daily activities of his office. The sheriff's staff failed to reconcile all accounts properly and remit excess fees after the prior year audits were complete. Additionally, the sheriff did not have proper internal controls in place to ensure that his annual settlements were presented to the fiscal court and any excess fees were paid timely.

Due to lack of oversight, the amounts due per the calendar year 2011 through 2017 audits were not collected, liabilities were not properly paid, and excess fees were not paid to the fiscal court. This denied the fiscal court funds totaling \$145,109 that could have been used towards expenses. Failure to settle accounts timely increases the risk that misappropriation occur and deprives the fiscal court of much needed resources for a significant time period. As a result of the issues above, the sheriff still personally owes \$14,308 to cover the deficit in his calendar year 2014 fee account.

Good internal controls dictate a documented review of the financial activity, which includes the settlement of fee accounts each year.

KRS 68.210 authorizes the state local finance officer to implement a system of uniform accounts that set the minimum requirements for the handling of public funds for government officials. Books of original entry for receipts and disbursements along with monthly bank reconciliations are included in these requirements. Receipts and disbursements ledgers should be prepared from source documents and should be updated daily. Receipts should be posted from daily checkout sheets, while disbursements should be posted from the actual checks and debit memos, if applicable. Monthly bank reconciliations should also be prepared and should include all

receivables and liabilities for that month. Each month, bank reconciliation should be reconciled to the receipts and disbursements ledgers.

KRS 134.192(1) states in part, “[e]ach sheriff shall annually settle his or her before September 1 of each year.” KRS 134.192(11) states, “[i]n counties containing a population of less than seventy thousand (70,000) the sheriff shall file annually with his or her settlement:

- (a) A complete statement of all funds received by his or her office for official services, showing separately the total income received by his or her office for services rendered, exclusive of his or her commissions for collecting taxes, and the funds received as commissions for collecting state, county and school taxes; and
- (b) A complete statement of all expenditures of his or her office, including his or her salary, compensation of deputies and assistants, and reasonable expenses.”

Additionally 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.

We recommend the sheriff establish procedures to ensure an annual settlement is presented to the fiscal court as prescribed in KRS 134.192 and excess fees be paid at that time. We also recommend the sheriff collect all receivables, pay all liabilities, personally pay fund deficits, and remit excess fees due to the fiscal court for the 2011, 2012, 2013, 2014, 2015, 2016, and 2017 calendar years.

County Sheriff's Response:

2011 Fee - Excess awarded to Sheriff office by former judge. \$5,804 due from Sheriff paid on 1/29/19.

2012 Fee - Excess awarded to Sheriff office by former judge.

2013 Fee - Excess awarded to Sheriff office by former judge. \$41 owed by Sheriff was paid on 1/15/19.

2014 Fee - Excess awarded to Sheriff office by former judge.

2015 Fee - Excess paid on 11/18/19.

2016 Fee - Excess paid on 11/18/19.

2017 Fee - Excess will be paid per auditor's instructions.

Auditor's Reply: 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.

Significant Internal Revenue Service (IRS) penalties and interest from past years continue to accumulate and need to be settled with the IRS: During our audit we followed up on prior year Finding 2017-001, which stated; “Significant IRS penalties and interest from past years continue to accumulate. The current amount of IRS penalties and interest is \$59,706. The penalties and interest date back from December 2011, two quarters for 2013, all four quarters of 2014 and 2015, and the first quarter of 2016. To date these penalties and interest have not been paid.” We reviewed 12 invoices from the sheriff’s office that were received from the IRS stating a total penalties and interest due in the amount of \$62,935.26, which has not been paid at the date of the report. See the table below for the breakdown of the 12 invoices that the sheriff’s office received from the IRS.

Summary of IRS Penalties and Interest

<u>Tax Period</u>	<u>Tax Form</u>	<u>Amount Due</u>	<u>Notice Date</u>
December 31, 2011	CVL PEN	\$ 1,506.46	March 16, 2020
September 30, 2013	941	3,236.34	March 16, 2020
December 31, 2013	941	13,369.70	March 16, 2020
March 31, 2014	941	10,062.96	March 16, 2020
June 30, 2014	941	10,469.12	March 16, 2020
September 30, 2014	941	8,719.05	March 16, 2020
December 30, 2014	941	7,228.43	March 16, 2020
March 31, 2015	941	1,563.15	March 16, 2020
June 30, 2015	941	1,670.44	March 16, 2020
September 30, 2015	941	1,335.18	March 16, 2020
December 31, 2015	941	1,977.63	March 16, 2020
March 31, 2016	941	1,796.80	March 16, 2020
Total		<u>\$ 62,935.26</u>	

The sheriff’s office lacked proper internal controls related to paying the taxes due on the 941 tax forms timely from the last calendar quarter in 2011 through the first calendar quarter in 2016. The employee/employer payroll taxes have been paid, but not timely. Since these payroll taxes were not paid timely the IRS assessed penalties and interest on the late payment of these payroll taxes. The sheriff’s office stated that if these penalties and interest were paid, they would be deemed unallowable expenses from the fee account; therefore, the sheriff has no way to pay them. By not paying the penalties and interest, they will continue to increase every year causing a larger cash flow burden on Magoffin County taxpayers.

IRS Publication 15, Section 11. Depositing Taxes states:

- “Generally, you must deposit federal income tax withheld and both the employer and employee social security and Medicare taxes.”
- “There are two deposit schedules—monthly and semiweekly—for determining when you deposit social security, Medicare, and withheld federal income taxes. These schedules tell you when a deposit is due after a tax liability arises. Your tax liability is based on the dates payments were made or wages were paid.”

- “Penalties may apply if you don't make required deposits on time or if you make deposits for less than the required amount.”
- For amounts not properly or timely deposited, the penalty rates are as follows.

Penalty	Charged For....
2%	Deposits made 1 to 5 days late
5%	Deposits made 6 to 15 days late.
10%	Deposits made 16 or more days late, but before 10 days from the date of the first notice the IRS sent asking for the tax due.
10%	Amounts that should have been deposited, but instead were paid directly to the IRS, or paid with your tax return. But see Payment with return, earlier in this section, for exceptions.
15%	Amounts still unpaid more than 10 days after the date of the first notice the IRS sent asking for the tax due or the day on which you received notice and demand for immediate payment, whichever is earlier.

Late deposit penalty amounts are determined using calendar days, starting from the due date of the liability.

IRS Publication 15, Section 12. Filing Form 941 or Form 944 states:

- Penalties. For each whole or part month a return isn't filed when required, there is a failure-to-file (FTF) penalty of 5% of the unpaid tax due with that return. The maximum penalty is generally 25% of the tax due. Also, for each whole or part month the tax is paid late, there is a failure-to-pay (FTP) penalty of 0.5% per month of the amount of tax. For individual filers only, the FTP penalty is reduced from 0.5% per month to 0.25% per month if an installment agreement is in effect. You must have filed your return on or before the due date of the return to qualify for the reduced penalty. The maximum amount of the FTP penalty is also 25% of the tax due. If both penalties apply in any month, the FTF penalty is reduced by the amount of the FTP penalty. The penalties won't be charged if you have a reasonable cause for failing to file or pay. If you receive a penalty notice, you can provide an explanation of why you believe reasonable cause exists.
- Note. In addition to any penalties, interest accrues from the due date of the tax on any unpaid balance.

We recommend the sheriff to contact the IRS to get the penalties and interest waved, or to personally settle these funds with the IRS, as these penalties are not allowable expenses of the sheriff's fee account.

County Sheriff's Response: We will follow the recommendation of the auditor.

Magoffin County Sheriff's payroll account was not reconciled to zero at the end of calendar year 2018 and owes money to various entities: During testing, we noted that the sheriff's payroll account was not being reconciled to zero at the end of the calendar year. The reconciliation of the payroll account showed a calculated ending balance of (\$12,850).

The sheriff's office lacks proper internal controls over the payroll reconciliation process. Due to lack of proper internal controls, the payroll account has a negative ending balance and there are over and under payments of payroll liabilities. Additionally, the deficit in the payroll account should be paid for by the fee account and will cause fee to have a total deficit of (\$15,587).

Proper internal controls dictate that the sheriff should require the payroll account be reconciled to zero and to pay the payroll liabilities timely.

We recommend the sheriff's office to implement internal controls to ensure that the payroll account will be reconciled to zero annually and that all payroll liabilities will be paid timely. In addition, we recommend the sheriff's office pay the liabilities and collect the overpayments noted above.

County Sheriff's Response: We contend that this account does not have any outstanding liabilities. Account has no outstanding checks and has been dormant for over 2 years. As far as the Sheriff owing over \$12,000...a transfer was made from the payroll account to the 2017 Fee account on 11/18/17 in the amount of \$12,000. This clearly belongs back in the payroll account. Proof of this transfer was provided to the auditor by the Office Manager.

Auditor's Response: The fact that this account has been dormant for two years has not been confirmed by the auditor and has no bearing on the condition of this finding. In addition, after the auditors completed their reconciliation of this payroll account, the auditors reviewed their reconciliation with the sheriff's office manager and the county's finance officer, who was the county treasurer during the period under audit. Both individuals concurred with the auditors' reconciliation after agreed upon adjustments. Lastly, if the sheriff's office transfers the \$12,000 from the 2017 fee account back into this payroll account, it will cause the 2017 fee account to have a deficit of \$2,348 which the sheriff will be personally liable for.

The sheriff did not settle his 2018 fee account: The sheriff has not presented a settlement to the fiscal court or remitted excess fees due for calendar year 2018. The chart below details the liabilities the sheriff still owes for his 2018 fee account:

Bank Balance December 31, 2018	\$ 71,291
Liabilities:	
Due Sheriff For Underpayment Of Salary	(69)
Due to 2017 For Commissions and Other Deposit Errors	(56,162)
Due to 2019 for Deposit Error	<u>(17,797)</u>
Total Liabilities	<u>(74,028)</u>
Deficit Due From Sheriff As of December 31, 2018	<u>\$ (2,737)</u>
Payroll Account Reconciled Balance At December 31, 2018	\$ (12,850)
2018 Fee Account Deficit	<u>(2,737)</u>
Total Deficit Due From Sheriff As of December 31, 2018	<u>\$ (15,587)</u>

The sheriff stated that he was not aware of the requirement to submit his final settlement by September 1 of every year and was waiting until the audit was completed to settle the 2018 fee account with the fiscal court to ensure the figures are accurate. When the sheriff does not settle his fee account timely, he runs the risk of overspending the fee account, and becoming personally liable for the amount overspent.

KRS 134.192(1) states in part, “[e]ach sheriff shall annually settle his or her before September 1 of each year.” KRS 134.192(11) states, “[i]n counties containing a population of less than seventy thousand (70,000) the sheriff shall file annually with his or her settlement:

- (a) A complete statement of all funds received by his or her office for official services, showing separately the total income received by his or her office for services rendered, exclusive of his or her commissions for collecting taxes, and the funds received as commissions for collecting state, county and school taxes; and
- (b) A complete statement of all expenditures of his or her office, including his or her salary, compensation of deputies and assistants, and reasonable expenses.”

We recommend the sheriff establish procedures to ensure an annual settlement is presented to fiscal court in a reasonable time period and excess fees be paid at that time. We also recommend the sheriff pay all the liabilities and remit personal funds of \$2,737 for the 2018 deficit he has incurred.

County Sheriff's Response: I will settle this account per auditors instructions. Settlements are now being presented on time as of this date.

The sheriff's office lacks adequate segregation of duties: The sheriff's office lacks adequate segregation of duties and internal controls. The bookkeeper and/or office manager was responsible for collecting money, preparing deposits, writing checks, posting to ledgers, performing, and

maintaining monthly bank reconciliations, and maintaining bank statements and financial reports. This was previously communicated in Finding 2017-001.

The sheriff did not implement an adequate internal control system to allow for the proper segregation of duties.

By not segregating these duties, there is an increased risk of misappropriation of assets either by undetected error or fraud. Internal controls and proper segregation of duties protect employees and the sheriff in the normal course of performing their daily responsibilities and protects the county taxpayer funds.

Good internal controls dictate the same employee should not receive payments, prepare deposits, and post to the receipt ledger. The same employee should not prepare monthly reports, sign checks and post to the disbursement ledger. Also, same employee should not deposit funds, sign checks, post to ledgers, prepare bank reconciliations, and monthly reports.

We recommend the sheriff's office implement an adequate internal control system and segregate duties. 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. The sheriff should take on the responsibility of preparing or reviewing the daily deposits, receipt and disbursement 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 adequately provide internal control.

County Sheriff's Response: We are doing the best we can with the manpower and budget we have available.

The sheriff's responsibilities include collecting property taxes, providing law enforcement and performing services for the county fiscal court and courts of justice. The sheriff's office is funded through statutory commissions and fees collected in conjunction with these duties.

The audit report can be found on the [auditor's website](#).

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The Auditor of Public Accounts ensures that public resources are protected, accurately valued, properly accounted for, and effectively employed to raise the quality of life of Kentuckians.

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