



Auditor of Public Accounts
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Harmon Releases Audit of Magoffin County Sheriff's Gas and Oil Tax Settlement

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2017 gas and oil tax settlement for 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 sheriff's settlement presents fairly the taxes charged, credited and paid in accordance with accounting principles generally accepted in the United States of America. The sheriff's settlement is prepared on the regulatory basis, which is described in the auditor's opinion letter. Regulatory basis reporting for the sheriff's settlement is an acceptable reporting methodology, and this reporting methodology is followed for all 120 sheriff settlements in Kentucky.

The sheriff's financial statement fairly presents the taxes charged, credited, and paid for the period May 16, 2017 through May 15, 2018 in conformity with the regulatory basis of accounting.

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 sheriff's annual settlement was materially misstated: This is a repeat finding and was included in the prior period audit report as Finding 2016-001. 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:

- 2015 and 2016 Gas Rebills of \$50,948
- Penalties of \$43
- Discounts of \$3,108
- Delinquent Real Estate of \$584
- Sheriff's Commissions of \$6,769
- Taxes due to districts of \$40,529
- Taxes paid of \$155,464

Since these items were not included, the amount owed or due the taxing district was not properly determined. The annual settlement was approved by the fiscal court on September 27, 2018.

The sheriff did not implement proper control procedures to ensure the county settlement was prepared timely and is an accurate representation of tax activity.

By not preparing the county settlement timely, the sheriff was not in compliance with statutes. In addition, accuracy assists in the fiscal court's ability to hold the sheriff's office accountable for tax collections and disbursements.

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 each taxing districts. Effective internal controls over financial reporting are essential to ensure financial reports are accurate.

We recommend the sheriff's office prepare an accurate annual tax settlement and comply with KRS 134.192 by presenting it to the fiscal court by September 1.

Sheriff's Response: Sheriff settlements are now being prepared by a professional accountant. Reports will be as accurate as possible.

The sheriff's office lacks adequate segregation of duties: This is a repeat finding and was included in the prior year audit report as Finding 2016-002. The sheriff's office lacks adequate segregation of duties and internal controls over tax receipts and disbursements because the sheriff failed to implement proper internal control procedures. The office manager/bookkeeper and deputies collect tax receipts. The office manager/bookkeeper or a deputy prepares a daily bank deposit, reconciles the daily receipts to the daily collection report and posts items to the receipt ledger. The office manager/bookkeeper prepares the month-end tax reports, prepares checks for tax distribution based on the month-end tax reports and posts checks to the disbursement ledger. The office manager/bookkeeper and the sheriff sign tax distribution checks.

The office manager/bookkeeper 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 office manager/bookkeeper is the sheriff's daughter which further complicates the internal controls of the sheriff's department because collusion between the sheriff and his daughter is at a higher risk due to their relationship as compared to unrelated parties.

According to the sheriff, the sheriff operates on limited resources and a restricted budget; as such, the sheriff's office lacks the means to employ a fundamental segregation of duties strategy.

By not segregating these duties, there is an increased risk of misappropriation of assets either by undetected error or fraud. Internal controls and proper segregation of duties protect employees and the sheriff in the normal course of performing their daily responsibilities. Good internal controls dictate the same employee should not receive payments, prepare deposits and post to the receipt ledger. The same employee should not prepare monthly reports, sign checks and post to the disbursement ledger, and the same employee should not deposit funds, sign checks, post to ledgers, 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: Although we are a small office with a limited number of employees, we will do our best to implement auditors' suggestions.

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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