



Auditor of Public Accounts
Adam H. Edelen

FOR IMMEDIATE RELEASE

Contact: **Stephenie Steitzer**
stephenie.steitzer@auditor.ky.gov
502.564.5841
513.289.7667

Edelen Releases Audit of Magoffin County Sheriff's Tax Settlement

FRANKFORT, Ky. – State Auditor Adam Edelen today released the audit of the sheriff's settlement - 2010 taxes 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.

The audit found that the sheriff's financial statement fairly presents the taxes charged, credited and paid, for the period January 5, 2011 through May 15, 2011, in conformity with the modified cash basis of accounting.

As part of the audit process, the auditor must comment on non-compliance 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 should deposit daily and prepare monthly bank reconciliations. During receipt testing, we noted that receipts were not being deposited on a daily basis and bank reconciliations were not being prepared. The state local finance officer, under the authority of KRS 68.210, established minimum accounting requirements which include depositing receipts intact on a daily basis and reconciling receipts to monthly bank statements. Receipts should be deposited daily and monthly reconciliations should be prepared in order to reduce the risk of errors. The practice of making daily deposits reduces the risk of misappropriation or theft. Cash is the asset most subject to theft. Not making daily deposits placed funds at unnecessary risk of misappropriations. Any cash or checks left in the office overnight should be secured in a safe to reduce the risk of misappropriation or theft. We recommend the sheriff make daily deposits and prepare monthly bank reconciliations as required by the state local finance officer.

Sheriff's response: The sheriff made no response.

The sheriff's office should report and distribute taxes collected by the 10th of each month. The sheriff did not report and distribute taxes collected by the 10th of each month. KRS 134.191 requires the sheriff's office to report and distribute taxes collected by the tenth of each month. During the audit, auditors noted that no franchise taxes were distributed and all other taxes were not paid in a timely manner. We recommend that the sheriff report and distribute taxes collected by the 10th of each month.

Sheriff's response: The sheriff made no response.

The sheriff should implement controls over tax collections and maintain adequate records. The sheriff did not have adequate controls over tax collections and did not maintain proper records. The sheriff did not prepare daily checkout sheets, receipts and disbursement ledger, reconcile bank statements, make daily deposits or maintain three-part receipts as required by the state local finance officer. Without the preparation of these items and controls in place to ensure timely completion, the risk of misappropriation or theft could occur without detection in a timely manner increases. KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Under this authority, the state local finance officer requires deposits be made intact on a daily basis and reconciled on a monthly basis to the bank statements.

In addition a daily checkout sheet should be prepared and pre-number three-part receipt forms should be issued for all receipts. Original receipts should be given to the payer, one copy to be attached in sequential order to the daily checkout sheet and the other copy to remain in the file. Voided receipts should be marked so, copies one and two kept in numerical order with checkout sheets, and copy three remaining in the file.

We recommend the sheriff implement controls over tax collections in order to ensure compliance with the uniform system of accounts established by the state local finance officer. With the preparation of these items noted above and making daily deposits this will reduce the risk of misappropriation or theft could occur without detection in a timely manner.

Sheriff's response: The sheriff made no response.

The sheriff's office lack adequate segregation of duties. The sheriff's office lacked 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 misappropriation of assets and inaccurate financial reporting to external agencies such as the Department of Revenue and other taxing districts, which could occur but go undetected.

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:

- The sheriff's office did not process tax payments timely;
- The sheriff's office did not deposit receipts of the office intact on a daily basis;

- 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.

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 disbursement ledger, and reports.

Sheriff's response: The sheriff made no response.

Proper records and controls over franchise bills need to be implemented. We noted several deficiencies related to franchise tax collections. The deficiencies in the controls and processes over franchise taxes put these funds at an increased risk of loss or theft. A review of franchise tax collections revealed the following:

- No documentation of franchise collections;
- No monthly reports were prepared or disbursed;
- Franchise tax payment was deposited into the fee account rather than the tax account;
- Incorrect rates on the franchise bills.

Under the authority of KRS 68.210 the state local finance officer requires all collections be batched and deposited daily. KRS 134.191 requires the sheriff to report, by the tenth of each month, all taxes collected during the prior month, including franchise taxes. KRS 134.191 also states, at the time of making the report, the sheriff shall pay taxes to the districts and allows for a penalty of 1% for each thirty day period or fraction thereof that the payment is not made. If a franchise tax bill remains unpaid when the sheriff is ready to turn other tax bills over to the county clerk, the unpaid franchise tax bill should be turned over to the county clerk as delinquent along with other tax bills. A certificate of delinquency should be prepared in the same manner as all other county tax bills.

We recommend the sheriff improve internal controls procedures and records related to franchise tax collections by assuring franchise tax collections are batched and deposited upon receipt and distributed by the tenth day of the following month. We recommend unpaid franchise tax bills be turned over to the county clerk as delinquent.

Sheriff's response: The sheriff made no response.

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.

###

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.

For more information, visit auditor.ky.gov and follow Auditor Edelen on Twitter @AuditorKY, facebook.com/AuditorKY and youtube.com/AuditorKY.