



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

FRANKFORT, Ky. – State Auditor Adam Edelen today released the audit of the sheriff's settlement – 2012 Gas and Oil 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.

Recent changes in auditing standards require the auditor's letter to communicate whether the sheriff's settlement presents fairly the taxes charged, credited and paid of the Magoffin County Sheriff in accordance with generally accepted accounting principles in the United States. 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 audit found that the sheriff's financial statement fairly presents the taxes charged, credited and paid, for the period, May 16, 2012 through June 28, 2013 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 failed to prepare receipts and disbursements ledgers and monthly bank reconciliations as required by KRS 68.210. KRS 68.210 requires the state local finance officer to implement a system of uniform accounts that details minimum requirements for the handling of public funds, which includes, but is not limited to, maintaining books of original entry for receipts and disbursements and preparing monthly bank reconciliations. The Sheriff failed to maintain receipts and disbursements ledgers for his tax account. The Sheriff also failed to prepare monthly bank reconciliations. The preparation of receipts and disbursements ledgers along with monthly bank reconciliations ensures that all tax receipts and disbursements have been properly accounted for. We recommend the Sheriff comply with KRS 68.210 by maintaining receipts and disbursements ledgers along with monthly bank reconciliations.

Sheriff's response: Will be corrected. We will have a special account for bad checks NSF.

The Sheriff should make interest payments to the school and the fee account. The Sheriff did not distribute interest earned on tax collections to either the school or the fee account. KRS 134.140(2) requires the Sheriff to pay the Board of Education monthly “that part of the investment earnings for the month which are attributable to the investment of school taxes, less an amount not to exceed four percent of the earned monthly investment income to reimburse the Sheriff for the costs of administering the investment.” The Sheriff should distribute the investment earnings at the same time as monthly tax collections. We recommend the Sheriff implement procedures to ensure the Sheriff pay the amount of interest due to the school and fee account on a monthly basis.

Sheriff's response: We corrected this during the past tax collections.

The annual settlement of tax collections should be timely prepared. KRS 134.192 requires each Sheriff to annually settle his tax accounts on or before September 1 of each year. Furthermore, the annual settlement shall be filed in the County Clerk's office and approved by the governing body of the county no later than September 1 of each year. The settlement shall show the amount of taxes collected and disbursed for the county, school district, and all tax districts. The annual tax settlement was not presented to and approved by the fiscal court until September 30, 2013. We recommend the Sheriff's office comply with KRS 134.192 by timely preparing an annual tax settlement.

Sheriff's response: This problem will be corrected.

The Sheriff's office should report and distribute taxes collected by the tenth of each month. The Sheriff did not report and distribute taxes collected by the tenth of each month. KRS 134.191 requires the Sheriff's Office to report and distribute taxes collected by the tenth of each month. Because the sheriff did not distribute taxes in a timely manner, he failed to comply with KRS 131.191. We recommend that the Sheriff report and distribute taxes collected by the tenth of each month.

Sheriff's response: The new administration does do this.

The Sheriff did not make daily deposits. The Sheriff did not make daily deposits. The Uniform System of Accounts as adopted under KRS 68.210, gives the State Local Finance Officer the authority to establish minimum accounting procedures, which includes depositing receipts intact on a daily basis into a federally insured financial institution. When the sheriff does not make deposits on a daily basis, there is a possibility that money or checks could be stolen. The Sheriff failed to comply with the minimum requirements of the Uniform System of Accounts by not depositing receipts intact on a daily basis. We recommend the Sheriff comply with KRS 68.210 by making daily deposits to prevent the likelihood of a financial statement misstatement or theft.

Sheriff's response: Ok.

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/or 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 report and did not distribute tax collections timely to the taxing districts.
- The Sheriff's office did not distribute interest income timely to the school district.
- The Sheriff's office did not distribute add-ons fees timely.
- Tax Commissions were not calculated properly for the state and county districts.

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

Sheriff's response: This problem has been resolved by dividing duties between three office clerks.

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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