



Auditor of Public Accounts
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Edelen Releases Audit of Magoffin County Sheriff's Unmined Coal Tax Settlement

FRANKFORT, Ky. – State Auditor Adam Edelen today released the audit of the sheriff's settlement – 2012 Unmined Coal 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, June 16, 2012 through September 1, 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 should comply with the Uniform System of Accounts. The Uniform System of Accounts requires revenues to be recorded when received and expenditures be recorded when paid. The Sheriff did not maintain a receipts ledger. The receipts ledger should be used to account for all receipts and then reconciled to the bank statements and monthly tax reports to determine that all receipts are accounted for properly. The Sheriff did not prepare a disbursement ledger or prepare monthly bank reconciliations. Had these review and reconciling procedures been completed the Sheriff would not have a cash shortage of \$942. The Sheriff's office was not familiar with the tax collection software and was unaware of the daily collections report that should be used to account for daily collections. Also, the Sheriff was unaware of the proper tax collection period generated by the tax collection software. As a result, the Sheriff did not collect the proper penalties and add-on fees from customers. We recommend the Sheriff's office comply with the uniform system of accounts by preparing ledgers, reconciling bank accounts, and become familiar with the tax collection software to ensure the taxing districts are paid the proper amounts timely and penalties and Sheriff fees are collected in accordance with the appropriate tax collection period.

Sheriff's response: This is being corrected.

The Sheriff should examine tax bills for accuracy. The Unmined Coal tax bills, prepared by the County Clerk and received and signed for by the Sheriff as required by KRS 133.220, did not have the proper tax collection dates on the bills that detail the tax amount to be paid. The proper tax collection period is mandated by KRS 134.015 and states, "Taxes shall be due two full months from the date the tax bills are mailed. The alternative collection schedule shall allow a two percent discount for all tax bills paid in full within one full month of the date the tax bills were mailed. Upon expiration of the discount period, the fact amount reflected on the tax bill without discount or penalty shall be due for the next fullmonth. Payments made within one month following the face amount period shall be subject to a penalty of five percent of the taxes due and unpaid." Because the tax bills were not prepared correctly, the Sheriff failed to collect the appropriate penalties in accordance with KRS 134.015. We recommend the Sheriff examine the tax bills for accuracy prior to mailing to the taxpayers.

Sheriff's response: This is being corrected.

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 monthly "that part of his investment earnings for the month which is attributable to the investment of school taxes." KRS 134.140(4) requires the remaining monthly interest to be transferred to the Sheriff's fee account. The Sheriff should distribute the investment earnings at the same time as monthly tax collections. We recommend the Sheriff implement procedures to ensure the payment of interest due to the school and fee account on a monthly basis.

Sheriff's response: This has been looked into and resolved.

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 matter should be fixed we have spoken to accountant about this matter.

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. 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 tenth of each month.

Sheriff's response: This matter has been resolved.

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. 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: No response.

The Sheriff's office lacks 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 distribute interest income timely to the school district.
- The Sheriff's office did not collect add-ons fees for the 2012 Unmined Coal Collections.

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 the 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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