



Auditor of Public Accounts  
Adam H. Edelen

**FOR IMMEDIATE RELEASE**

**Contact: Stephenie Hoelscher**  
[stephenie.hoelscher.ky.gov](mailto:stephenie.hoelscher.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 – 2013 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, April 19, 2013 through April 15, 2014 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 comply with the Uniform System of Accounts.** The Sheriff did not make deposits daily or intact. The Sheriff failed to maintain receipts and disbursements ledgers for his tax account. The Sheriff also failed to prepare monthly bank reconciliations. 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, making daily deposits, maintaining books of original entry for receipts and disbursements and preparing monthly bank reconciliations.

The practice of making daily deposits reduces the risk of misappropriation of cash, which is the asset most subject to possible theft. The practice of not making daily deposits increases the risk of misappropriation of assets.

The preparation of receipts and disbursements ledgers along with monthly bank reconciliations ensures that all tax receipts and disbursements have been properly accounted for. By not maintaining the proper records, it allowed the sheriff to overpay tax commissions causing the account to overdraw and funds having to be transferred back from the fee account

The Sheriff lacks controls over the deposit process and does not provide adequate oversight in this area. We recommend the Sheriff immediately implement controls over the deposit process to assure deposits are made daily to comply with KRS 68.210. In addition, the Sheriff should comply with KRS 68.210 by maintaining receipts and disbursements ledgers along with monthly bank reconciliations.

*Sheriff's response: No response.*

**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(3)(b) 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(3)(d) 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. By not paying interest monthly, the sheriff was not in compliance with statutes. 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: No response.*

**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 November 24, 2014. We recommend the Sheriff’s office comply with KRS 134.192 by timely preparing an annual tax settlement.

*Sheriff's response: No response.*

**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. By not preparing monthly reports and paying the districts timely, the Sheriff was not in compliance with the statute. In addition, we noted eight (8) checks payable to the Health district totaling \$6,442 were prepared and signed and not mailed and were still in a folder in the Sheriff's records. We recommend that the Sheriff report and distribute taxes collected by the tenth of each month.

*Sheriff's response: No response.*

**The Sheriff should distribute 10% add-on fees on a monthly basis.** The Sheriff did not distribute 10% add-on fees on a monthly basis. KRS 134.430(3) states the Sheriff shall be entitled to an additional ten percent (10%) for all delinquent taxes collected from the time the ten percent (10%) fee becomes applicable through the sale of the tax claims. This fee shall be added to the total amount due and paid by the person paying the delinquent tax bill and then distributed to the Sheriff's fee accounted monthly. The Sheriff collected \$18,384 for 10% add on fees for 2013 collections. We recommend the Sheriff pay add on fees as required.

*Sheriff's response: No response.*

**The Sheriff should eliminate the deficit in the 2010 property tax account.** The Sheriff has a deficit of \$2,964 in his 2010 tax account. Deficits are primarily due to undeposited receipts. The disposition of the 2010 tax account is as follows:

Cash Balance		\$ 4,053
Unpaid Liabilities:		
County	\$	1,143
School		3,788
Health		242
2010 Refunds Paid by 2011 Fee		498
2010 UMC Commissions		1,169
Commissions Due Fee		<u>177</u>
Total		<u>7,017</u>
Deficit		<u><u>\$ (2,964)</u></u>

In order to pay the liabilities due the districts and different accounts noted above, \$2,964 should be collected from the Sheriff personally and deposited into the 2010 tax account. We recommend after all receivables be collected and liabilities be paid in order to close this account.

*Sheriff's response: No response.*

**The Sheriff's office lacks adequate segregation of duties.** The Sheriff's office lacks 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 calculate properly for Gas and Oil taxes 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: 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.*

*Call 1-800-KY-ALERT or visit our website to report suspected waste and abuse.*

