



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 – 2016 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 25, 2016 through May 15, 2017 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: 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:

- Taxes Paid of \$51,211
- Tax Commissions of \$5,174
- Discounts of \$1,368
- Penalties of \$2,805

Since these items were not included, the amount owed or due to the taxing districts cannot be determined. The annual settlement was approved by the fiscal court on October 20, 2017. This was previously communicated in the prior year audit report as Finding 2015-004.

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

By not preparing the county settlement timely, the sheriff was not in compliance with statutes. In addition, reasonable 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 or her 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 district. 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 CPA and will contain all information needed.

The sheriff's office lacks adequate segregation of duties: 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 bookkeeper and deputies collect tax receipts. The bookkeeper or a deputy prepares a daily bank deposit, reconciles the daily receipts to the daily collection report and posts items to the receipts ledger. The bookkeeper prepares the month-end tax reports, prepares checks for tax distribution based on the month-end tax reports, and posts checks to the disbursements ledger. The bookkeeper and the sheriff sign tax distribution checks. The county treasurer prepares the monthly bank reconciliation, although there is nothing documented to determine who prepared the reconciliation or that it was reviewed by the sheriff. This was previously communicated in the prior year audit report as Finding 2015-001.

By not segregating these duties, there is an increased risk of undetected misappropriation of assets either by 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 receipts ledger. The same employee should not prepare monthly reports, sign checks, and post to the

disbursements ledger, and the same employee should not deposit funds, sign checks, post to ledgers, and 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: Due to the size of our office and budget restraints, it is not possible to implement these procedures.

Auditor's Reply: As noted in the comment, when staffing limitations prevent adequate segregation of duties, compensating controls and strong management oversight should be put into place to mitigate the risks.

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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