

**REPORT OF THE AUDIT OF THE  
MARTIN COUNTY  
SHERIFF'S SETTLEMENT - 2016 TAXES**

**For The Period  
July 16, 2016 Through June 19, 2017**



**MIKE HARMON  
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**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

The Honorable Matthew G. Bevin, Governor  
William M. Landrum III, Secretary  
Finance and Administration Cabinet  
The Honorable Kelly Callaham, Martin County Judge/Executive  
The Honorable John Kirk, Martin County Sheriff  
Members of the Martin County Fiscal Court

Independent Auditor's Report

**Report on the Financial Statement**

We have audited the Martin County Sheriff's Settlement - 2016 Taxes for the period July 16, 2016 through June 19, 2017 - Regulatory Basis, and the related notes to the financial statement.

**Management's Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Audit Guide for Sheriff's Tax Settlements*, issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



To the People of Kentucky  
The Honorable Matthew G. Bevin, Governor  
William M. Landrum III, Secretary  
Finance and Administration Cabinet  
The Honorable Kelly Callaham, Martin County Judge/Executive  
The Honorable John Kirk, Martin County Sheriff  
Members of the Martin County Fiscal Court

**Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles**

As described in Note 1 of the financial statement, the financial statement is prepared by the Martin County Sheriff on the basis of accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky’s regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

**Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the taxes charged, credited, and paid of the Martin County Sheriff, for the period July 16, 2016 through June 19, 2017.

**Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statement referred to above presents fairly, in all material respects, the taxes charged, credited, and paid for the period July 16, 2016 through June 19, 2017 of the Martin County Sheriff, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2018, on our consideration of the Martin County Sheriff’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Martin County Sheriff’s internal control over financial reporting and compliance.

Based on the results of our audit, we have presented the accompanying Schedule of Findings and Responses, included herein, which discusses the following report comment:

2016-001 The Sheriff’s Office Lacks Adequate Segregation Of Duties

Respectfully submitted,



Mike Harmon  
Auditor of Public Accounts

May 31, 2018

MARTIN COUNTY  
JOHN KIRK, SHERIFF  
SHERIFF'S SETTLEMENT - 2016 TAXES

For The Period July 16, 2016 Through June 19, 2017

<u>Charges</u>	Special			
	<u>County Taxes</u>	<u>Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 233,805	\$ 868,077	\$ 1,644,768	\$ 248,037
Tangible Personal Property	98,349	167,529	634,677	309,600
Increases Through Exonerations	48	84	341	51
Franchise Taxes	140,344	240,747	852,222	
Additional Billings	176	604	1,194	187
Unmined Coal	9,494	16,264	66,788	10,072
Penalties	2,414	4,309	19,072	5,143
Adjusted to Sheriff's Receipt	26	1,602	140	(16)
Gross Chargeable to Sheriff	<u>484,656</u>	<u>1,299,216</u>	<u>3,219,202</u>	<u>573,074</u>
<u>Credits</u>				
Exonerations	2,977	28,493	20,937	3,170
Discounts	3,799	6,961	26,632	5,292
Delinquents:				
Real Estate	23,011	136,281	161,837	24,412
Tangible Personal Property	49,010	81,470	281,332	155,557
Unmined Coal	1,928	3,302	13,562	2,045
Franchise Taxes - Uncollected	41,728	70,836	269,013	
Franchise Taxes - Unbilled	2,323	3,322		
Total Credits	<u>124,776</u>	<u>330,665</u>	<u>773,313</u>	<u>190,476</u>
Taxes Collected	359,880	968,551	2,445,889	382,598
Less: Commissions*	<u>15,295</u>	<u>30,805</u>	<u>85,606</u>	<u>16,260</u>
Taxes Due	344,585	937,746	2,360,283	366,338
Taxes Paid	344,356	937,366	2,359,059	365,660
Refunds (Current and Prior Year)	<u>229</u>	<u>380</u>	<u>1,224</u>	<u>678</u>
Due Districts				
as of Completion of Audit	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
		**		

\* and \*\* - See next page.

The accompanying notes are an integral part of this financial statement.

MARTIN COUNTY  
JOHN KIRK, SHERIFF  
SHERIFF'S SETTLEMENT - 2016 TAXES  
For The Period July 16, 2016 Through June 19, 2017  
(Continued)

\* Commissions:

4.25% on \$ 1,392,308

3.5% on \$ 2,445,889

1% on \$ 318,721

\*\* Special Taxing Districts:

911 District \$ (89)

Fire District 89

Due Districts or

(Refunds Due Sheriff) \$ 0



MARTIN COUNTY  
NOTES TO FINANCIAL STATEMENT

June 19, 2017

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

KRS 66.480 authorizes the sheriff's office to invest in obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Martin County Sheriff maintained deposits of public funds with depository institutions insured by the FDIC as required by KRS 66.480(1)(d). According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the sheriff's deposits may not be returned. The sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. On February 9, 2017, the sheriff's bank balance was exposed to custodial credit risk because the bank did not adequately collateralize the sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured                      \$1,336,403

MARTIN COUNTY  
NOTES TO FINANCIAL STATEMENT  
June 19, 2017  
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2016. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2017. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 10, 2017 through June 19, 2017.

B. Unmined Coal Property Taxes

The unmined coal property tax assessments were levied as of January 1, 2016. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was April 26, 2017 through October 16, 2017.

C. Franchise Taxes

The franchise tax assessments were levied by the Department of Revenue for various tax years. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was July 16, 2016 through June 19, 2017.

Note 4. Interest Income

The Martin County Sheriff earned \$512 as interest income on 2016 taxes. The sheriff distributed the appropriate amount to the school district as required by statute and the remainder was used to operate the sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Martin County Sheriff collected \$22,052 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the sheriff's office.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Kelly Callaham, Martin County Judge/Executive  
The Honorable John Kirk, Martin County Sheriff  
Members of the Martin County Fiscal Court

Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With *Government Auditing Standards*

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Martin County Sheriff's Settlement - 2016 Taxes for the period July 16, 2016 through June 19, 2017 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated May 31, 2018. The Martin County Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statement, we considered the Martin County Sheriff's internal control over financial reporting (internal control) to determine audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Martin County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Martin County Sheriff's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified a certain deficiency in internal control, which is described in the accompanying Schedule of Findings and Responses as item 2016-001, that we consider to be a significant deficiency.

Report on Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With *Government Auditing Standards*  
(Continued)

### **Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the Martin County Sheriff's financial statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Views of Responsible Official and Planned Corrective Action**

The Martin County Sheriff's views and planned corrective action for the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Martin County Sheriff's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal stroke extending to the right.

Mike Harmon  
Auditor of Public Accounts

May 31, 2018

## SCHEDULE OF FINDINGS AND RESPONSES

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MARTIN COUNTY  
JOHN KIRK, SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES

For The Period July 16, 2016 Through June 19, 2017

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2016-001 The Sheriff's Office Lacks Adequate Segregation Of Duties

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The sheriff's office lacks adequate of duties over receipts and disbursements. Two deputy clerks collect tax payments from customers and prepare daily bank deposits. One deputy clerk prepares monthly tax reports and writes checks for distribution, and the sheriff signs the checks. The bookkeeper posts to the receipts and disbursements ledger and prepares monthly bank reconciliations, although there is nothing documented to determine who prepared the reconciliation or that it was reviewed. The sheriff has not structured his office in a way to ensure that bookkeeping functions are segregated over receipts, disbursements, and the reconciliation process. The lack of oversight could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the Kentucky Department of Revenue and other taxing districts. Good internal controls dictate that certain accounting functions should be performed by several different employees to provide reasonable assurance the financial activity is properly accounted for and accurately reported. In order to achieve a proper segregation of duties, the sheriff should assign different employees to be responsible for preparing daily deposits, disbursing tax collections, recording tax transactions, and monthly bank reconciliations. We recommend the sheriff's office implement internal controls and segregate duties as much as possible. The sheriff could take on the responsibility of 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.

*Sheriff's Response: Due to budgetary restrictions for staffing, we have limited options for segregating duties any further. We have separated responsibilities and oversite wherever possible and will work toward further separation as funding permits. We will continue to develop compensating controls to offset potential risks.*