

**REPORT OF THE AUDIT OF THE  
MARTIN COUNTY  
SHERIFF'S SETTLEMENT - 2019 TAXES**

**For The Period  
May 1, 2019 Through June 15, 2020**



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

To the People of Kentucky  
The Honorable Andy Beshear, Governor  
Holly M. Johnson, Secretary  
Finance and Administration Cabinet  
The Honorable Victor Slone, 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 - 2019 Taxes for the period May 1, 2019 through June 15, 2020 - 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 Andy Beshear, Governor  
Holly M. Johnson, Secretary  
Finance and Administration Cabinet  
The Honorable Victor Slone, 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 May 1, 2019 through June 15, 2020.

### **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 May 1, 2019 through June 15, 2020 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 June 21, 2021, 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.

To the People of Kentucky  
The Honorable Andy Beshear, Governor  
Holly M. Johnson, Secretary  
Finance and Administration Cabinet  
The Honorable Victor Slone, Martin County Judge/Executive  
The Honorable John Kirk, Martin County Sheriff  
Members of the Martin County Fiscal Court

**Other Reporting Required by *Government Auditing Standards* (Continued)**

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

- 2019-001 The Martin County Sheriff's Office Does Not Have Adequate Segregation Of Duties
- 2019-002 The Sheriff Has Not Settled The 2014 Tax Account
- 2019-003 The Sheriff Has Not Settled The 2015 Tax Account

Respectfully submitted,

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

Mike Harmon  
Auditor of Public Accounts

June 21, 2021

MARTIN COUNTY  
JOHN KIRK, SHERIFF  
SHERIFF'S SETTLEMENT - 2019 TAXES

For The Period May 1, 2019 Through June 15, 2020

	County	Special Taxing Districts	School	State
<u>Charges</u>				
Total Per Sheriff's Official Receipt	\$ 280,969	\$ 1,042,914	\$ 1,956,303	\$ 385,845
<u>Other Taxes &amp; Charges</u>				
Franchise Taxes	110,854	236,606	674,257	
Unmined Coal - 2018 Taxes	8,115	15,814	57,086	8,601
Penalties	2,383	6,634	16,275	2,494
Gross Chargeable to Sheriff	402,321	1,301,968	2,703,921	396,940
<u>Credits</u>				
Exonerations	867	12,010	6,097	919
Discounts	3,025	7,627	20,994	3,932
Delinquent Real Estate	39,691	180,233	282,050	43,500
Delinquent Tangible	32,331	69,891	222,348	77,724
Franchise Taxes - Delinquent	3,387	7,073	10,897	
Delinquent Unmined Coal 2018 Taxes	4,366	8,508	30,714	4,632
Total Credits	83,667	285,342	573,100	130,707
Taxes Collected	318,654	1,016,626	2,130,821	266,233
Less: Sheriff's Commissions*	13,543	32,634	74,578	11,315
Taxes Due Districts	305,111	983,992	2,056,243	254,918
Taxes Paid	304,896	983,573	2,054,723	254,702
Refunds (Current and Prior Year)	215	419	1,520	238
(Refund Due Sheriff)	\$ 0	\$ 0	\$ 0	\$ (22)

\* Commissions:

4.25% on	\$	1,276,210
1% on	\$	325,303
3.5% on	\$	2,130,821



MARTIN COUNTY  
NOTES TO FINANCIAL STATEMENT

June 15, 2020

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).

D. Preparation of State Settlement

The Kentucky Department of Revenue prepares the settlement relating to taxes collected for the state under the provision of KRS 134.192(2)(a). This is reported as the "State Taxes" column on the financial statement.

Note 2. Deposits

The Martin County Sheriff maintained deposits of public funds with federally insured banking institutions as required by the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*. The DLG Manual strongly recommends perfected pledges of securities covering all public funds except direct federal obligations and funds protected by federal insurance. In order to be perfected 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. These requirements were met.

MARTIN COUNTY  
NOTES TO FINANCIAL STATEMENT  
June 15, 2020  
(Continued)

Note 2. Deposits (Continued)

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 Martin County Sheriff does not have a deposit policy for custodial credit risk, but rather follows the requirements of the DLG *County Budget Preparation and State Local Finance Officer Policy Manual*. As of June 15, 2020, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2019. Property taxes were billed to finance governmental services for the fiscal year ending June 30, 2020. Liens are effective when the tax bills become delinquent. The collection period for these assessments was December 2, 2019 through June 15, 2020.

B. Unmined Coal Property Taxes

The unmined coal property tax assessments were levied as of January 1, 2019. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was February 27, 2019 through June 15, 2020.

C. Franchise Taxes

The franchise tax assessments were levied by the Department of Revenue for various tax years. Franchise taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was May 1, 2019 through June 15, 2020.

Note 4. Interest Income

The Martin County Sheriff earned \$117 as interest income on 2019 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 \$18,670 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the sheriff's office.

MARTIN COUNTY  
NOTES TO FINANCIAL STATEMENT  
June 15, 2020  
(Continued)

Note 6. Escrow Account

The sheriff deposited unrefundable payments in an interest-bearing account. The sheriff's escrowed beginning balance was \$31. The sheriff escrow account has a total ending balance of \$17,473. This amount consists of escrowed of:

2014	\$16,614
2016	\$803
2017	\$56

When statutorily required, the sheriff will turn over the escrowed funds to the Kentucky State Treasurer as unclaimed property.

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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 Victor Slone, 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 - 2019 Taxes for the period May 1, 2019 through June 15, 2020 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated June 21, 2021. 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 the 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying Schedule of Findings and Responses, we identified a certain deficiency in internal control that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

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 a 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. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2019-001 to be a material weakness.



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)

**Internal Control Over Financial Reporting (Continued)**

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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2019-002 and 2019-003 to be significant deficiencies.

**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,



Mike Harmon  
Auditor of Public Accounts

June 21, 2021



## SCHEDULE OF FINDINGS AND RESPONSES

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MARTIN COUNTY  
JOHN KIRK, SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES

For The Period May 1, 2019 Through June 15, 2020

INTERNAL CONTROL - MATERIAL WEAKNESS:

2019-001 The Martin County Sheriff's Office Does Not Have Adequate Segregation Of Duties

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This is a repeat finding and was included in the prior year audit report as finding 2018-001. The sheriff's office does not have adequate segregation 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, writes checks for distribution and the sheriff signs the checks. The bookkeeper posts to the receipts and disbursement 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. A lack of oversight could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the 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, and monthly tax reports. These reviews must be documented in a way that indicates what was reviewed, by whom, and when.

*Sheriff's Response: The Sheriff currently approves and signs all monthly reports and disbursement checks, as well as reviewing and approving monthly bank reconciliations. Due to a limited budget, adequate staff is not available to completely segregate all functions. The Sheriff will attempt to review as much as possible; however due to budgetary constraints, he is often the only law enforcement officer on duty and is not available to perform administrative tasks on a daily basis.*

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES:

2019-002 The Sheriff Has Not Settled The 2014 Tax Account

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The sheriff issued refunds to taxpayers for the overpayment of 2014 city tangible tax. The 2014 tax bills charged city tangible tax to taxpayers who should not have been charged. The sheriff has not successfully refunded overpayments, but resolved all other issues for the 2014 tax account. The sheriff deposited the remaining funds into his escrow account.

The sheriff's office does not have proper internal controls in place to prevent errors within his tax account. The errors occurred because of a software issue that the sheriff and the PVA did not correct before the tax bills were mailed. Once refunds were not collected, the sheriff's office deposited this money into an escrow account.

As a result taxpayers overpaid 2014 tangible taxes and are due a refund. The remaining balance of \$16,614 was deposited into the escrow account and will be turned over to the Kentucky State Treasurer when statutorily required.

MARTIN COUNTY  
 JOHN KIRK SHERIFF  
 SCHEDULE OF FINDINGS AND RESPONSES  
 For The Period May 1, 2019 Through June 15, 2020  
 (Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2019-002 The Sheriff Has Not Settled The 2014 Tax Account (Continued)

KRS 134.590(3) states, [i]f a taxpayer pays city, urban-county, county, school district, consolidated local government, or special district ad valorem taxes to a city, urban-county, county, school district, consolidated local government, or special district when no taxes were due or the amount paid exceeded the amount finally determined to be due, the taxes shall be refunded to the person who paid the tax.”

We recommend the sheriff continue to reimburse 2014 tangible tax to the taxpayers who overpaid from the escrow account. After one year the money held in the escrow account should be turned over to the state. Furthermore, we recommend the sheriff strengthen internal controls to prevent undetected errors and properly settle his tax account.

*Sheriff's Response: The Sheriff was not in office when the bills containing these errors were generated. We have collected all monies owed by the districts and made all taxpayer refunds as directed; however some checks were returned and/or stale dated. This money was transferred to escrow and the bank account closed in February 2021, we will remit to the state after one year has passed.*

2019-003 The Sheriff Has Not Settled The 2015 Tax Account

In March 2016, the sheriff incorrectly withheld \$32,009 from 2015 franchise tax collection payments to the districts for a prior 10% add on-fee that was incorrectly applied to a 2014 franchise bill. After the sheriff withheld money due to the districts, the sheriff collected the appropriate amounts from the taxing districts for the overpayment of the 2014 franchise bill.

The sheriff's office does not have proper internal controls in place to prevent errors within his tax account. The sheriff's bookkeeper thought she was correcting an overpayment in the prior year to the taxing district for add-on fees. As a result the taxing districts were shorted \$32,009 from the March 2016 franchise tax collection and the sheriff overpaid 2016 excess fees to the fiscal court in the amount of \$32,009. In order to settle the 2015 tax account, the sheriff should collect and pay the following:

Bank Balance:	\$	391
Due From:		
Fiscal Court		32,009
Less: Outstanding Checks		(207)
Liabilities:		
County	\$	(3,436)
School		(22,390)
Library		(3,285)
Health		(1,182)
Extension		(1,682)
		<u>(31,975)</u>
Amount To Be Escrowed	\$	<u>218</u>

MARTIN COUNTY  
JOHN KIRK SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Period May 1, 2019 Through June 15, 2020  
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2019-003 The Sheriff Has Not Settled The 2015 Tax Account (Continued)

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KRS 134.192(1) states, “[e]ach sheriff shall annually settle his or her accounts with the department, the county, and any district for which the sheriff collects taxes on or before September 1 of each year. If any sheriff resigns, dies, or otherwise vacates his or her office, the books and records shall be made available to the department, the county, and any other district for which the sheriff collects taxes within thirty (30) days from the date that the office is vacated. The annual settlement of the sheriff shall be audited in accordance with KRS 43.070 and 64.810.”

We recommend the sheriff request the fiscal court to reimburse the overpayment of 2015 excess fees. After collecting the fees from the fiscal court, the sheriff’s office needs to follow the schedule above and settle the 2015 tax account. Furthermore, we recommend the sheriff strengthen internal controls to prevent undetected errors and properly settle his tax account.

*Sheriff’s Response: We have just received this check from the county and will deposit on 6-22-21. The payables will be processed with the checks in July.*