

**REPORT OF THE AUDIT OF THE
FORMER MARTIN COUNTY
SHERIFF'S SETTLEMENT - 2014 TAXES**

**For The Period
May 17, 2014 Through December 31, 2014**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

**AUDIT OF THE
FORMER MARTIN COUNTY
SHERIFF'S SETTLEMENT - 2014 TAXES**

**For The Period
May 17, 2014 Through December 31, 2014**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2014 Taxes for the former Martin County Sheriff for the period May 17, 2014 through December 31, 2014. We have issued an unmodified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The former sheriff collected 2014 taxes of \$1,569,922 for the districts, retaining commissions of \$59,617 to operate the former sheriff's office. The former sheriff distributed 2014 taxes of \$1,521,743 to the districts. Taxes of \$3,293 are due to the districts from the former sheriff and refunds of \$14,731 are due to the former sheriff from the taxing districts.

Report Comment:

2014-001 The Former Sheriff's Office Lacked Adequate Segregation Of Duties

Deposits:

The former sheriff's deposits were insured and collateralized by bank securities or bonds.

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Kelly Callaham, Martin County Judge/Executive
Honorable Garmon Preece, Former Martin County Sheriff
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 former Martin County Sheriff's Settlement - 2014 Taxes for the period May 17, 2014 through December 31, 2014 - 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.



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Auditor's Responsibility (Continued)

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

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 former Martin County Sheriff on the basis of the 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 financial position of each fund of the former Martin County Sheriff, as of December 31, 2014, or changes in financial position or cash flows thereof for the year then ended.

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 17, 2014 through December 31, 2014 of the former 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 September 15, 2016 on our consideration of the former 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 effectiveness of the former Martin County Sheriff's 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 former Martin County Sheriff's internal control over financial reporting and compliance.

To the People of Kentucky
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Other Reporting Required by *Government Auditing Standards* (Continued)

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

2014-001 The Former Sheriff's Office Lacked Adequate Segregation Of Duties

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

September 15, 2016

MARTIN COUNTY
GARMON PREECE, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2014 TAXES

For The Period May 17, 2014 Through December 31, 2014

<u>Charges</u>	Special			
	<u>County Taxes</u>	<u>Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 228,579	\$ 444,475	\$ 1,566,457	\$ 251,458
Tangible Personal Property	111,733	222,988	658,272	387,396
Increases Through Exonerations	43	78	297	48
Franchise Taxes	90,251	168,946	439,392	
Additional Billings	51	89	274	55
Adjusted to Sheriff's Receipt	<u>(2)</u>	<u>(230)</u>	<u>(10)</u>	<u>(11)</u>
Gross Chargeable to Sheriff	<u>430,655</u>	<u>836,346</u>	<u>2,664,682</u>	<u>638,946</u>
<u>Credits</u>				
Exonerations	784	1,609	5,370	862
Discounts	1,639	3,214	10,715	2,790
Taxes Transferred to New Sheriff	259,414	508,958	1,692,202	498,019
Franchise Taxes - Uncollected	<u>2,108</u>	<u>3,859</u>	<u>9,164</u>	
Total Credits	<u>263,945</u>	<u>517,640</u>	<u>1,717,451</u>	<u>501,671</u>
Taxes Collected	166,710	318,706	947,231	137,275
Less: Commissions *	<u>7,085</u>	<u>13,545</u>	<u>33,153</u>	<u>5,834</u>
Taxes Due	159,625	305,161	914,078	131,441
Taxes Paid	<u>159,333</u>	<u>319,368</u>	<u>911,962</u>	<u>131,080</u>
Due Districts or (Refund Due Sheriff) as of Completion of Audit	<u>\$ 292</u>	<u>\$ (14,207)</u>	<u>\$ 2,116</u>	<u>\$ 361</u>

**

* and ** See next page.

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

MARTIN COUNTY
GARMON PREECE, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2014 TAXES
For The Period May 17, 2014 Through December 31, 2014
(Continued)

* Commissions:

4.25% on \$ 622,691

3.25% on \$ 947,231

** Special Taxing Districts:

Library District	\$	297
Health District		108
Extension District		116
Inez District		(14,731)
Warfield District		<u>3</u>

Due Districts or (Refund Due Sheriff)	\$	<u>(14,207)</u>
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MARTIN COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2014

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 the following, including but not limited to, 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 former Martin County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (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.

MARTIN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2014
(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 former Martin County Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 66.480(1)(d) and KRS 41.240. As of December 31, 2014, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2014. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2014. Liens are effective when the tax bills become delinquent. The collection period for these assessments December 12, 2014 through December 31, 2014.

Note 4. Interest Income

The former Martin County Sheriff earned \$47 as interest income on 2014 taxes. As of December 31, 2014, the former sheriff owed \$27 in interest to the school district and \$20 in interest to his fee account.

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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*



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Kelly Callaham, Martin County Judge/Executive
Honorable Garmon Preece, Former Martin County Sheriff
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 former Martin County Sheriff's Settlement - 2014 Taxes for the period May 17, 2014 through December 31, 2014 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated September 15, 2016. The former Martin County Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the former 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 former Martin County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the former 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 comment and recommendation, we identified a certain deficiency in internal control that we consider to be a material weakness.

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 comment and recommendation as item 2014-001 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)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Martin County Sheriff's financial statement is free of 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 *Governmental Auditing Standards*.

Former Sheriff's Response to Finding

The former Martin County Sheriff's response to the finding identified in our audit is described in the accompanying comment and recommendation. The former Martin County Sheriff's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

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

September 15, 2016

COMMENT AND RECOMMENDATION

MARTIN COUNTY
GARMON PREECE, FORMER SHERIFF
COMMENT AND RECOMMENDATION

For The Period May 17, 2014 Through December 31, 2014

INTERNAL CONTROL - MATERIAL WEAKNESS:

2014-001 The Former Sheriff's Office Lacked Adequate Segregation Of Duties

While reviewing the former Sheriff's internal control procedures, we identified a lack of adequate segregation of duties over receipts and disbursements. These control deficiencies were present because one employee's duties included the collections of taxes, recording taxes paid, preparing monthly tax reports, preparing monthly tax disbursements, and co-signing monthly tax disbursements. Other office staff also collected tax bills and prepared daily deposits.

In order to achieve a proper segregation of duties, related activities should be assigned to different individuals. Since budget restrictions may limit the number of staff the sheriff can hire, it may not be feasible to segregate accounting duties to different individuals. In this situation, the sheriff should implement compensating controls to mitigate the effects of the lack of adequate segregation of duties. The following compensating controls could have been implemented to offset this internal control weakness:

- The former sheriff could have frequently compared daily bank deposits to the daily tax reports. The former sheriff could have investigated any variances. This review could have been documented with the former sheriff's initials on the daily checkout sheet.
- The former sheriff could have reviewed the monthly tax reports and compared them to the checks written to the taxing districts. This could have been documented with the former sheriff's initials on the monthly reports.
- The former sheriff could have reviewed the monthly bank reconciliations. The former sheriff could have compared the amounts deposited on the bank statement to the receipts ledger. This could have been documented with the former sheriff's initials on the bank reconciliations.

Former Sheriff's Response: Not enough employers.

