



Auditor of Public Accounts
Mike Harmon

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Harmon Releases Audit of Martin County Sheriff's Gas, Oil, and Unmined Coal Tax Settlement

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2014 gas, oil, and unmined coal tax settlement for Martin County Sheriff John Kirk. 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, January 1, 2015 through July 16, 2015 in conformity with the regulatory 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 comment:

The sheriff did not require the depository institution to pledge or provide sufficient collateral and did not enter into a written agreement to protect deposits. The sheriff

maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). The sheriff did not enter into a written agreement with the depository institution to ensure collateralization of deposits until May 31, 2016. On March 9, 2015, the sheriff's deposits of public funds were uninsured and unsecured in the amount of \$1,766,521. According to KRS 66.480(1)(d) and KRS 41.240, financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$250,000 amount of insurance coverage provided by the FDIC.

We recommend the sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the sheriff enter into a written agreement with the depository institution to secure the sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (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.

Sheriff's response: We were assured by the bank that this was being done. We were unaware that there were inadequate pledges and will follow up with the bank regarding this matter.

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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