

**REPORT OF THE AUDIT OF THE  
FORMER MARTIN COUNTY  
SHERIFF'S SETTLEMENT – 2013 UNMINED COAL TAXES**

**For The Period  
October 16, 2013 Through September 16, 2014**



**MIKE HARMON  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT OF THE FORMER MARTIN COUNTY SHERIFF'S SETTLEMENT - 2013 UNMINED COAL TAXES**

**For The Period  
October 16, 2013 Through September 16, 2014**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2013 Unmined Coal Taxes for the former Martin County Sheriff for the period October 16, 2013 through September 16, 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 2013 unmined coal taxes of \$699,093 for the districts, retaining commissions of \$26,647 to operate the former sheriff's office. The former sheriff distributed 2013 unmined coal taxes of \$672,446 to the districts.

#### **Report Comment:**

2013-001 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 John Kirk, Martin County Sheriff  
Honorable Garmon D. Preece, Former 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 - 2013 Unmined Coal Taxes for the period October 16, 2013 through September 16, 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.



To the People of Kentucky

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William M. Landrum III, Secretary  
Finance and Administration Cabinet  
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Members of the Martin County Fiscal Court

### **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 September 16, 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 October 16, 2013 through September 16, 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 June 10, 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 solely 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. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance.



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 John Kirk, Martin County Sheriff

Honorable Garmon D. Preece, Former 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 comment and recommendation, included herein, which discusses the following report comment:

2013-001 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

June 10, 2016

MARTIN COUNTY  
 GARMON D. PREECE, FORMER SHERIFF  
SHERIFF'S SETTLEMENT – 2013 UNMINED COAL TAXES

For The Period October 16, 2013 Through September 16, 2014

| <u>Charges</u>                          | <u>County Taxes</u> | <u>Special<br/>Taxing Districts</u> | <u>School Taxes</u> | <u>State Taxes</u> |
|---|---------------------|-------------------------------------|---------------------|--------------------|
| Unmined Coal - 2013 Taxes               | \$ 93,197           | \$ 163,872                          | \$ 505,901          | \$ 102,525         |
| Penalties                               | 136                 | 239                                 | 738                 | 149                |
| Gross Chargeable to Sheriff             | <u>93,333</u>       | <u>164,111</u>                      | <u>506,639</u>      | <u>102,674</u>     |
| <br><u>Credits</u>                      |                     |                                     |                     |                    |
| Discounts                               | 1,478               | 2,598                               | 8,031               | 1,626              |
| Delinquents:                            |                     |                                     |                     |                    |
| Unmined Coal - 2013 Taxes               | <u>16,575</u>       | <u>29,145</u>                       | <u>89,977</u>       | <u>18,234</u>      |
| Total Credits                           | <u>18,053</u>       | <u>31,743</u>                       | <u>98,008</u>       | <u>19,860</u>      |
| Taxes Collected                         | 75,280              | 132,368                             | 408,631             | 82,814             |
| Less: Commissions *                     | <u>3,199</u>        | <u>5,626</u>                        | <u>14,302</u>       | <u>3,520</u>       |
| Taxes Due                               | 72,081              | 126,742                             | 394,329             | 79,294             |
| Taxes Paid                              | <u>72,081</u>       | <u>126,742</u>                      | <u>394,329</u>      | <u>79,294</u>      |
| Due Districts as of Completion of Audit | <u>\$ 0</u>         | <u>\$ 0</u>                         | <u>\$ 0</u>         | <u>\$ 0</u>        |

\* Commissions:

|          |    |         |
|----------|----|---------|
| 4.25% on | \$ | 290,462 |
| 3.5% on  | \$ | 408,631 |

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

MARTIN COUNTY  
NOTES TO FINANCIAL STATEMENT

September 16, 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  
September 16, 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 41.240. As of September 16, 2014, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2013. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was March 17, 2014 through September 16, 2014.

Note 4. Interest Income

The former Martin County Sheriff earned \$67 as interest income on 2013 unmined coal taxes. The former sheriff did not distribute the appropriate amount to the school district as required by statute, and the remainder was not used to operate the former sheriff's office. As of June 10, 2016, the former sheriff owed \$39 in interest to the school district and \$28 in interest to his fee account.

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

The former Martin County Sheriff collected \$777 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the former 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*





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

The Honorable Kelly Callaham, Martin County Judge/Executive  
Honorable John Kirk, Martin County Sheriff  
Honorable Garmon D. Preece, Former 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 - 2013 Unmined Coal Taxes for the period October 16, 2013 through September 16, 2014 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated June 10, 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 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 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.

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. 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.



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)**

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 comment and recommendation as item 2013-001 that we consider to be a significant deficiency.

**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 *Government Auditing Standards*.

**Former County Sheriff's Response to Finding**

The former Martin County Sheriff's response to the finding identified in our audit is included 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

June 10, 2016



COMMENT AND RECOMMENDATION



MARTIN COUNTY  
GARMON D. PREECE, FORMER SHERIFF  
COMMENT AND RECOMMENDATION

For The Period October 16, 2013 Through September 16, 2014

**INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:**

2013-001 The Former Sheriff's Office Lacked Adequate Segregation Of Duties

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The former sheriff's office lacked adequate segregation of duties over tax receipts and disbursements. Control deficiencies were present because one employee's duties included the collections of taxes, recording of 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. By not effectively segregating these duties, there was an increased risk of undetected misappropriation of assets either by error or fraud. Good internal controls dictate the same employee should not handle and record receipts. A proper segregation of duties also protects employees in the normal course of performing their daily responsibilities. In order to achieve a proper segregation of duties, related activities should have been assigned to different individuals. Since budget restrictions limited the number of staff the former sheriff could hire, it might not have been feasible to segregate accounting duties to different individuals. In this situation, the former sheriff should have implemented compensating controls to mitigate the effects of the lack of adequate segregation of duties. The former sheriff should have reviewed the monthly bank reconciliation, compared the amounts deposited on the bank statement to the receipts ledger, and documented with initials on the bank reconciliation.

*Former Sheriff's Response: Ok.*

