



Auditor of Public Accounts
Mike Harmon

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Contact: **Michael Goins**
Michael.Goins@ky.gov
502.564.5841
502.209.2867

Harmon Releases Audit of Martin County Sheriff's Office

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2015 financial statement of 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 financial statement presents fairly the receipts, disbursements, and excess fees of the Martin County Sheriff in accordance with accounting principles generally accepted in the United States of America. The sheriff's financial statement did not follow this format. However, the sheriff's financial statement is fairly presented in conformity with the regulatory basis of accounting, which is an acceptable reporting methodology. This reporting methodology is followed for all 120 sheriff audits in Kentucky.

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 comments:

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 failed to 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 office lacks adequate segregation of duties. While reviewing the sheriff's internal control procedures, we identified a lack of adequate segregation of duties over receipts and disbursements. These control deficiencies are present because one employee's duties include the preparing and reviewing of receipts and disbursements ledger, monthly reconciliations, and quarterly reports. Due to the entity's diversity of official operations, small size, and budget restrictions, the sheriff has limited options for establishing an adequate segregation of duties. A proper segregation of duties over these tasks or the implementation of compensating controls, when limited by the number of staff, is essential for providing protection against the misappropriation of assets and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the sheriff design and implement internal control procedures to ensure daily procedures are correct by segregating duties or implementing sufficient compensating controls.

Sheriff's Response: We will continue compensating controls and segregate duties as allowed by our staffing budget.

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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