



Auditor of Public Accounts
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Harmon Releases Audit of Martin County Sheriff's Gas and Oil Tax Settlement

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2017 gas and oil 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 September 19, 2017 through August 16, 2018 in conformity with the regulatory basis of accounting.

As part of the audit process, the auditor must comment on noncompliance 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's office lacks adequate segregation of duties: The sheriff's office lacks adequate segregation of duties over receipts and disbursements. This is a repeat finding and was included in the prior year audit report as Finding 2016-001. Two deputy clerks collect tax payments from

customers and prepare daily bank deposits. One deputy clerk prepares monthly tax reports and writes checks for distribution. The sheriff signs the checks. The bookkeeper posts to the receipts and disbursements ledgers 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 that 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, monthly reports, and bank reconciliations. These reviews must be documented in a way that indicates what was reviewed, by whom, and when.

Sheriff's Response: We segregate job responsibilities as much as possible, given our limited budget for staff. We will work to improve compensating controls as funds allow.

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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