



Auditor of Public Accounts
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Harmon Releases Audit of Hancock County Sheriff's Tax Settlement

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2021 taxes for Hancock County Sheriff Ralph Dale Bozarth. 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 April 16, 2021 through August 31, 2022 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 findings:

The sheriff's office does not have adequate segregation of duties over receipts, disbursements, and bank reconciliations: This is a repeat finding and was included in the prior year audit report as Finding 2020-001. During the current year, a lack of segregation of duties existed over the receipt and disbursement functions of the Hancock County Sheriff's Office. The bookkeeper is responsible for the collection of cash and preparation of the daily deposit and daily

tax collection journal. She is also responsible for the preparation of monthly reports and issuance of monthly tax distribution checks to each taxing district.

Because the bookkeeper handled all receipt and disbursement functions and compensating controls were not implemented, the following occurred:

1. No documentation of reconciling bank statements to monthly reports.
2. No documentation of reconciling monthly reports to receipts and disbursements.

According to the sheriff, this lack of segregation of duties is due to a limited number of employees available to properly segregate these job duties. Segregation of duties over receipts and disbursements or implementation of compensating controls, when needed because the number of staff is limited, is essential for providing protection to employees in the normal course of performing their duties and can also help prevent inaccurate financial reporting and misappropriation of assets.

We recommend the sheriff separate the duties over the receipt and disbursement functions. If this is not possible, due to limited number of staff, then strong oversight over those areas should occur and involve the sheriff or an employee not currently performing any of those functions. The individual providing this oversight should initial source documents as evidence of this review.

Sheriff's Response: Due to limited number of employees, we are unable to segregate job duties.

The sheriff did not present a complete and accurate franchise tax settlement to the fiscal court: The Hancock County Sheriff's franchise settlement presented to the fiscal court omitted franchise taxes collected for the months of May and June 2021 resulting in a \$1,315,948 material adjustment to the financial statement.

Due to the lack of management oversight, management was not aware that the franchise tax settlement prepared by others did not include franchise tax collections for the months of May and June 2021. The 2021 franchise tax settlement was presented to fiscal court as required. The omitted franchise collections were deposited, paid, and monthly reports were prepared on a timely basis. The sheriff did not present a complete and accurate franchise tax settlement to fiscal court as required by statute causing the financial statement to be materially misstated.

KRS 134.192(1) states, "[e]ach sheriff shall annually settle his or her accounts with the department, the county, and any district for which the sheriff collects taxes on or before September 1 of each year." KRS 134.192(5) states, "[t]he report of the state and local settlement shall be filed in the county clerk's office and approved by the governing body of the county no later than September 1 of each year."

In addition, management review and approval of financial information prepared by others, is essential for providing protection to employees in the normal course of performing their duties and can also help prevent inaccurate financial reporting and misappropriation of assets.

We recommend the sheriff ensure that a complete and accurate franchise tax settlement, that includes all taxes collected, be completed prior to submission to fiscal court for approval. This requires management review and comparison of financial information and tax settlements prepared by others to the underlying financial information. This should be done prior to submission to fiscal court and include documentation of review.

Sheriff's Response: Was unaware 2 months of franchises were not included in settlement.

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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