

**REPORT OF THE AUDIT OF THE
HOPKINS COUNTY
SHERIFF'S SETTLEMENT - 2021 TAXES**

**For The Period
April 16, 2021 Through August 31, 2022**



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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

Independent Auditor's Report

To the People of Kentucky

The Honorable Andy Beshear, Governor

Holly M. Johnson, Secretary

Finance and Administration Cabinet

The Honorable Jack Whitfield, Jr., Hopkins County Judge/Executive

The Honorable Matt Sanderson, Hopkins County Sheriff

Members of the Hopkins County Fiscal Court

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying Hopkins County Sheriff's Settlement - 2021 Taxes for the period April 16, 2021 through August 31, 2022 - Regulatory Basis, and the related notes to the financial statement.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the accompanying financial statement presents fairly, in all material respects, the taxes charged, credited, and paid for the period April 16, 2021 through August 31, 2022 of the Hopkins County Sheriff, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

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 section of our report, the financial statement does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the taxes charged, credited, and paid of the Hopkins County Sheriff, for the period April 16, 2021 through August 31, 2022.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and 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*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statement section of our report. We are required to be independent of the Hopkins County Sheriff and to meet our ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



To the People of Kentucky
 The Honorable Andy Beshear, Governor
 Holly M. Johnson, Secretary
 Finance and Administration Cabinet
 The Honorable Jack Whitfield, Jr., Hopkins County Judge/Executive
 The Honorable Matt Sanderson, Hopkins County Sheriff
 Members of the Hopkins County Fiscal Court

Basis for Opinion (Continued)

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 Hopkins County Sheriff on the basis of accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, 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 and pervasive.

Responsibilities of Management 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 and budget laws. 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 Responsibilities for the Audit of the Financial Statement

Our objectives are to obtain reasonable assurance about whether the financial statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not an absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statement.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement.
- Obtain an understanding of internal control relevant to the audit 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 Hopkins County Sheriff's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statement.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hopkins County Sheriff's ability to continue as a going concern for a reasonable period of time.

To the People of Kentucky
The Honorable Andy Beshear, Governor
Holly M. Johnson, Secretary
Finance and Administration Cabinet
The Honorable Jack Whitfield, Jr., Hopkins County Judge/Executive
The Honorable Matt Sanderson, Hopkins County Sheriff
Members of the Hopkins County Fiscal Court

Auditor's Responsibilities for the Audit of the Financial Statement (Continued)

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2023, on our consideration of the Hopkins 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hopkins County Sheriff's internal control over financial reporting and compliance.

Based on the results of our audit, we have presented the accompanying Schedule of Findings and Responses, included herein, which discusses the following report findings:

- 2021-001 The Hopkins County Sheriff's Tax Settlement For 2021 Was Not Accurate
- 2021-002 The Hopkins County Sheriff Has Weak Internal Controls Over The Tax Distribution Process

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts
Frankfort, Ky

May 31, 2023

HOPKINS COUNTY
MATT SANDERSON, SHERIFF
SHERIFF'S SETTLEMENT - 2021 TAXES

For The Period April 16, 2021 Through August 31, 2022

	County	Special Taxing Districts	School Taxing Districts	State
<u>Charges</u>				
Real Estate	\$ 3,107,187	\$ 1,980,362	\$ 14,652,405	\$ 2,552,049
Tangible	578,153	440,388	2,251,890	1,409,824
Total Per Sheriff's Official Receipt	3,685,340	2,420,750	16,904,295	3,961,873
<u>Other Taxes & Charges</u>				
Court Ordered Increases	645	290	3,050	530
Franchise Taxes	840,259	370,607	3,370,449	
Additional Billings	4,375	1,963	20,234	4,335
Oil and Gas Property Taxes	3,260	1,464	15,331	2,675
Bank Franchises	187,643			
Penalties	9,611	7,368	45,217	8,187
Gross Chargeable to Sheriff	4,731,133	2,802,442	20,358,576	3,977,600
<u>Credits</u>				
Exonerations	9,348	5,669	43,918	8,042
Discounts	67,082	40,876	289,447	69,592
Delinquent Real Estate	53,567	55,060	254,226	43,962
Delinquent Tangible	3,763	1,672	14,918	8,095
Delinquent Oil	407	183	1,915	334
Total Credits	134,167	103,460	604,424	130,025
Taxes Collected	4,596,966	2,698,982	19,754,152	3,847,575
Less: Sheriff's Commissions*	195,371	97,972	395,083	163,522
Taxes Due Districts	4,401,595	2,601,010	19,359,069	3,684,053
Taxes Paid	4,395,033	2,597,329	19,328,405	3,687,222
Refunds (Current and Prior Year)	6,155	2,764	29,081	5,214
Taxes Due Districts (Refund Due Sheriff)	\$ 407	\$ 917	\$ 1,583	\$ (8,383)
		**	***	

* and ** See next page.

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

HOPKINS COUNTY
MATT SANDERSON, SHERIFF
SHERIFF'S SETTLEMENT - 2021 TAXES
For The Period April 16, 2021 Through August 31, 2022
(Continued)

* Commissions:

4.25% on	\$	10,628,582
2% on	\$	19,754,152
1% on	\$	514,941

** Special Taxing Districts:

Health District	\$	90
Extension District		19
Earlington Fire District		863
Charleston Fire District		<u>(55)</u>

Due Districts or (Refund Due Sheriff)	\$	<u>917</u>
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*** School Taxing Districts:

Common School District	\$	<u>1,583</u>
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Due District	\$	<u>1,583</u>
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HOPKINS COUNTY
NOTES TO FINANCIAL STATEMENT

August 31, 2022

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 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).

D. Preparation of State Settlement

The Kentucky Department of Revenue prepares the settlement relating to taxes collected for the state under the provision of KRS 134.192(2)(a). This is reported as the "State Taxes" column on the financial statement.

Note 2. Deposits

The Hopkins County Sheriff maintained deposits of public funds with federally insured banking institutions as required by the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*. The DLG Manual strongly recommends perfected pledges of securities covering all public funds except direct federal obligations and funds protected by federal insurance. In order to be perfected 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. These requirements were met.

HOPKINS COUNTY
NOTES TO FINANCIAL STATEMENT
August 31, 2022
(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 Hopkins County Sheriff does not have a deposit policy for custodial credit risk, but rather follows the requirements of the *DLG County Budget Preparation and State Local Finance Officer Policy Manual*. As of August 31, 2022, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2021. Property taxes were billed to finance governmental services for the fiscal year ending June 30, 2022. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 28, 2021 through April 18, 2022.

B. Oil and Gas Property Taxes

The oil and gas property tax assessments were levied as of January 1, 2021. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was February 25, 2022 through August 15, 2022.

C. Franchise Taxes

The franchise tax assessments were levied by the Department of Revenue for various tax years. Franchise taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was April 16, 2021 through May 30, 2022.

Note 4. Interest Income

The Hopkins County Sheriff earned \$8,456 as interest income on 2021 taxes. As of May 31, 2023, the sheriff owed \$688 in interest to the county school district, \$104 in interest to the Dawson Springs School district, and \$257 in interest to his fee account.

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

The Hopkins County Sheriff collected \$48,582 of 10% add-on fees allowed by KRS 134.119(7). As of May 31, 2023, the sheriff owed \$17,449 in 10% add-on fees to his fee account.

HOPKINS COUNTY
NOTES TO FINANCIAL STATEMENT
August 31, 2022
(Continued)

Note 6. Escrow Account

The sheriff deposited nonrefundable payments in a non-interest bearing account. The sheriff's escrowed beginning balance was \$981. The sheriff received \$16,565 and disbursed \$16,467 resulting in a total ending balance of \$1,079 as of August 31, 2022. The ending balance consists of escrowed of:

2016	\$313
2017	\$532
2019	\$136
2020	\$98

When statutorily required, the sheriff will turn over the escrowed funds to the Kentucky State Treasurer as unclaimed property.

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*

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

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

The Honorable Jack Whitfield, Jr., Hopkins County Judge/Executive
The Honorable Matt Sanderson, Hopkins County Sheriff
Members of the Hopkins County Fiscal Court

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 Hopkins County Sheriff's Settlement - 2021 Taxes for the period April 16, 2021 through August 31, 2022 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated May 31, 2023. The Hopkins County Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Hopkins County Sheriff's internal control over financial reporting (internal control) as a basis for designing 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 Hopkins County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hopkins 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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 that we consider to be material weaknesses. We did identify certain deficiencies in internal control, which are described in the accompanying Schedule of Findings and Responses as items 2021-001 and 2021-002 that we consider to be significant deficiencies.



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)

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hopkins County Sheriff's financial statement is free from 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 financial statement. 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*.

Views of Responsible Official and Planned Corrective Action

The Hopkins County Sheriff's views and planned corrective action for the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Hopkins County Sheriff's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

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,

A handwritten signature in black ink, appearing to read "Mike Harmon", followed by a long horizontal line extending to the right.

Mike Harmon
Auditor of Public Accounts
Frankfort, Ky

May 31, 2023

SCHEDULE OF FINDINGS AND RESPONSES

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HOPKINS COUNTY
MATT SANDERSON, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Period April 16, 2021 Through August 31, 2022

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES:

2021-001 The Hopkins County Sheriff's Tax Settlement For 2021 Was Not Accurate

The Hopkins County Sheriff's 2021 tax settlement did not accurately reflect the tax charges and credits associated with the 2021 property tax collection period. The following misstatements were noted:

- Exoneration decreases were overstated by \$199,203.
- Delinquent real estate taxes were understated by \$128,498.
- Taxes paid were overstated by \$78,789.

The sheriff's tax software generates most of the amounts for the sheriff's tax settlement. When sheriff's office personnel pulled the amounts from the software to prepare the settlement, the wrong amounts were pulled for exoneration decreases and delinquent real estate taxes. Internal controls over the preparation of the tax settlement failed to detect these wrong amounts were used, resulting in misstatements.

Taxes paid were overstated because the sheriff's office elected not to reflect refunds for overpayments from various districts on the 2021 tax settlement.

Because of the failure of internal controls and decisions made regarding taxes paid, the sheriff's settlement had significant misstatements that required adjustments to accurately reflect the taxes collected and taxes paid during the 2021 tax collection period. Strong internal controls are essential in ensuring that tax collections and distributions are accurately reported. Such controls should be able to both prevent misstatements before they occur, and detect any misstatements after they occur.

We recommend the sheriff strengthen internal controls over the preparation of the annual tax settlement. Comparisons of amounts on the sheriff's prepared tax settlement to amounts calculated by the tax software can help detect misstatements and prevent misstatements from occurring. Additionally, a thorough review of the tax settlement by an individual not involved in the preparation can also strengthen internal controls and help detect any misstatements that might occur.

Sheriff's Response: The Bookkeeper inadvertently posted the delinquent bills in decrease exon column and the exonerations in the decrease tax column as the labeling on the columns were somewhat confusing. These columns have been relabeled for future settlements with clearer titles.

2021-002 The Hopkins County Sheriff Has Weak Internal Controls Over The Tax Distribution Process

The Hopkins County Sheriff's office overpaid five taxing districts a total of \$247,461 for the month of January 2022. Tax reports for all county-wide tax districts and the Dawson Springs School District were not marked paid in the tax software for the month of December 2021. When January 2022's monthly reports were run, they included the totals from December 2021. This resulted in a significant overpayment of taxes to these five taxing districts. It also resulted in the sheriff's property tax account being overdrawn of funds.

Strong internal controls over the tax collection and distribution process are vital to ensuring that the proper amount of taxes is distributed to the taxing districts.

HOPKINS COUNTY
MATT SANDERSON, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Period April 16, 2021 Through August 31, 2022
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2021-002 The Hopkins County Sheriff Has Weak Internal Controls Over The Tax Distribution Process
(Continued)

We recommend the Hopkins County Sheriff strengthen internal controls over the monthly reporting and distribution of taxes. Internal controls such as reconciliations between monthly reports and bank receipts can help ensure the proper amount of taxes are distributed each month.

Sheriff's Response: The Tax Collection Software used in 2021 required the Bookkeeper to acknowledge the distribution report had printed correctly which in turn posted the bills as disbursed in the system. The Bookkeeper failed to answer the question regarding the correct printing in December 2021, therefore the bills did not reflect the disbursement. When the January report reprinted, the Bookkeeper thought the amounts seemed excessive, however, disbursed the collections as stated in the January report. It was not until after the account was overdrawn until the mistake was found.

The Tax Collection Software has changed since that time. The Bookkeeper will have the reports reviewed before disbursing the collections.