

**REPORT OF THE AUDIT OF THE
HANCOCK COUNTY
SHERIFF'S SETTLEMENT - 2019 TAXES**

**For The Period
April 16, 2019 Through May 15, 2020**



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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
The Honorable Andy Beshear, Governor
Holly M. Johnson, Secretary
Finance and Administration Cabinet
The Honorable Johnny Roberts, Hancock County Judge/Executive
The Honorable Ralph D. Bozarth, Hancock County Sheriff
Members of the Hancock County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the Hancock County Sheriff's Settlement - 2019 Taxes for the period April 16, 2019 through May 15, 2020 - 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



To the People of Kentucky
The Honorable Andy Beshear, Governor
Holly M. Johnson, Secretary
Finance and Administration Cabinet
The Honorable Johnny Roberts, Hancock County Judge/Executive
The Honorable Ralph D. Bozarth, Hancock County Sheriff
Members of the Hancock County Fiscal Court

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 Hancock 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, 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 taxes charged, credited, and paid of the Hancock County Sheriff, for the period April 16, 2019 through May 15, 2020.

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 April 16, 2019 through May 15, 2020 of the Hancock 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 October 22, 2020, on our consideration of the Hancock 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 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 Hancock 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 comment:

2019-001 The Sheriff’s Office Does Not Have Adequate Segregation Of Duties Over Receipts And Disbursements

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

October 22, 2020

HANCOCK COUNTY
RALPH D. BOZARTH, SHERIFF
SHERIFF'S SETTLEMENT - 2019 TAXES

For The Period April 16, 2019 Through May 15, 2020

	Special Taxing			
	County	Districts	School	State
<u>Charges</u>				
Real Estate	\$ 184,294	\$ 681,195	\$ 2,979,887	\$ 527,642
Tangible	114,171	406,505	1,404,709	2,297,334
Total Per Sheriff's Official Receipt	298,465	1,087,700	4,384,596	2,824,976
<u>Other Taxes & Charges</u>				
Franchise Taxes	171,771	534,689	2,249,227	
Additional Billings	51	176	770	159
Oil Property Taxes	274	1,027	4,495	796
Clay Property Taxes	19	71	311	55
Penalties	714	2,623	11,474	2,107
Gross Chargeable to Sheriff	471,294	1,626,286	6,650,873	2,828,093
<u>Credits</u>				
Exonerations	418	1,517	6,637	1,302
Discounts	5,482	19,983	79,944	54,813
Delinquent Real Estate	1,723	6,409	28,035	4,964
Delinquent Tangible	254	715	3,127	6,425
Total Credits	7,877	28,624	117,743	67,504
Taxes Collected	463,417	1,597,662	6,533,130	2,760,589
Less: Sheriff's Commissions*	19,695	67,901	97,997	117,325
Taxes Due Districts	443,722	1,529,761	6,435,133	2,643,264
Taxes Paid	443,439	1,528,891	6,431,520	2,642,591
Refunds (Current and Prior Year)	283	870	3,613	673
Taxes Due Districts	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

* Commissions:

4.25% on \$ 4,821,668
1.5% on \$ 6,533,130

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

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENT

May 15, 2020

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 Hancock 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 fiscal court 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.

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENT
May 15, 2020
(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 Hancock 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 May 15, 2020, 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, 2019. Property taxes were billed to finance governmental services for the fiscal year ending June 30, 2020. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 18, 2019 through May 15, 2020.

B. Oil Property Taxes

The oil property tax assessments were levied as of January 1, 2019. 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, 2020 through August 15, 2020.

C. Clay Property Taxes

The clay property tax assessments were levied as of January 1, 2019. 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, 2020 through August 15, 2020.

D. 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 May 1, 2019 through May 15, 2020.

Note 4. Interest Income

The Hancock County Sheriff earned \$567 as interest income on 2019 taxes. The sheriff was in substantial compliance with his statutory responsibilities.

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

The Hancock County Sheriff collected \$12,732 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the sheriff's office.

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENT
May 15, 2020
(Continued)

Note 6. Escrow Account

The sheriff deposited unrefundable payments in a non-interest-bearing account. The sheriff's escrowed beginning balance was \$112. The sheriff did not receive or disburse any funds, resulting in a total ending balance as of May 15, 2020, of \$112. The ending balance consists of the following escrowed amounts:

2016	\$87
2017	\$25

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

The Honorable Johnny Roberts, Hancock County Judge/Executive
The Honorable Ralph D. Bozarth, Hancock County Sheriff
Members of the Hancock 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 Hancock County Sheriff's Settlement - 2019 Taxes for the period April 16, 2019 through May 15, 2020 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated October 22, 2020. The Hancock 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.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying Schedule of Findings and Responses, we identified a certain deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2019-001 to be a material weakness.



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)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Hancock 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 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*.

Views of Responsible Official and Planned Corrective Action

The Hancock 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 Hancock 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

October 22, 2020

SCHEDULE OF FINDINGS AND RESPONSES

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HANCOCK COUNTY
RALPH D. BOZARTH, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Period April 16, 2019 Through May 15, 2020

INTERNAL CONTROL - MATERIAL WEAKNESS:

2019-001 The Sheriff's Office Does Not Have Adequate Segregation Of Duties Over Receipts And Disbursements

This is a repeat finding and was included in the prior year audit report as finding 2018-001. During the current year, a lack of segregation of duties exists 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. Per the sheriff's office, this lack of segregation of duties is due to a limited number of employees available to properly segregate these job duties.

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.

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 function. 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 lack of funds, we are unable to hire more staff to segregate duties.