

**REPORT OF THE AUDIT OF THE  
HANCOCK COUNTY  
SHERIFF'S SETTLEMENT - 2018 TAXES**

**For The Period  
April 17, 2018 Through April 15, 2019**



**MIKE HARMON  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**209 ST. CLAIR STREET  
FRANKFORT, KY 40601-1817  
TELEPHONE 502.564.5841  
FACSIMILE 502.564.2912**



CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT ..... 1

SHERIFF’S SETTLEMENT - 2018 TAXES ..... 3

NOTES TO FINANCIAL STATEMENT ..... 4

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* ..... 9

SCHEDULE OF FINDINGS AND RESPONSES ..... 13

THIS PAGE LEFT BLANK INTENTIONALLY



**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

The Honorable Matthew G. Bevin, Governor  
William M. Landrum III, 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 - 2018 Taxes for the period April 17, 2018 through April 15, 2019 - 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 Matthew G. Bevin, Governor  
 William M. Landrum III, 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 17, 2018 through April 15, 2019.

### **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 17, 2018 through April 15, 2019 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 September 17, 2019, 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:

2018-001 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

Respectfully submitted,



Mike Harmon  
 Auditor of Public Accounts

September 17, 2019

HANCOCK COUNTY  
RALPH D. BOZARTH, SHERIFF  
SHERIFF'S SETTLEMENT - 2018 TAXES

For The Period April 17, 2018 Through April 15, 2019

	Special Taxing			
	County	Districts	School	State
<u>Charges</u>				
Real Estate	\$ 239,108	\$ 672,511	\$ 2,711,338	\$ 520,918
Tangible	85,748	329,425	972,321	2,105,626
Fire Protection	2,679			
Total Per Sheriff's Official Receipt	327,535	1,001,936	3,683,659	2,626,544
<u>Other Taxes &amp; Charges</u>				
Court Ordered Increases	58	164	661	481
Franchise Taxes	107,221	303,382	1,221,777	
Additional Billings	13	211	152	29
Clay Taxes	48	136	548	105
Oil Property Taxes	205	575	2,320	446
Penalties	927	2,658	10,409	2,418
Gross Chargeable to Sheriff	436,007	1,309,062	4,919,526	2,630,023
<u>Credits</u>				
Exonerations	372	1,040	4,198	817
Discounts	5,916	18,192	66,540	50,377
Delinquent Real Estate	2,339	6,542	26,373	5,067
Total Credits	8,627	25,774	97,111	56,261
Taxes Collected	427,380	1,283,288	4,822,414	2,573,762
Less: Sheriff's Commissions*	18,164	54,540	72,335	109,385
Taxes Due Districts	409,216	1,228,748	4,750,079	2,464,377
Taxes Paid	407,960	1,225,203	4,735,754	2,456,037
Refunds (Current and Prior Year)	1,258	3,545	14,325	8,338
Taxes Due Districts (Refund Due Sheriff)	\$ (2)	\$	\$	\$ 2

\*\*

\* Commissions:

4.25% on \$ 4,284,430  
1.5% on \$ 4,822,414

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

HANCOCK COUNTY  
NOTES TO FINANCIAL STATEMENT

April 15, 2019

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 conducts 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 depository institutions insured by the FDIC as required by KRS 66.480(1)(d). According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC 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.

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 KRS 66.480(1)(d) and KRS 41.240. As of April 15, 2019, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.



HANCOCK COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 April 15, 2019  
 (Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2018. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2019. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 27, 2018 through April 15, 2019.

B. Oil Property Taxes

The oil property tax assessments were levied as of January 1, 2018. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 17, 2019 through July 15, 2019.

C. Clay Property Taxes

The clay property tax assessments were levied as of January 1, 2018. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 17, 2019 through July 15, 2019.

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 April 17, 2018 through April 30, 2019.

Note 4. Interest Income

The Hancock County Sheriff earned \$414 as interest income on 2018 taxes. The sheriff was in substantial compliance with his statutory responsibilities.

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

The Hancock County Sheriff collected \$12,333 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the sheriff's office.

Note 6. Escrow Account

The sheriff deposited un-refundable 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 April 15, 2019, of \$112. The ending balance consists of the following escrowed amounts:

2016	\$87
2017	\$25

THIS PAGE LEFT BLANK INTENTIONALLY

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*

THIS PAGE LEFT BLANK INTENTIONALLY



**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 - 2018 Taxes for the period April 17, 2018 through April 15, 2019 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated September 17, 2019. 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 2018-001 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 finding 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

September 17, 2019

## SCHEDULE OF FINDINGS AND RESPONSES

THIS PAGE LEFT BLANK INTENTIONALLY



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

For The Period April 17, 2018 Through April 15, 2019

INTERNAL CONTROL - MATERIAL WEAKNESS:

2018-001 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 report as finding 2017-001. 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. 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.

To adequately protect employees in the normal course of performing their duties and to 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: Lack of funds.*