



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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2016 financial statement of Hancock County Sheriff Ralph D. 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 financial statement presents fairly the receipts, disbursements, and excess fees of the Hancock County Sheriff in accordance with accounting principles generally accepted in the United States of America. The sheriff's financial statement did not follow this format. However, the sheriff's financial statement is fairly presented in conformity with the regulatory basis of accounting, which is an acceptable reporting methodology. This reporting methodology is followed for all 120 sheriff audits in Kentucky.

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 comments:

The sheriff's office lacks adequate segregation of duties over receipts, disbursements, and bank reconciliations. This is a repeat finding and was included in the prior year report as Finding 2015-002. During calendar year 2016, the sheriff's office lacked adequate segregation of duties. The sheriff's bookkeeper collected payments from customers, prepared deposits, wrote checks, posted transactions to the receipts ledger, posted checks to the disbursements ledger, and prepared monthly and quarterly reports. The sheriff or another employee did not document oversight of any of these activities. 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.

A lack of segregation of duties with no documented compensating controls could result in the undetected misappropriation of assets and inaccurate financial report to external agencies such as the Department for Local Government. Segregation of duties over accounting functions 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, disbursement, and reconciliation functions listed above. If this is not possible due to limited staff, 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 the job duties.

Auditor's Reply: If segregation of duties is not possible, compensating controls should be implemented such as periodic review by the official.

The sheriff's office does not batch and deposit receipts daily. This is a repeat finding and was included in the prior year report as Finding 2015-001. During calendar year 2016, the Hancock County Sheriff's Office did not make daily deposits. Auditors noted during testing that only one deposit was made for the period December 7, 2016 through December 16, 2016. According to the sheriff, due to the timing of the audit, the sheriff was unable to correct this comment for calendar year 2016. The daily receipts for the sheriff's office were very low; therefore, the bookkeeper would hold receipts and usually make a weekly deposit.

By not making daily deposits, the sheriff's office could create the opportunity for undetected misappropriation of assets. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. This uniform system of accounts includes minimum accounting standards, as outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual*. Minimum accounting standards include performing daily check-out procedures and making daily deposits intact into a federal insured banking institution. We recommend the sheriff's office comply with minimum accounting standards and ensure receipts are batched and deposited daily.

Sheriff's response: Due to timing of our last audit we were unable to correct the problem. However, January 1st 2017, deposits have been made on a daily basis.

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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