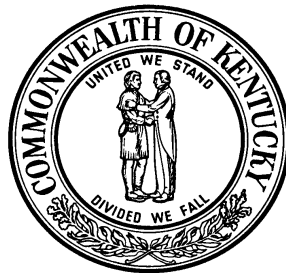


**REPORT OF THE AUDIT OF THE  
HARDIN COUNTY  
SHERIFF'S SETTLEMENT - 2016 TAXES**

**For The Period  
April 16, 2016 Through April 17, 2017**



**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**



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**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 Harry L. Berry, Hardin County Judge/Executive  
The Honorable John Ward, Hardin County Sheriff  
Members of the Hardin County Fiscal Court

Independent Auditor's Report

**Report on the Financial Statement**

We have audited the Hardin County Sheriff's Settlement - 2016 Taxes for the period April 16, 2016 through April 17, 2017 - 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 Harry L. Berry, Hardin County Judge/Executive  
The Honorable John Ward, Hardin County Sheriff  
Members of the Hardin 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 Hardin 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 Hardin County Sheriff, for the period April 16, 2016 through April 17, 2017.

### **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, 2016 through April 17, 2017 of the Hardin 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 January 30, 2018, on our consideration of the Hardin 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 Hardin County Sheriff's internal control over financial reporting and compliance.

To the People of Kentucky

The Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

The Honorable Harry L. Berry, Hardin County Judge/Executive

The Honorable John Ward, Hardin County Sheriff

Members of the Hardin County Fiscal Court

**Other Reporting Required by *Government Auditing Standards* (Continued)**

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:

2016-001 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts

Respectfully submitted,

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

Mike Harmon  
Auditor of Public Accounts

January 30, 2018

HARDIN COUNTY  
JOHN WARD, SHERIFF  
SHERIFF'S SETTLEMENT - 2016 TAXES

For The Period April 16, 2016 Through April 17, 2017

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 6,535,268	\$ 3,041,873	\$ 37,369,474	\$ 7,058,376
Tangible Personal Property	489,650	187,516	2,784,488	2,193,098
Fire Protection	1,780			
Increases Through Exonerations	618	204	3,495	677
Omitted Taxes	605	200	3,409	669
Franchise Taxes	273,676	97,555	1,582,751	
Additional Billings	2,216	819	11,760	27,717
Gas Property Taxes	91	30	504	98
Limestone, Sand and Gravel Reserves	1,556	514	8,660	1,680
Omitted Limestone, Sand and Gravel Reserves	173	57	964	187
Bank Franchises	342,868			
Penalties	27,786	9,074	141,540	29,355
Adjusted to Sheriff's Receipt	42	36	21	2
Gross Chargeable to Sheriff	<u>7,676,329</u>	<u>3,337,878</u>	<u>41,907,066</u>	<u>9,311,859</u>
<u>Credits</u>				
Exonerations	9,001	3,481	51,782	9,714
Discounts	130,228	44,469	713,159	165,040
Delinquents:				
Real Estate	90,702	69,728	529,344	97,864
Tangible Personal Property	5,202	1,897	29,707	14,846
Fire Dues Opt Outs		80,520		
Franchise Taxes	76	28	423	
Total Credits	<u>235,209</u>	<u>200,123</u>	<u>1,324,415</u>	<u>287,464</u>
Taxes Collected	7,441,120	3,137,755	40,582,651	9,024,395
Less: Commissions *	<u>316,248</u>	<u>122,848</u>	<u>608,740</u>	<u>383,537</u>
Taxes Due	7,124,872	3,014,907	39,973,911	8,640,858
Taxes Paid	7,098,725	3,005,207	39,828,230	8,590,865
Refunds (Current and Prior Year)	<u>24,293</u>	<u>8,826</u>	<u>135,280</u>	<u>49,993</u>
Due Districts or (Refunds Due Sheriff) as of Completion of Audit	<u>\$ 1,854</u>	<u>\$ 874</u>	<u>\$ 10,401</u>	<u>\$ 0</u>
		**	***	

\*, \*\*, and \*\*\* See next page.

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



HARDIN COUNTY  
 JOHN WARD, SHERIFF  
 SHERIFF'S SETTLEMENT - 2016 TAXES  
 For The Period April 16, 2016 Through April 17, 2017  
 (Continued)

* Commissions:	
4.25% on \$	19,002,920
2.5% on \$	600,350
1.5% on \$	40,582,651
** Special Taxing Districts:	
Health District	\$ 358
Extension District	280
City of West Point	<u>236</u>
Due Districts	<u>\$ 874</u>
*** School Districts:	
Common School	\$ 9,846
Elizabethtown Independent School	(64)
West Point Independent School	<u>619</u>
Due Districts or (Refund Due Sheriff)	<u><u>\$ 10,401</u></u>

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

HARDIN COUNTY  
NOTES TO FINANCIAL STATEMENT

April 17, 2017

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).

Note 2. Deposits

The Hardin 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 Hardin 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 17, 2017, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

HARDIN COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 April 17, 2017  
 (Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2016. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2017. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 28, 2016 through April 17, 2017.

B. Gas Property Taxes

The gas property tax assessments were levied as of January 1, 2016. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 16, 2016 through May 15, 2017.

C. Limestone, Sand, and Gravel Property Taxes

The limestone, sand, and gravel property tax assessments were levied as of January 1, 2016. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 16, 2016 through May 15, 2017.

D. Franchise Taxes

Franchise taxes were assessed by the Kentucky 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, 2016 through April 17, 2017.

Note 4. Interest Income

The Hardin County Sheriff earned \$19,255 as interest income on 2016 taxes. The sheriff was in substantial compliance with his statutory responsibility regarding interest.

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

The Hardin County Sheriff collected \$163,670 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the sheriff's office.

Note 6. Unrefundable Duplicate Payments And Unexplained Receipts

The sheriff deposited unrefundable duplicate payments and unexplained receipts in interest-bearing accounts. The sheriff's escrowed amounts were as follows:

2013	\$37
2014	\$2,834
2015	\$495

KRS 393.090 states that if the funds have not been claimed after three years, they are presumed abandoned. Abandoned funds are required to be sent to the Kentucky State Treasurer pursuant to KRS 393.110 and its accompanying regulations.

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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 Harry L. Berry, Hardin County Judge/Executive  
The Honorable John Ward, Hardin County Sheriff  
Members of the Hardin 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 Hardin County Sheriff's Settlement - 2016 Taxes for the period April 16, 2016 through April 17, 2017 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated January 30, 2018. The Hardin 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 Hardin 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 Hardin County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hardin 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 certain a 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 2016-001 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 Hardin County Sheriff's financial statement is free of 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 Hardin 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 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

January 30, 2018



SCHEDULE OF FINDINGS AND RESPONSES

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HARDIN COUNTY  
JOHN WARD, SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES

For The Period April 16, 2016 Through April 17, 2017

INTERNAL CONTROL - MATERIAL WEAKNESS:

2016-001 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts

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This is a repeat finding and was included in the prior year audit report as finding 2015-001. The sheriff's bookkeeper collects taxes, prepares deposits, posts to the ledgers, prepares monthly reports, and performs the bank reconciliations. There was not sufficient evidence available that would show that the sheriff or another employee periodically reviews deposits, ledgers, monthly reports or the bank reconciliations to offset the risk caused by the lack of segregation of duties.

The sheriff's office had corrected the prior year comment about printing a master copy of daily collections and comparing to each employee's daily checkout deposits and thought they were handling receipts correctly. Without segregation of duties, the risk of misstatements in receipts significantly increases because of undetected errors and theft. Segregation of duties over receipt procedures, report preparation, and bank reconciliations is essential for providing protection from fraud and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To adequately protect employees in the normal course of performing their duties, and prevent inaccurate financial reporting and misappropriation of assets, we recommend the sheriff implement strong oversight over these areas, either by an employee independent of those functions or by the sheriff, such as:

- Compare the daily bank deposit to the daily checkout sheets and then compare to the bank deposit receipt received from bank once deposit has been made by others. This should be documented by initialing the total deposit sheet on the master copy of daily checkout sheet and the bank deposit receipt.
- Compare each daily checkout sheet to the master copy and document by initialing.
- Bank reconciliation balance should be reconciled to zero on a monthly basis. Large unreconciled balances should be investigated immediately. All supporting documentation to reconcile should be approved. The sheriff could document this by initialing the bank reconciliation.

*Sheriff's Response: The Hardin County Sheriff's Office was responsible for collecting over \$51,000,000 for tax year 2016, per this audit all tax dollars were accounted for and distributed to taxing jurisdictions.*

*Most Sheriff's Offices have an issue with the lack of adequate segregation of duties, this is due to the deficiency of employees needed to perform the task.*

*For tax collections purposes we have three full-time staff members (plus CFO) who also perform their regular office duties, one seasonal tax worker, and one part time college student. Taxes (\$51,000,000) are collected in 5 1/2 months, with the majority in November and emphasis in December 31, January 31, and April 15. At HCSO, we do have procedures in process and try to take precautions to prevent any problems.*

*We will take all recommendations under consideration and implement any and all if possible.*