

**REPORT OF THE AUDIT OF THE
WHITLEY COUNTY
SHERIFF'S SETTLEMENT - 2005 TAXES**

For The Period July 17, 2005 Through July 6, 2006



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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
WHITLEY COUNTY
SHERIFF'S SETTLEMENT - 2005 TAXES**

For The Period July 17, 2005 Through July 6, 2006

The Auditor of Public Accounts was engaged to complete the audit of the Sheriff's Settlement - 2005 Taxes for the Whitley County Sheriff for the period July 17, 2005 through July 6, 2006. As a result of this engagement, we have issued a disclaimer of opinion on the Whitley County Sheriff's Settlement - 2005 Taxes.

Report Comments:

- 2005-1 The Sheriff's Office Did Not Properly Account For And Distribute All Tax Payments Received From Taxpayers
- 2005-2 The Sheriff Should Accurately Account For All Franchise Tax Collections And Distribute All Franchise Taxes By The Tenth Of Month Following Collections
- 2005-3 The Sheriff's Office Did Not Properly Account For All Paid And Unpaid Tax Bills And Accepted Payments After The Tax Sale Date
- 2005-4 The Sheriff Should Refund Penalties Collected In Error
- 2005-5 The Sheriff Had A Known Deficit Of \$15,984 In His Official 2005 Tax Account
- 2005-6 The Sheriff Did Not Document Approval Of Wavier Of Penalties And Fees As Required By Statute And Department Of Revenue Guidelines And Granted Discounts On Tax Bills Paid After The Discount Period Had Ended
- 2005-7 The Sheriff Did Not Deposit Receipts Of The Office In A Timely Manner And Did Not Reconcile Deposits To The Daily Collection Journals Or A Daily Receipts Ledger
- 2005-8 The Sheriff's Office Lacked Adequate Segregation Of Duties Over The Accounting Functions
- 2005-9 The Sheriff Did Not Distribute In A Timely Manner The Proper Amounts Of Interest Earned On Tax Collections To The School Districts And His Fee Account
- 2005-10 Un-refundable Duplicate Payments And Unexplained Receipts Should Be Deposited Into Separate Interest Bearing Escrow Accounts
- 2005-11 The Sheriff Should Not Loan Money To The Fee Account From The Tax Account
- 2005-12 The Sheriff Should Settle 2005 Taxes

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Pat White, Jr., Whitley County Judge/Executive
Honorable Lawrence Hodge, Whitley County Sheriff
Members of the Whitley County Fiscal Court

Independent Auditor's Report

We were engaged to audit the Whitley County Sheriff's Settlement - 2005 Taxes for the period July 17, 2005 through July 6, 2006. This tax settlement is the responsibility of the Sheriff.

As further explained in the accompanying findings and recommendations, the Whitley County Sheriff did not maintain adequate accounting records of tax revenues and tax distributions for the 2005 tax year. The Sheriff's financial records do not permit the application of other auditing procedures to tax revenues and tax distributions. Furthermore, significant discrepancies in the Sheriff's records identified during the engagement and lack of adequate internal controls resulted in a high level of audit risk. In addition, we were not provided with management or legal representation letters.

Since the Whitley County Sheriff did not maintain adequate accounting records, audit risk for this engagement was high as discussed in paragraph two, and because we did not receive the required representation letters and we were not able to apply other auditing procedures to satisfy ourselves as to the validity of tax revenues and tax distributions, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the Sheriff's Tax Settlement - 2005 Taxes for the period July 17, 2005 through July 6, 2006.

We were engaged to audit the financial statement referred to above for the purpose of forming an opinion on the financial statement. The Schedule Of Excess Of Liabilities Over Assets is presented for purposes of additional analysis and is not a required part of the financial statement. As discussed in the third paragraph above, the scope of our work was not sufficient to enable us to express an opinion on the financial statement of the Sheriff. Similarly, we are unable to express and do not express an opinion on the Schedule Of Excess Of Liabilities Over Assets in relation to the financial statement.

In accordance with Government Auditing Standards, we have also issued our report dated March 31, 2009, on our consideration of the 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 and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Pat White, Jr., Whitley County Judge/Executive
Honorable Lawrence Hodge, Whitley County Sheriff
Members of the Whitley County Fiscal Court

We also present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2005-1 The Sheriff's Office Did Not Properly Account For And Distribute All Tax Payments Received From Taxpayers
- 2005-2 The Sheriff Should Accurately Account For All Franchise Tax Collections And Distribute All Franchise Taxes By The Tenth Of Month Following Collections
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- 2005-11 The Sheriff Should Not Loan Money To The Fee Account From The Tax Account
- 2005-12 The Sheriff Should Settle 2005 Taxes

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

March 31, 2009

WHITLEY COUNTY
LAWRENCE HODGE, SHERIFF
SHERIFF'S SETTLEMENT - 2005 TAXES

For The Period July 17, 2005 Through July 6, 2006

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 625,276	\$ 989,361	\$ 2,152,670	\$ 1,037,525
Tangible Personal Property	97,620	201,774	162,627	306,957
Intangible Personal Property				76,686
Fire Protection	3,749			
Increases Through Exonerations			33	
Franchise Taxes	96,542	180,107	334,215	
Prior Year Franchises	11,547	19,683	36,003	
Additional Billings	1,135	1,823	5,397	2,750
Unmined Coal - 2005 Taxes	1,914	3,029	9,449	3,174
Oil and Gas Property Taxes	24,309	38,463	120,005	40,309
Penalties	5,045	7,968	17,638	8,504
Adjusted to Sheriff's Receipt	1,899	3,293	8,165	10,549
 Gross Chargeable to Sheriff	 <u>869,036</u>	 <u>1,445,501</u>	 <u>2,846,202</u>	 <u>1,486,454</u>
 <u>Credits</u>				
Exonerations	4,914	7,924	20,350	9,097
Discounts	11,495	19,002	36,114	23,308
Delinquents:				
Real Estate	44,525	69,912	173,973	73,268
Tangible Personal Property	1,149	2,375	3,218	3,738
Intangible Personal Property				855
Unmined Coal - 2005 Taxes	6	9	27	9
Franchise Taxes				
Current Year - Uncollected	47,594	84,293	195,747	
Prior Year - Uncollected	1,369	2,089	2,213	
 Total Credits	 <u>111,052</u>	 <u>185,604</u>	 <u>431,642</u>	 <u>110,275</u>
 Taxes Collected	 757,984	 1,259,897	 2,414,560	 1,376,179
Less: Commissions (a)	<u>32,502</u>	<u>53,546</u>	<u>96,582</u>	<u>58,775</u>
 Taxes Due	 725,482	 1,206,351	 2,317,978	 1,317,404
Taxes Paid	724,074	1,205,580	2,312,970	1,315,548
Refunds (Current and Prior Year)	<u>850</u>	<u>1,241</u>	<u>3,649</u>	<u>1,394</u>
 Due Districts or (Refunds Due Sheriff)	 <u>\$ 558</u>	 <u>(b) \$ (470)</u>	 <u>(c) \$ 1,359</u>	 <u>\$ 462</u>

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

WHITLEY COUNTY
 LAWRENCE HODGE, SHERIFF
 SHERIFF'S SETTLEMENT - 2005 TAXES
 For The Period July 17, 2005 Through July 6, 2006
 (Continued)

(a) Commissions:

10% on	\$	10,000
4.25% on	\$	3,384,060
4% on	\$	2,414,560

(b) Special Taxing Districts:

Library District	\$	(692)
Health District		301
Extension District		335
Soil		<u>(414)</u>

Due Districts or

(Refunds Due Sheriff)	\$	<u>(470)</u>
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(c) School Districts:

Whitley County Board of Education	\$	1,521
Corbin Independent School District		<u>(162)</u>

Due Districts or

(Refunds Due Sheriff)	\$	<u>1,359</u>
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WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENT

July 6, 2006

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 modified cash basis of accounting. 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

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, 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 Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), 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.

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENT
July 6, 2006
(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 Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of July 6, 2006, 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, 2005. Property taxes were billed to finance governmental services for the year ended June 30, 2006. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 28, 2005 through July 6, 2006.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2005. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was April 26, 2006 through July 6, 2006.

Note 4. Interest Income

The Whitley County Sheriff earned \$8,051 as interest income on 2005 taxes. The Sheriff is required to distribute amounts to the school districts by statute, and use the remainder to operate the Sheriff's office. As of July 6, 2006, the Sheriff was due a refund of \$119 from the Corbin Independent School District due to an overpayment, and owed \$3 and \$372 in interest to the Whitley County Board of Education and his fee account respectively.

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

The Whitley County Sheriff collected \$20,504 of 10% add-on fees allowed by KRS 134.430(3). A total of \$18,839 was transferred to his fee account and used to operate the Sheriff's office. An additional \$1,665 is due to the fee account.

Note 6. Advertising Costs And Fees

The Whitley County Sheriff collected \$1,361 of advertising costs and \$4,385 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed \$985 of the advertising costs to the county as required by statute and an additional \$376 is due. Advertising fees of \$4,060 were distributed to the Sheriff's fee account and used to operate the Sheriff's office. An additional \$325 is due to the fee account.

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENT
July 6, 2006
(Continued)

Note 7. Un-refundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff deposited un-refundable duplicate payments and unexplained receipts in a non-interest-bearing account. The following are noted:

- As of July 16, 2005, the Sheriff's escrow account had a balance \$11,183 which was made up of un-refundable duplicate payments and unexplained receipts prior to the 2003 tax collection period. Of this amount, the source of \$206 was identified and disbursed in February of 2006 leaving a balance of \$10,977 for those tax years.
- During the 2005 tax collection period, 2003 - Tax collection un-refundable duplicate payments and unexplained receipts of \$1,807 were deposited to the tax escrow account.
- During the 2005 tax collection period, 2004 un-refundable duplicate payments and unexplained receipts of \$8,731 were deposited to the tax escrow account. Additional interest earned totaling \$86 was also deposited and disbursements totaling \$129 were made from the escrow account for 2004 taxes, leaving a balance of \$8,688 in the Sheriff's escrow account for 2004 taxes.
- There is no surplus to be escrowed for the 2005 taxes.

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

WHITLEY COUNTY
LAWRENCE HODGE, SHERIFF
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

For The Period July 17, 2005 Through July 6, 2006

Assets

Cash in Bank (All Tax Accounts)	\$	28,558
Collected Receivables -		
Loan Repaid From 2006 Fee Account	\$	22,300
Commissions From Schools		9,372
Interest		263
Kentucky Revenue Cabinet - Telecom Payments		2,184
Transfer from 06 Tax Account		1,779
Returned Checks Redeposited		235
Returned Check Fees Collected		40
2005 Tax Collections Deposited Late		51,168
Correction of Deposit Errors -		
Calendar Year 2006 Fee Receipts		4,154
Calendar Year 2006 Drug fund Receipts		350
		91,845
Uncollected Receivables -		
Refunds Due From Taxing Districts -		
Corbin Independent School -		
Overpayment of Taxes		162
Overpayment of Interest		119
Library District -		
Overpayment of Taxes		692
Soil Conservation District -		
Overpayment of Taxes		414
Due From 2004 Tax Account -		
Excess transfer from 2005 Tax Account		69
Due From 2006 Tax Account -		
*Overpayment of Commissions		1,438
Refund Due From Escrow Account		1,741
		4,635
Total Receivables		96,480
Total Assets	\$	125,038

* - The Sheriff is personally responsible for this due to a deficit in the 2006 tax account.

WHITLEY COUNTY
LAWRENCE HODGE, SHERIFF
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS
For The Period July 17, 2005 Through July 6, 2006
(Continued)

Liabilities

Outstanding Checks \$ 10,030

Paid Obligations-

Other Taxing Districts -

Kentucky State Treasurer	\$ 18,937
Whitley County Fiscal Court	11,459
Whitley County School Board of Education	38,403
Corbin Board of Education	11,903
Library	4,356
Health	6,884
Extension	5,318
Soil	2,334
2006 Fee Account	6,213
2007 Fee Account	546
Refunds Due Taxpayers	67
Transfers To Tax Escrow Account	<u>3,953</u>

Total Paid Obligations 110,373

Unpaid Obligations-

Other Taxing Districts-

State	\$ 462
County	558
County School District	1,521
Health District	301
Extension District	335
Refunds Due Taxpayers	1,933
Interest Due County School	3
Due Sheriff's 2006 Fee Account-	
Interest	372
10 % Add-On Fees	1,665
Advertising Fees	325
Deposit Errors	10,059
Returned Check Fees Collected	307

WHITLEY COUNTY
LAWRENCE HODGE, SHERIFF
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS
For The Period July 17, 2005 Through July 6, 2006
(Continued)

Liabilities (Continued)

Unpaid Obligations (Continued)-	\$	376	
Telecom Payment Due 2007 Fee Account		273	
Due to 2006 Tax Account			
Transfer from 2006 Tax Account In Error		1,779	
Deposit Errors Due Sheriff's 2006 Drug Account		<u>350</u>	
Total Unpaid Obligations			<u>20,619</u>
Total Liabilities			<u>141,022</u>
Total Fund Deficit as of July 6, 2006			<u>\$ (15,984)</u>

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



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

Honorable Pat White, Jr., Whitley County Judge/Executive
Honorable Lawrence Hodge, Whitley County Sheriff
Members of the Whitley 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

We were engaged to audit the Whitley County Sheriff's Settlement - 2005 Taxes for the period July 17, 2005 through July 6, 2006, and have issued our report thereon dated March 31, 2009 wherein we disclaimed an opinion on the financial statement because the Sheriff failed to maintain adequate accounting records and lacked adequate internal controls resulting in a high audit and fraud risk. In addition, we were not provided with management or legal representation letters. We conducted our audit 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.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting which is a basis of accounting other than generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting.



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)

Internal Control Over Financial Reporting (Continued)

We consider the deficiencies described in accompanying comments and recommendations as items 2005-1, 2005-2, 2005-3, 2005-4, 2005-05, 2005-6, 2005-7, 2005-8, 2005-9, 2005-10, and 2005-11 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Whitley County Sheriff's Settlement - 2005 Taxes for the period July 17, 2005 through July 6, 2006 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations. These noncompliances and other matters are reported in comments 2005-1, 2005-2, 2005-3, 2005-6, 2005-11, and 2005-12.

Whitley County Sheriff's responses to the findings identified in our audit are described in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Whitley County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

March 31, 2009

COMMENTS AND RECOMMENDATIONS

WHITLEY COUNTY
LAWRENCE HODGE, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period July 17, 2005 Through July 6, 2006

FINANCIAL STATEMENT FINDINGS

2005-1 The Sheriff's Office Did Not Properly Account For And Distribute All Tax Payments Received From Taxpayers

The Sheriff's office prepared ten (10) supplemental tax reports for 2005 tax collections totaling \$1,679,597. These supplemental reports were prepared to report the paid tax bills as if they had been paid during the discount, face, or 5% penalty amount periods and/or to report paid tax bills where the Sheriff waived the penalties. From these ten (10) supplemental tax reports, we noted the following:

- The Sheriff was unable to provide us with supporting detail (daily tax collection journals) for two (2) of these reports, which totaled \$1,303,679. The daily tax collection journals provide detailed listings of all tax bills that were paid and reported to the taxing districts on the monthly reports.

Due to the unusually large number of supplemental reports prepared by the Sheriff's office and the large volume of paid tax bills reported on them, we expanded testing of these reports by performing the following procedures:

- We obtained deposit details from the bank for a sample of six (6) deposits made by the Sheriff's office. The deposit details provided copies of the taxpayers' canceled checks and the cash amounts that made up the deposits.
- We compared the copies of the taxpayers' canceled checks to the available daily tax collection journals used to prepare the supplemental reports and to the copies of the paid tax bills on file in the County Clerk's office.

We were not able to trace all of the cancelled checks to the daily tax collection journals or copies of paid tax bills since some of the cancelled checks did not include tax bill numbers and not all daily tax collection journals were provided to auditors. In addition deposits were not made daily and the supplemental reports were not prepared in a timely manner. Some of the tax payments included on the supplemental reports may have been deposited weeks before the reports were prepared making it very difficult to trace taxpayers checks to a specific daily tax collection journal. From our sample of deposit details we were able to trace one hundred twenty-two (122) checks to paid tax bills and we found taxpayers' checks totaled \$6,018 more than the amounts marked as paid on the tax bills. Of this amount \$1,933 was for penalties that should not have been collected for the Corbin (04) taxing district and is due back to taxpayers as refunds, \$1,869 (less commissions) is due to the taxing districts for additional penalties, \$1,840 is due to the Sheriff's fee account for ten percent (10%) penalties and Sheriff's fees and \$376 is due the fiscal court for advertising cost.

We were then able to trace twenty-one (21) of the 122 bills to the available daily tax collection journals for the supplemental reports and found that the penalties collected on these twenty-one (21) bills were under-reported to the taxing districts by a total of \$1,279.

WHITLEY COUNTY
LAWRENCE HODGE, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period July 17, 2005 Through July 6, 2006
(Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2005-1 The Sheriff's Office Did Not Properly Account For And Distribute All Tax Payments Received From Taxpayers (Continued)

The sample of deposit details for the six (6) deposits received from the bank also revealed that these deposits contained forty-eight (48) checks totaling \$10,059 that should have been deposited into the Sheriff's fee account to be used for operations of the Sheriff's office and three (3) checks totaling \$350 that should have been deposited into the Sheriff's drug forfeiture account. These amounts are due to the fee and drug accounts. Since there were no surplus funds in the Sheriff's 2005 tax account, it appears these tax collections were not deposited and fee and drug accounts receipts were used to make up for these un-deposited receipts.

The Sheriff lacked controls over the tax collection process in his office and did not provide appropriate oversight in this area, which provided the opportunity for this to occur.

Supplemental reports can be used to conceal the theft of tax payments to the Sheriff's office. Deposits made into the wrong bank account can result in the Sheriff owing personal funds to cover any deficits. Taxpayers are not charged penalties and interest owed, which ultimately results in taxing districts receiving less than they otherwise would.

KRS 134.020(5) provides Sheriffs with guidance on the tax collection schedules. This statute states, "collection dates shall allow a two percent (2%) discount for all payments made within thirty (30) calendar days of the date tax bills were mailed. Upon expiration of the time period to pay the tax bill with a discount, the face amount of the tax bill shall be due during the next thirty (30) days. If the time period to pay the face amount has lapsed, a five percent (5%) penalty shall be added to the tax bill for payments made during the next thirty (30) day period. Upon expiration of this time period, a ten percent (10%) penalty shall be added to all tax bills paid thereafter." In addition to this ten percent (10%) penalty, KRS 134.430(3) provides for an additional ten percent (10%) Sheriff's add-on fee for all bills collected from the time the ten percent (10%) penalty becomes applicable bringing the total penalty to twenty one percent (21%). In addition KRS 134.440(2) and KRS 424.330(1) require that additional Sheriff's fees and advertising fees be added to delinquent tax bills.

KRS 134.300 and KRS 134.320 states by the 10th of each month following the date of collection, the sheriff must turn over to each taxing district all taxes collected for the district, deducting therefrom any legal discounts provided by law and any commission to which he is entitled. The sheriff may be granted an extension for up to 15 days (in five-day increments) for filing his report of state collections if requested in writing and if good cause exists. If an extension request is required for reporting to other districts, the sheriff must make a written request to the appropriate personnel in each district.

Supplemental tax reports can be prepared in limited circumstances, such as, for oil & gas bills, omitted tax bills, etc. They should not be prepared to report a paid tax bill as if it were paid in a previous month, which ultimately results in correct amounts not being reported and paid to the taxing districts.

WHITLEY COUNTY
LAWRENCE HODGE, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period July 17, 2005 Through July 6, 2006
(Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2005-1 The Sheriff's Office Did Not Properly Account For And Distribute All Tax Payments Received From Taxpayers (Continued)

We recommend the Sheriff immediately implement controls over the tax collection process in his office and provide appropriate oversight. We also recommend that all tax collections be properly accounted for and distributed in a timely manner and correct amounts be collected. All paid tax bills should be marked to agree to actual amounts paid. Deposits should be made daily and reconciled to the daily tax collection journal totals and all overpayments should be refunded to the taxpayers. We further recommend all fee and drug account moneys be deposited to the proper accounts.

Sheriff's Response: The Whitley County Sheriff has implemented controls over the tax collection process in his office and to provide appropriate oversight particularly to provide that all tax collections be properly accounted for and distributed in a timely manner and correct amounts be collected. All paid tax bills will be marked to agree to actual amounts paid. Deposits shall be made daily and reconciled to the daily tax collection journal totals and all overpayments should be refunded to the taxpayers. All fee and drug account moneys will be deposited to the proper accounts.

2005-2 The Sheriff Should Accurately Account For All Franchise Tax Collections And Distribute All Franchise Taxes By The Tenth Of Month Following Collections

During the test of franchise tax bills, we noted that one bill totaling \$1,602 was paid to the Sheriff on June 30, 2006 and deposited to the 2005 tax account on July 13, 2006. This bill was marked paid by the Sheriff on November 15, 2006 and was then included as a paid bill on the November 2006 monthly tax report during the 2006 tax collection period. Even though the tax payment was deposited to the 2005 tax account, payments to the taxing districts were made from the 2006 tax account.

The Sheriff lacked controls over the tax collection process in his office and did not provide adequate oversight, which provided the opportunity for this to occur.

This bill should have been paid to the taxing districts from the 2005 tax account by the tenth of July 2005 as required by KRS 134.300, but instead was paid from the 2006 tax account. This scenario can be used to conceal the theft of tax payments to the Sheriff's office.

This amount has been included as a paid tax bill for the 2005 tax collection period resulting in additional amounts due to the taxing districts. Since the Sheriff has a known \$15,984 deficit (including this franchise bill), personal funds may need to be deposited by the Sheriff to eliminate the deficit.

WHITLEY COUNTY
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 For The Period July 17, 2005 Through July 6, 2006
 (Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2005-2 The Sheriff Should Accurately Account For All Franchise Tax Collections And Distribute All Franchise Taxes By The Tenth Of Month Following Collections (Continued)

The Sheriff is required by KRS 134.300 to report and pay to the taxing districts by the tenth of each month all taxes collected during the preceding month.

We recommend the Sheriff immediately implement controls over the tax collection process in his office. We also recommend the Sheriff report and pay to the taxing districts by the tenth of the month, all taxes, including franchise taxes, collected during the preceding month.

Sheriff's Response: The Whitley County Sheriff has implemented controls over the tax collection process in his office. Further, he will report and pay to the taxing districts by the tenth of the month, all taxes, including franchise taxes, collected during the preceding month.

2005-3 The Sheriff's Office Did Not Properly Account For All Paid And Unpaid Tax Bills And Accepted Payments After The Tax Sale Date

In accordance with KRS 134.450, the Sheriff had his tax sale for 2005 taxes on July 6, 2006, and subsequently turned over unpaid 2005 tax bills to the County Clerk's office; however, the following occurred:

- An investment company then purchased a portion of these delinquent 2005 tax bills from the County Clerk's office and sent letters out to the delinquent taxpayers requesting payment. One taxpayer that was contacted by the investment company presented documentation to the County Clerk proving that their tax bill for \$634 had already been paid to the Sheriff's office; therefore, it should not have been turned over to the County Clerk and then sold to the investment company as a delinquent tax bill. On May 16, 2007, the Sheriff's office paid the County Clerk's office \$634 to reimburse the investment company for this bill.
- Another 2005 tax bill for \$1,569 was paid twice to the Sheriff's office. This bill was paid by the taxpayer and also by a mortgage company. On May 16, 2007, the Sheriff's office issued a check to the mortgage company for reimbursement of the double payment after the mortgage company requested the reimbursement.

While reconciling bank deposits to the taxes collected, we noted that an unidentified deposit in the amount of \$1,251 was made to the Sheriff's 2005 tax account after the tax sale date. The deposit ticket was dated August 14, 2006 and cleared the bank on August 25, 2006. Since the Sheriff should not have collected any regular taxes after the sale date of July 6, 2006, and the deposit was unidentified, we performed the following:

- We obtained the deposit detail from the bank in order to determine what this deposit was for. The deposit detail included one check in the amount of \$1,251 for a 2005 tax bill. The check was dated August 10, 2006, which is over a month after the tax sale date.

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(Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2005-3 The Sheriff's Office Did Not Properly Account For All Paid And Unpaid Tax Bills And Accepted Payments After The Tax Sale Date (Continued)

- We then obtained a copy of the paid tax bill from the County Clerk's office. The bill was marked as if it had been paid in cash on July 6, 2006 at the face amount. Based on the date of the taxpayer's check, this is over a month before the bill was actually paid. This bill was included on one of the supplemental tax reports dated July 11, 2006.

The daily tax collection journal for the supplemental report included two postings for the payment. The first posting showed that the bill was paid by check at the five percent (5%) penalty rate of \$1,376. This posting was then reversed and another posting made to show the bill paid by check at the face amount. This bill was included on all three of the published delinquent tax lists but was not turned over to the County Clerk as delinquent after the Sheriff's tax sale.

While testing the sample of deposits as discussed in a previous comment, we found two additional checks that were also dated after the tax sale date. These checks were part of a deposit in the amount of \$54,375 that cleared the bank on July 13, 2006. One check in the amount of \$300 was dated July 7, 2006, one (1) day after the tax sale, and included a notation of "taxes" on the check. The other check, in the amount of \$50, was dated July 12, 2006, six (6) days after the tax sale. This check did not have any notation on it to indicate what the payment was for and we were unable to trace either of these checks to any paid tax bills in the County Clerk's office.

Since these checks did not include any tax bill numbers or other information on them to indicate they were for other purposes, we have included them as tax payments. Based on the dates of these checks, the Sheriff's office should have included these bills as delinquent tax bills, advertised them as such, and turned them over to the County Clerk's office after the tax sale on July 6, 2006. If this had been done payments for these tax bills would actually have been due in the County Clerk's office and would have included additional penalties, fees, and interest that would have been distributed to the taxing districts, Sheriff, County Clerk, and County Attorney.

The Sheriff lacked controls over the tax collection process in his office and did not provide any oversight in this area, which provided the opportunity for this to occur.

When tax bills are paid but not subsequently marked as paid by the Sheriff's office, it can be a mechanism for concealment of theft of tax collections. When the Sheriff accepts payment on tax bills after the sale date, taxing districts lose the revenue associated with the additional penalties, fees and interest delinquent tax bills are subject when paid in the County Clerk's office.

KRS 134.450 (1) requires the Sheriff to sell all tax claims for which payment by the delinquent taxpayer has not been made by the closing date for the acceptance by the sheriff of offers to purchase delinquent tax claims. KRS 134.450 (2) & (3) state if no responsible offer in the amount of the tax claim is received, the sheriff shall file the delinquent tax bills in the County Clerk's office immediately upon completion of the tax sale.

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(Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2005-3 The Sheriff's Office Did Not Properly Account For All Paid And Unpaid Tax Bills And Accepted Payments After The Tax Sale Date (Continued)

We recommend the Sheriff take immediate steps to implement controls over the tax collection process in his office and provide appropriate oversight over this area. We recommend the Sheriff accurately account for all paid tax bills by making daily deposits, batching daily paid tax bills, and reconciling the batched totals to the daily tax collection journals and bank deposits throughout the tax collection period. We also recommend the Sheriff refrain from collecting delinquent tax bills. The Sheriff should prepare an accurate delinquent tax list and turn over all unpaid tax bills to the County Clerk immediately after the tax sale is held in accordance with statute.

Sheriff's Response: The Whitley County Sheriff has implemented controls over the tax collection process in his office and provide appropriate oversight over this area. He will accurately account for all paid tax bills by making daily deposits, batching daily paid tax bills, and reconciling the batched totals to the daily tax collection journals and bank deposits throughout the tax collection period. He will refrain from collecting delinquent tax bills. The Sheriff will prepare an accurate delinquent tax list and turn over all unpaid tax bills to the County Clerk immediately after the tax sale is held in accordance with statute.

2005-4 The Sheriff Should Refund Penalties Collected In Error

On February 10, 2006, the Department of Revenue notified the Sheriff that because the tax rates for the Corbin (04) taxing district were set late and due to problems with the postal service, the two percent (2%) discount period for this district was to be extended until January 16, 2006. Likewise, the face amount period was to be extended until February 16, 2006 and the five percent penalty phase until March 16, 2006. Any remaining tax bills unpaid after March 16, 2006 would be subject to the ten percent (10%) penalty, ten percent (10%) Sheriff's add-on fees, \$5 Sheriff's service fees, and possible advertising costs.

From our test sample of six (6) deposit details obtained from the bank, we determined the Sheriff collected excess amounts totaling \$1,933 on twelve (12) bills paid by taxpayers of the Corbin taxing district. Two (2) of the bills were paid prior to January 16, 2006, the two percent (2%) discount period, at the five percent (5%) penalty period amount. The remaining ten (10) bills were paid at the five percent (5%) and ten percent (10%) penalty period amounts prior to February 16, 2006, the face amount period.

The Sheriff lacked controls over the tax collection process in his office and he did not provide adequate oversight in this area, which provided the opportunity for this to occur.

WHITLEY COUNTY
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COMMENTS AND RECOMMENDATIONS
For The Period July 17, 2005 Through July 6, 2006
(Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2005-4 The Sheriff Should Refund Penalties Collected In Error (Continued)

As a result, taxpayers are charged penalties and interest not owed. Additionally, since the deficit of the 2005 tax account was determined based on known refunds and other known additional amounts due, any additional refunds due as a result of overpayments that may be determined in the future, would increase the 2005 tax deficit, which in turn would require the Sheriff to deposit additional personal funds to pay them.

KRS 134.020(5) requires when the tax collection schedule is delayed, a revised thirty (30) day period in which to pay taxes must be offered.

We recommend the Sheriff refund taxpayers for all overpayments and collect proper amounts in the future. We also recommend the Sheriff pay the overpayments of \$1,933 from the 2005 tax account since they have been included as liabilities of the 2005 tax account. These known overpayments are part of the known deficit of \$15,984.

Sheriff's Response: The Whitley County sheriff will refund taxpayers for all overpayments and collect proper amounts in the future. He will pay the overpayments of \$1,933 from the 2005 tax account since they have been included as liabilities of the 2005 tax account.

2005-5 The Sheriff Had A Known Deficit Of \$15,984 In His Official 2005 Tax Account

Because of known un-deposited receipts of \$15,968, and a \$16 overpayment of refunds, the Sheriff had a known deficit of \$15,984. Auditors were unable to determine the complete amount because of a lack of adequate record keeping in the Sheriff's office. Had adequate records been available, the deficit would likely be more.

The Sheriff's office failed to deposit receipts paid by individuals and corporations for property and other taxes into the official tax account, resulting in the deficit.

When receipts go un-deposited, reports submitted by the Sheriff for external purposes are inaccurate, other vital services that could be offered by the Sheriff's office are not offered, taxing districts are not paid and ultimately, the Sheriff is required to deposit personal funds to cover these items.

As in any office, the Sheriff is expected to deposit all monies paid to his office.

We recommend the Sheriff deposit personal funds of \$15,984 to cover the known deficit in his official 2005 tax account. We further recommend the Sheriff take immediate steps to ensure all monies received by his office are immediately deposited into an official account.

WHITLEY COUNTY
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For The Period July 17, 2005 Through July 6, 2006
(Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2005-5 The Sheriff Had A Known Deficit Of \$15,984 In His Official 2005 Tax Account (Continued)

Sheriff's Response: The Whitley County Sheriff will take the necessary steps to deposit personal funds of \$15,984 to cover the known deficit in his official 2005 tax account. He shall immediate steps to ensure all monies received by his office are immediately deposited into an official account.

2005-6 The Sheriff Did Not Document Approval Of Waiver Of Penalties And Fees As Required By Statute And Department of Revenue Guidelines And Granted Discounts On Tax Bills Paid After The Discount Period Had Ended

During the 2005 tax collection period, the Sheriff allowed numerous taxpayers to pay tax bills at the two percent (2%) discount rate after the discount period had ended and granted waivers or reductions of penalties, Sheriff's fees, and advertising costs to a significant number of taxpayers.

As discussed in another comment, ten (10) supplemental reports totaling \$1,679,597, were prepared throughout the 2005 tax collection period. Three (3) of these reports totaling \$1,272,943 were used to report tax bills as collected at the discount rate after the discount period had ended. While the discount period for the Corbin (04) taxing district was extended until January 16, 2006, because taxpayers in that district received their bills late, and would account for some of this, many of the tax bills included on these supplemental reports were not for the Corbin district. In addition, one of the supplemental reports totaling \$3,449 was prepared on July 10, 2006, several months after the discount period for the Corbin taxing district had ended.

Included on the report prepared July 10, were the Sheriff's personal tax bills, which were marked paid December 31, 2005 (face amount period) but at the discount period amount. If these were paid on the actual date shown on the bills, the Sheriff should not have received the two percent (2%) discount and payments for these taxes should have been distributed to the taxing districts by January 10, 2006. Checks for the supplemental report were dated July 10, 2006.

The remaining seven (7) reports totaling \$406,654, were used to report tax collections for which penalties were either waived or reduced.

The Sheriff lacked controls over the tax collection process in his office and did not provide appropriate oversight in this area, which provided the opportunity for this to occur.

Supplemental reports can be used to conceal the theft of tax payments to the Sheriff's office. Taxpayers are not charged penalties and interest owed, which ultimately results in taxing districts receiving less than they otherwise would.

WHITLEY COUNTY
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(Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2005-6 The Sheriff Did Not Document Approval Of Waiver Of Penalties And Fees As Required By Statute And Department Of Revenue Guidelines And Granted Discounts On Tax Bills Paid After The Discount Period Had Ended (Continued)

KRS 134.020(5) provides Sheriffs with guidance on the tax collection schedules. This statute states, "collection dates shall allow a two percent (2%) discount for all payments made within thirty (30) calendar days of the date tax bills were mailed. Upon expiration of the time period to pay the tax bill with a discount, the face amount of the tax bill shall be due during the next thirty (30) days. If the time period to pay the face amount has lapsed, a five percent (5%) penalty shall be added to the tax bill for payments made during the next thirty (30) day period. Upon expiration of this time period, a ten percent (10%) penalty shall be added to all tax bills paid thereafter." In addition to this ten percent (10%) penalty, KRS 134.430(3) provides for an additional ten percent (10%) Sheriff's add-on fee for all bills collected from the time the ten percent (10%) penalty becomes applicable bringing the total penalty to twenty one percent (21%). In addition, KRS 134.440(2) and KRS 424.330(1) require that additional Sheriff's fees and advertising fees be added to delinquent tax bills.

The Department of Revenue has prepared guidelines stating that reasonable cause as provided for in KRS 131.175 should be used for the wavier of penalties and fees. Under these guidelines, when a tax bill is payable to the Sheriff's office, the Sheriff may waive the penalties that have been added whenever reasonable cause has been demonstrated but has no authority to allow taxpayers to pay their tax bills at the two percent (2%) discount rate after the discount period has ended unless the taxpayer can prove that they attempted to pay the bill during the discount period but for some reason the payment was returned. The authority to waive or reduce penalties and fees applies to both the five percent (5%) or ten percent (10%) delinquent penalty and the ten percent (10%) Sheriff's add-on fee. Several circumstances demonstrating reasonable cause are set forth in Sections I and II of these guidelines. Section III of the guidelines requires that a form documenting the reasons for waiver of penalties, fees and interest be prepared and signed when such action is taken. The Guidelines state, "If a penalty on a property tax bill is waived or reduced while the Sheriff is the local official responsible for its collection, only the Sheriff or an authorized deputy has to sign the form. A copy can be provided to the taxpayer if it is requested and the original should remain on file in the Sheriff's office. The Department of Property Valuation's field staff will review these forms as part of the settlement process to complete a collection cycle. These forms will also be subject to audit by the State Auditor's Office." The Sheriff's office did not prepare any forms for waiver or reductions of penalties, fees, and advertising costs.

We recommend the Sheriff immediately implement controls over the tax collection process in his office. We also recommend the Sheriff follow the guidelines as established by KRS 131.175 by completing and maintaining the forms to document waiver of penalty and reduction of interest and fees. In addition, we recommend the Sheriff not allow taxpayers to pay tax bills at the two percent (2%) discount amount after the discount period has ended unless they can prove that they attempted to pay during the discount period. If the Sheriff does not feel comfortable making wavier decisions, he may refer the taxpayer to the Revenue Cabinet for a determination to be made.

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For The Period July 17, 2005 Through July 6, 2006
(Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2005-6 The Sheriff Did Not Document Approval Of Waiver Of Penalties And Fees As Required By Statute And Department Of Revenue Guidelines And Granted Discounts On Tax Bills Paid After The Discount Period Had Ended (Continued)

Sheriff's Response: The Whitley County Sheriff has implemented new controls over the tax collection process in his office and shall follow the guidelines as established by KRS 131.175 by completing and maintaining the forms to document waiver of penalty and reduction of interest and fees. He shall not allow taxpayers to pay tax bills at the two percent (2%) discount amount after the discount period has ended unless they can prove that they attempted to pay during the discount period. If the Sheriff does not feel comfortable making wavier decisions, he may refer the taxpayer to the Revenue Cabinet for a determination to be made.

2005-7 The Sheriff Did Not Deposit Receipts Of The Office In A Timely Manner And Did Not Reconcile Deposits To The Daily Collection Journals Or A Daily Receipts Journal

During the test of receipts, we noted that deposits were not made on a daily basis and were not reconciled to the daily tax collection journals. Additionally, the Sheriff's office did not maintain a cash receipts journal for tax collections. In some instances, tax payments were deposited but the tax bills were not batched and entered into the computer system (SACS) for several weeks. According to the bookkeeper, tax bills reported on the supplemental reports were often held for several weeks before being batched and entered. Collections for bills included on the supplemental reports were not deposited separately and were often deposited prior to bills being entered into the computer. Since the daily tax collection journals are a product of the computer system and are produced on the day the tax bills are entered, and deposits were not separated for the supplemental tax reports, auditors could not reconcile deposits to the daily tax collection journals.

The Sheriff lacked controls over the deposit and reconciliation process and did not provide any oversight in this area, which provided the opportunity for this to occur.

Because the Sheriff did not reconcile the daily tax collection journals to the deposits, available records are insufficient to determine if all collections were deposited in tact or made in a timely manner. Reports submitted by the Sheriff may be inaccurate, taxing districts payments may not be made, and receipts are un-deposited. This may result in the Sheriff depositing personal funds to cover any shortages.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The minimum requirements for handling public funds as stated in the Instructional Guide for County Budget Preparation and State Local Finance Officer Policy Manual require that deposits be made daily. Additionally, the practice of making daily deposits reduces the risk of misappropriation of cash, which is the asset most subject to possible theft.

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For The Period July 17, 2005 Through July 6, 2006
(Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2005-7 The Sheriff Did Not Deposit Receipts Of The Office In A Timely Manner And Did Not Reconcile Deposits To The Daily Collection Journals Or A Daily Receipts Journal
(Continued)

We recommend the Sheriff immediately implement controls over the deposit process to assure deposits are made daily and include all tax receipts accepted by the Sheriff's office for that day to comply with KRS 68.210. By making daily deposits, the risk that cash is misappropriated in the office, or diverted for personal use is reduced.

We also recommend paid tax bills are batched daily, and entered into the computer system on a daily basis. We further recommend that the daily deposits be reconciled to the totals per daily tax collection journals or a cash receipts journal and any differences be explained.

Sheriff's Response: The Whitley County Sheriff has implemented new controls over the deposit process to assure deposits are made daily and include all tax receipts accepted by the Sheriff's office for that day to comply with KRS68.210.

Paid tax bills are to be batched daily, and entered into the computer system on a daily basis. Daily deposits are to be reconciled to the totals per daily tax collection journals or a cash receipts journal and any differences be explained.

2005-8 The Sheriff's Office Lacked Adequate Segregation Of Duties Over The Accounting
Functions

A lack of adequate segregation of duties exists over all accounting functions. During review of internal controls, we noted that the Sheriff's bookkeeper collected tax payments, prepared deposits, and prepared daily tax collection journals. The bookkeeper also prepared the monthly reports, supplemental reports, prepared and mailed payments to the taxing districts, and prepared monthly bank reconciliations. She also had the authority to sign checks for which dual signatures were not required.

Limited budget places restrictions on the number of employees the Sheriff can hire. When faced with limited number of staff, strong compensating controls should be in place to offset the lack of segregation of duties. In addition, the Sheriff did not have any type of formal administrative policies in place to outline what is expected of employees within his office.

Lack of oversight could result in misappropriation of assets and/or inaccurate financial reporting to external agencies such as the Department for Revenue and other taxing districts, which could occur but go undetected.

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(Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2005-8 The Sheriff's Office Lacked Adequate Segregation Of Duties Over The Accounting Functions (Continued)

Additionally, because a lack of adequate segregation of duties existed and because the Sheriff did not provide strong oversight over the office, the following occurred:

- The Sheriff Had a Known Deficit of \$15,984 in His Official 2005 Tax Account
- The Sheriff Did Not Make Deposits in a Timely Manner
- The Sheriff Did Not Maintain Proper Documentation For Waiver of Penalties
- The Sheriff Allowed Discounts on Tax Bills Paid After the Discount Period
- Multiple Supplemental Reports Were Prepared Throughout the Tax Collection Period
- The Sheriff Did Not Properly Account For and Distribute All Tax Payments Received in his Office
- The Sheriff Turned Over Tax Bills to the County Clerk's Office that were not Delinquent
- The Sheriff Collected Payment on Tax Bills after the Tax Sale Date
- The Sheriff Did Not Distribute Interest to the School Districts In A Timely Manner
- The Sheriff Loaned Money To The Fee Account From the Tax Account
- The Sheriff Collected Penalties in Error
- The Sheriff Did Not Distribute All Franchise Taxes by the Tenth of the Month Following Collection

A segregation of duties over various accounting functions, such as opening mail, collecting cash, preparing bank deposits, writing checks, reconciling bank records to the records and preparing monthly reports or the implementation of compensating controls, when needed because the number of staff is limited, is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To adequately protect against misappropriation of assets and /or inaccurate financial reporting, the Sheriff should separate the duties involving the opening of mail, collecting and depositing of cash, paying tax districts, reconciling bank records to the records and preparing the monthly tax reports. If, due to a limited number of staff, that is not feasible, strong oversight over these areas should occur and involve an employee not currently performing any of those functions. Additionally, the Sheriff could provide this oversight. If the Sheriff does implement compensating controls, these should be documented on the appropriate source document.

The following are examples of controls the Sheriff could implement.

- The Sheriff could periodically recount and deposit cash receipts. This could be documented by initialing the daily check out sheet and deposit ticket.

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 COMMENTS AND RECOMMENDATIONS
 For The Period July 17, 2005 Through July 6, 2006
 (Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2005-8 The Sheriff's Office Lacked Adequate Segregation Of Duties Over The Accounting Functions (Continued)

- The Sheriff could periodically compare the bank deposit to the daily tax collections journal. This could be documented by initialing the bank deposit and daily tax collection journal.
- All checks could have two (2) signatures, with one being the Sheriff.
- The Sheriff could examine checks prepared by the bookkeeper and compare to the monthly tax reports. This could be documented by initialing the monthly reports and other supporting documentation.
- The Sheriff could review the bank reconciliation and compare the balance to the balance in the checkbook. Any differences should be reconciled. This could be documented by initialing the bank reconciliation and the balance in the checkbook.
- The Sheriff could receive the bank statements unopened, and review the statements for any unusual items prior to giving them to the person responsible for reconciliations.
- The Sheriff could receive a signed receipt from each taxing district documenting delivery of the tax payment.

We further recommend the Sheriff adopt a formal administrative policy, which outlines job responsibilities, what is expected of each employee, and the type of documentation that should be maintained for the office.

Sheriff's Response: The Whitley County Sheriff has separated the duties involving the opening of mail, collecting and depositing of cash, paying tax districts, reconciling bank records to the records and preparing the monthly tax reports and shall provide closer oversight. These controls shall be documented on the appropriate source document. He shall follow all examples as set forth herein and form and adopt a formal administrative policy, which outlines job responsibilities, what is expected of each employee, and the type of documentation that shall be maintained for the office.

2005-9 The Sheriff Did Not Distribute In A Timely Manner The Proper Amounts Of Interest Earned On Tax Collections To The School Districts And His Fee Account

We noted that although interest payments were made to the school districts, they were not always made in a timely manner. Interest earned on November 2005 tax collections was not paid to the school districts until January 9, 2006. Interest payments for the months of March and June, 2006 were made three (3) and five (5) days late respectively. Based on our computation of interest due to the school districts and fee accounts, we determined the Sheriff overpaid interest due to the Corbin Independent School District by \$119 and underpaid the Whitley County School Board by \$3. In addition, an additional \$372 is due to the Sheriff's 2006 fee account.

The Sheriff lacked controls over the tax collection process in his office and he did not provide adequate oversight in this area, which provided the opportunity for this to occur.

WHITLEY COUNTY
 LAWRENCE HODGE, SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Period July 17, 2005 Through July 6, 2006
 (Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2005-9 The Sheriff Did Not Distribute In A Timely Manner The Proper Amounts Of Interest Earned On Tax Collections To The School Districts And His Fee Account

As a result, other taxing districts, such as the school district do not receive their payments in a timely manner.

In accordance with KRS 134.140(3)(b) and KRS 134.300 the Sheriff is required to pay to the school districts by the tenth of each month, that part of the investment earnings for the month, which is attributable to the investment of school taxes.

We recommend the Sheriff obtain a refund from the Corbin Independent School District and pay the additional amounts due, as noted above to the Whitley County School Board and the 2006 fee account. We further recommend the Sheriff comply with KRS 134.140(3)(b) and KRS 134.300 by paying the amount of interest due to the school districts in a timely manner.

Sheriff's Response: The Whitley County Sheriff shall attempt to obtain a refund from the Corbin Independent School District and pay the additional amounts due, as noted above to the Whitley County School Board and the 2006 fee account. He will comply with KRS 134.140(3)(b) and KRS 134.300 by paying the amount of interest due to the school districts in a timely manner.

2005-10 Un-refundable Duplicate Payments And Unexplained Receipts Should Be Deposited Into Separate Interest Bearing Escrow Accounts

During the test of escrow accounts, we determined the Sheriff deposited un-refundable duplicate payments and unexplained receipts in **one** non-interest-bearing account. We reviewed all receipts and expenditures of the escrow account since it had been opened and determined the following:

- As of July 16, 2005, (tax sale date for 2004 taxes) the Sheriff's escrow account had a balance \$11,183 which was made up of un-refundable duplicate payments and unexplained receipts per audits prior to the 2003 tax collection period. Of this amount, the source of \$206 was identified and disbursed in February of 2006. Since the 2002 incoming and outgoing settlements were dated December 1, 2003, the remaining balance of \$10,977 has been held for more than three years.
- During the 2005 tax collection period, 2003 and 2004 un-refundable duplicate payments and unexplained receipts of \$1,807 and \$8,731 respectively were deposited to the tax escrow account. Additional interest earned on the 2004 tax deposits totaling \$86 was also deposited and disbursements totaling \$129 were made from the escrow account for 2004 taxes. Balances in the escrow account for 2003 and 2004 tax surpluses as of July 6, 2006 were \$1,807 and \$8,688 respectively.

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FINANCIAL STATEMENT FINDINGS (Continued)

2005-10 Un-refundable Duplicate Payments And Unexplained Receipts Should Be Deposited Into Separate Interest Bearing Escrow Accounts (Continued)

- On May 16, 2007, two checks were issued from the Sheriff's escrow account for 2005 tax bills. One check in the amount of \$1,579 was paid to a mortgage company for a tax bill that had been paid twice. The other check for \$634 was paid to the County Clerk's office for a tax bill that had been turned over by the Sheriff's office as a delinquent bill following the Sheriff's 2005 tax sale. This bill was sold by the County Clerk's office to an investment company and the investment company sent a notice to the taxpayer requesting payment. However, the taxpayer was able to document that the bill had previously been paid to the Sheriff's office. Therefore, the County Clerk's office refunded the investment company and then obtained a refund from the Sheriff's office. As of May 16, 2007, when these checks were issued from the escrow account, the Sheriff's escrow account did not include any funds relating to 2005 taxes. These checks, therefore, were paid from prior year surplus balances. On June 22, 2007 and July 12, 2007, the Sheriff transferred \$3,947 and \$6 respectively to the Sheriff's escrow account from his 2005 tax account. Based on available records, it appears the 2005 tax account does not have a surplus; therefore, no funds should have been transferred. The remaining \$1,740 of the funds not already accounted for should be transferred back to the 2005 tax account.

The Sheriff lacked controls over the tax collection process in his office and he did not provide adequate oversight in this area, which provided the opportunity for this to occur.

As a result, refunds for duplicate payments and payments made in error are paid from the wrong tax escrow account. Property is not turned over to the Kentucky State Treasurer as required by statute.

The Sheriff is required to deposit any un-refundable duplicate payments and unexplained receipts in an interest bearing account. According to KRS 393.090, property (in this case, escrow account) is presumed abandoned after three years, after which time it is to be turned over to the Kentucky State Treasurer, in accordance with KRS 393.110.

We recommend the Sheriff send a written report to the Treasury Department and submit \$10,977 (see above) to the Kentucky State Treasurer for funds that have been held for more than three (3) years in accordance with KRS 393.110.

We also recommend the Sheriff hold the funds for 2003 and 2004 tax surplus (see above) until March 9, 2009, since the settlement for these tax years was dated March 9, 2006. Any moneys remaining unclaimed at that time for 2003 and 2004 taxes should be remitted to the Kentucky State Treasurer.

WHITLEY COUNTY
 LAWRENCE HODGE, SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Period July 17, 2005 Through July 6, 2006
 (Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2005-10 Un-refundable Duplicate Payments And Unexplained Receipts Should Be Deposited Into Separate Interest Bearing Escrow Accounts (Continued)

Sheriff's Response: As soon as feasibly possible and after consulting with his accountant, the Whitley County Sheriff will send a written report to the Treasury Department and submit \$10, 977 (see above) to the Kentucky State Treasurer for funds that have been held for more than three (3) years in accordance with KRS 393.110.

He cannot comply further with the auditors recommendations regarding the 2003 and 2004 tax surplus as the time set forth has expired but will do so as soon as possible. Any moneys remaining unclaimed at that time for 2003 and 2004 taxes shall be remitted to the Kentucky State Treasurer.

Thereafter each year's surplus will be deposited to separate interest bearing accounts

Auditor's Reply: Since the March 9, 2009 date has lapsed, Sheriff should pay amounts attributed to 2003 and 2004 taxes to the Kentucky State Treasurer as required by KRS 393.110.

2005-11 The Sheriff Should Not Loan Money To The Fee Account From The Tax Account

The Sheriff engaged in the practice of loaning money from the tax account to the fee account. During the months of January, May, and June of 2006, the Sheriff loaned a total of \$24,800 to his 2006 fee account from the 2005 tax account. On April 5, 2006, \$2,500 was transferred back to the 2005 tax account and the remaining \$22,300 was transferred back on July 10, 2006.

As has been stated in other comments, receipts of the Sheriff's office are regularly deposited into different bank accounts and in other instances, not deposited at all, which results in the need to "loan" monies from the tax account to the fee account. The Sheriff, because of lack of controls over his office, and lack of oversight has allowed this to happen.

When a lack of control over record keeping exists or oversight over record keeping is poor, this type of situation is allowed to occur. The possible effects are shortages in various accounts, which may result in the inability to pay required amounts to taxing districts, vendors, etc. Also, the ability to properly budget for operations of the office becomes increasingly difficult.

KRS 134.170(3) states, "Other than for investments and expenditures permitted by KRS 134.140, the Sheriff shall not apply or use any money received by him for any purpose other than that for which the money was paid or collected." Additionally, KRS 134.300 requires tax collections to be reported and paid to the taxing districts by the tenth (10th) of the following month. Only the commissions allowable to the Sheriff and such other fees as are due should be transferred to the fee account.

We recommend the Sheriff refrain from making loans from the tax accounts to the fee accounts. Furthermore, we recommend the Sheriff immediately implement controls and oversight over his office so receipts are deposited in the appropriate account.

WHITLEY COUNTY
 LAWRENCE HODGE, SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Period July 17, 2005 Through July 6, 2006
 (Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2005-11 The Sheriff Should Not Loan Money To The Fee Account From The Tax Account (Continued)

In those instances where it becomes necessary to advance tax monies to the fee account, the Sheriff could pay to the fee account, an advance on monthly tax commissions prior to the end the month. When the monthly tax collection reports are prepared and taxes remitted to the taxing districts, the Sheriff could then reduce the amount of commissions due by the amount previously advanced.

Sheriff's Response: The Whitley County Sheriff will refrain from making loans from the tax accounts to the fee accounts. In those instances where it becomes necessary to advance tax monies to the fee account, the Sheriff will pay to the fee account, an advance on monthly tax commissions prior to the end of the month. When the monthly tax collection reports are prepared and taxes remitted to the taxing districts, the Sheriff will then reduce the amount of commissions due by that amount.

2005-12 The Sheriff Should Settle 2005 Taxes

Based on available records, the Sheriff owes the following known additional amounts to the taxing districts for 2005 taxes:

State	\$	462
Whitley County Fiscal Court		558
Whitley County Board of Education		1,521
Health District		301
Extension District		335

The following known refunds are due to the Sheriff from the taxing districts:

Library District		692
Soil Conservation District		414
Corbin Independent School District		162

Please note, since adequate documentation does not exist, auditors are unable to determine if additional refunds are due or payments are owed. If documentation did exist, these amounts would probably change.

We recommend the Sheriff obtain these known refunds from the appropriate districts and then pay the known additional taxes due to the taxing districts.

Sheriff's Response: The Whitley County Sheriff will obtain these known refunds from the appropriate districts and then pay the known additional taxes due to the taxing districts.

