

**REPORT OF THE AUDIT OF THE
WHITLEY COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES**

For The Period July 7, 2006 Through July 31, 2007



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
WHITLEY COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES

For the Period July 7, 2006 Through July 31, 2007

The Auditor of Public Accounts was engaged to complete the audit of the Sheriff's Settlement - 2006 Taxes for the Whitley County Sheriff for the period July 7, 2006 through July 31, 2007. As a result of this engagement, we have issued a disclaimer of opinion on the Whitley County Sheriff's Settlement - 2006 Taxes.

Report Comments:

- 2006-1 The Sheriff's Office Did Not Account For And Distribute All Tax Payments Received From Taxpayers
- 2006-2 The Sheriff Should Not Deposit Fee Account Money In His Tax Account
- 2006-3 The Sheriff Should Accurately Account For All Franchise Tax Collections And Distribute All Franchise Taxes By The Tenth Of Month Following Collections
- 2006-4 The Sheriff Did Not Properly Account For All Paid Tax Bills
- 2006-5 The Sheriff Had A Known Deficit Of \$54,444 In His Official 2006 Tax Account
- 2006-6 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
- 2006-7 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
- 2006-8 The Sheriff's Office Lacked Adequate Segregation Of Duties Over The Accounting Functions
- 2006-9 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
- 2006-10 Un-refundable Duplicate Payments And Unexplained Receipts Should Be Deposited Into Separate Escrow Accounts And Remitted To The Kentucky State Treasurer In Accordance With Statute
- 2006-11 The Sheriff Should Not Loan Money To The Fee Account From The Tax Account
- 2006-12 The Sheriff Should Settle 2006 Taxes

Deposits:

The Sheriff's deposits as of December 14, 2006 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$3,293,638

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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 - 2006 Taxes for the period July 7, 2006 through July 31, 2007. 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 2006 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 - 2006 Taxes for the period July 7, 2006 through July 31, 2007.

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:

- 2006-1 The Sheriff's Office Did Not Account For And Distribute All Tax Payments Received From Taxpayers
- 2006-2 The Sheriff Should Not Deposit Fee Money Into His Tax Account
- 2006-3 The Sheriff Should Accurately Account For All Franchise Tax Collections And Distribute All Franchise Taxes By The Tenth Of Month Following Collections
- 2006-4 The Sheriff Did Not Properly Account For All Paid Tax Bills
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- 2006-7 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
- 2006-8 The Sheriff's Office Lacked Adequate Segregation Of Duties Over The Accounting Functions
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- 2006-10 Un-refundable Duplicate Payments And Unexplained Receipts Should Be Deposited Into Separate Escrow Accounts And Remitted To The Kentucky State Treasurer In Accordance With Statute
- 2006-11 The Sheriff Should Not Loan Money To The Fee Account From The Tax Account
- 2006-12 The Sheriff Should Settle 2006 Taxes

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

March 31, 2009

WHITLEY COUNTY
LAWRENCE HODGE, SHERIFF
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period July 7, 2006 Through July 31, 2007

<u>Charges</u>	<u>County Taxes</u>	<u>Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 659,248	\$ 1,149,459	\$ 2,253,369	\$ 1,081,844
Tangible Personal Property	105,311	262,602	186,351	313,963
Fire Protection	3,775			
Current Year Franchise Taxes	86,217	188,979	311,738	
Prior Year Franchises	53,338	94,833	210,915	
Additional Billings	1,312	2,571	4,890	2,249
Unmined Coal - 2006 Taxes	2,342	4,084	11,591	3,843
Oil and Gas/Limestone and Clay	35,591	62,056	176,130	58,406
Penalties	5,694	10,048	21,727	9,846
Adjusted to Sheriff's Receipt	3,834	9,508	272	15,859
	<u>956,662</u>	<u>1,784,140</u>	<u>3,176,983</u>	<u>1,486,010</u>
<u>Credits</u>				
Exonerations	5,797	10,705	20,486	9,338
Discounts	11,493	21,322	35,314	20,119
Delinquents:				
Real Estate	41,167	71,237	158,262	67,046
Tangible Personal Property	507	1,268	753	2,259
Unmined Coal - 2006 Taxes	1,502	2,618	7,432	2,464
Current Year Franchise Taxes - Uncollected	36,760	85,048	88,034	
Prior Year Franchise -Uncollected	5,696	10,726	16,593	
Prior Year Franchise - Delinquent	16	29	43	
	<u>102,938</u>	<u>202,953</u>	<u>326,917</u>	<u>101,226</u>
Taxes Collected	853,724	1,581,187	2,850,066	1,384,784
Less: Commissions (a)	36,571	67,200	114,003	59,141
	<u>817,153</u>	<u>1,513,987</u>	<u>2,736,063</u>	<u>1,325,643</u>
Taxes Due	817,153	1,513,987	2,736,063	1,325,643
Taxes Paid	816,629	1,511,284	2,733,895	1,324,169
Refunds (Current and Prior Year)	870	1,439	2,188	1,433
	<u>817,153</u>	<u>1,513,987</u>	<u>2,736,063</u>	<u>1,325,643</u>
Due Districts or		(b)	(c)	
(Refunds Due Sheriff)	\$ (346)	\$ 1,264	\$ (20)	\$ 41

(a), (b), and (c). See next page.

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

WHITLEY COUNTY
 LAWRENCE HODGE, SHERIFF
 SHERIFF'S SETTLEMENT - 2006 TAXES
 For The Period of July 7, 2006 Through July 31, 2007
 (Continued)

(a) Commissions:

10% on	\$	10,000
4.25% on	\$	3,809,695
4% on	\$	2,850,066

(b) Special Taxing Districts:

Library District	\$	868
Health District		7
Extension District		(61)
Watershed District		450
		<hr/>

Due Districts or

(Refund Due Sheriff)

\$ 1,264

(c) School Districts:

Whitley County Board Of Education	\$	(372)
Corbin Independent School District		352
		<hr/>

Due Districts or

(Refund Due Sheriff)

\$ (20)

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENT

July 31, 2007

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 Whitley County 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. These requirements were not met, as the Sheriff did not have a written agreement with the bank and the bank had not pledged or provided any collateral.

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENT
For The Period July 7, 2006 Through July 31, 2007
(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). On December 14, 2006, the Sheriff's bank balance was exposed to custodial credit risk as follows:

- Uninsured and Unsecured \$3,293,638

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2006. Property taxes were billed to finance governmental services for the year ended June 30, 2007. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 16, 2006 through July 31, 2007.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2006. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was March 20, 2007 through July 31, 2007.

Note 4. Interest Income

The Whitley County Sheriff earned \$22,526 as interest income on 2006 taxes. The Sheriff is required to distribute appropriate amounts to the school districts by statute, and use the remainder to operate the Sheriff's office. As of July 31, 2007, the Sheriff had overpaid the Whitley County School District by \$1,174 and is due a refund. In addition the Sheriff owes \$484 in interest to the Corbin Independent school district and \$1,286 in interest to his fee account.

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

The Whitley County Sheriff collected \$27,875 of 10% add-on fees allowed by KRS 134.430(3). A total of \$27,827 was transferred to the fee account and used to operate the Sheriff's office. As of July 31, 2007, the Sheriff owed \$48 in additional 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Whitley County Sheriff collected \$5,710 of advertising costs and \$1,145 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed \$1,105 of the advertising costs to the county as required by statute. Advertising fees of \$5,660 were transferred to the fee account and used to operate the Sheriff's office. As of July 31, 2006, the Sheriff owed \$40 in advertising costs to the county and \$50 in advertising fees to his fee account.

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENT
For The Period July 7, 2006 Through July 31, 2007
(Continued)

Note 7. Escrow Account

The Sheriff deposited un-refundable duplicate payments and unexplained receipts in a non-interest-bearing account. This was changed to an interest bearing account in April of 2007. The following are noted:

- As of July 6, 2006, the Sheriff's escrow account included \$10,977 for un-refundable duplicate payments and unexplained receipts from tax collection periods prior to the 2003 tax collection period. During the 2006 tax collection period no disbursements were made from this surplus. As of July 31, 2007 the balance in the Sheriff's escrow account relating to surpluses prior to the 2003 collection period was \$10,977.
- As of July 6, 2006, the Sheriff's escrow account included \$1,807 for un-refundable duplicate payments and unexplained receipts from 2003 tax collections. During the 2006 tax collection period the source of \$220 of this amount was identified and this amount was paid from the account. As of July 31, 2007 the balance in the Sheriff's escrow account relating to the 2003 tax collection period was \$1,587.
- As of July 6, 2006, the Sheriff's escrow account included \$8,688 for un-refundable duplicate payments and unexplained receipts from 2004 tax collections. During the 2006 tax collection period, the Sheriff earned interest totaling \$58 on these funds. The source of \$1,098 of this amount was identified and paid from this balance. As of July 31, 2007 the balance in the Sheriff's escrow account relating to 2004 surplus was \$7,648.

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 7, 2006 Through July 31, 2007

Assets

Cash in Bank (All Tax Accounts)		\$ 636,567
Collected Receivables -		
2006 Taxes Deposited Late	\$ 42,666	
School Commissions Redeposited	12,767	
Interest Earned	4,781	
Kentucky Revenue Cabinet - Refund	375	
Kentucky Revenue Cabinet - Telecom Payments	1,638	
Transfer From 2007 Tax Account	207	
Returned Checks Redeposited	1,331	
Returned Check Fees Deposited	10	
School Deputy Payments	6,539	
Deposit Errors:		
2007 Taxes	12,402	
Calendar Year 2007 Fee Receipts	6,702	89,418
Uncollected Receivables-		
Refunds Due From Taxing Districts -		
Whitley County Fiscal Court		
Overpayment of Taxes	346	
Whitley County Board of Education -		
Overpayment of Taxes	372	
Overpayment of Interest	1,174	
Extension District -		
Overpayment of Taxes	61	
Due From 2005 Tax Account -		
Transfer Error	1,779	
Due From 2007 Fee Account -		
Overpayment of Commissions	872	4,604
Total Receivables		94,022
Total Assets		730,589

WHITLEY COUNTY
LAWRENCE HODGE, SHERIFF
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS
For The Period July 7, 2006 Through July 31, 2007
(Continued)

Liabilities

Outstanding Checks \$ 387,903

Paid Obligations-

Other Taxing Districts-

Kentucky State Treasurer	\$ 30,629
Whitley County Fiscal Court	16,968
Whitley Board of Education	57,556
Corbin Independent School	13,077
Library	8,664
Health	8,566
Extension	10,319
Soil	2,845
Refunds Due Taxpayers	1,957
Tax Comissions Due Sheriff's Fee Account	16,286
Interest Due Sheriff's Fee Account	3,691
Interest Due Whitley County Board of Education	2,730
Interest Due Corbin Independent School	162
Sheriff's Fees Due Sheriff's Fee Account	1,075
Sheriff's 10% Add-On Fees Due Sheriff's Fee Account	5,113
Telecom Commissions Due 2007 Fee Account	2,457
Returned Check	1,331
Returned Check Fee	10
2007 Tax Account For Deposit Error	12,402
Transfer to 2007 Tax Account For Franchises	132,643
Advertising Costs Due County	<u>1,045</u>

Total Paid Obligations 329,526

Unpaid Obligations-

Other Taxing Districts-

Kentucky State Treasurer	41
Corbin Independent School District	353
Library District	868
Health District	7
Soil Conservation District	450

WHITLEY COUNTY
LAWRENCE HODGE, SHERIFF
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS
For The Period July 7, 2006 Through July 31, 2007
(Continued)

Liabilities (Continued)

Unpaid Obligations- (Continued)

Refunds Due Taxpayers	\$	300
Advertising Costs Due County		40
Interest Due Corbin Independent School District		484
2007 Tax Account -		
Franchise Payments		34,614
Refund Due For Transfer Error		207
2006 Fee Account -		
Fee Monies Deposited In Error		6,703
2007 Fee Account -		
Fee Monies Deposited In Error		14,920
School Deputy Payment		6,539
Interest Due 2007 Fee Account		1,286
Sheriff's Advertising Fees		50
Sheriff's 10% Add-On Fees		48
Returned Check Fees		148
2008 Fee Account -		
Telecom Commissions Due 2008 Fee Account		546
Total Unpaid Obligations		<u>67,604</u>
Total Liabilities		<u>785,033</u>
Total Fund Deficit as of July 31, 2007	\$	<u><u>(54,444)</u></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

The 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 - 2006 Taxes for the period July 7, 2006 through July 31, 2007, 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 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 the accompanying comments and recommendations as items 2006-1, 2006-2, 2006-3, 2006-4, 2006-5, 2006-6, 2006-7, 2006-8, 2006-9, 2006-10, and 2006-11 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 - 2006 Taxes for the period July 7, 2006 through July 31, 2007 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 2006-1, 2006-3, 2006-4, 2006-6, 2006-11, and 2006-12.

Whitley County Sheriff's responses to the findings identified in our audit are included 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 7, 2006 through July 31, 2007

FINANCIAL STATEMENT FINDINGS

2006-1 The Sheriff's Office Did Not Properly Account For And Distribute All Tax Payments Received From Taxpayers

The Sheriff's office prepared eight (8) supplemental tax reports for 2006 regular tax collections totaling \$829,388 and one supplemental report for 2006 gas bills collected totaling \$145 and we noted the following:

- Seven of the supplemental reports for regular collections totaling \$828,975, and the supplemental report for the gas bills collected 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.
- The Sheriff was unable to provide us with supporting detail (daily tax collection journals) for four (4) of the reports for regular tax collections totaling \$342,514 and the supporting detail for the gas report. This supporting documentation would 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 all deposits. The deposit details provided copies of the taxpayers' canceled checks and the cash amounts that made up the deposits.
- We then haphazardly compared a sample of the copies of the taxpayers' canceled checks to the available daily tax collection journals used to prepare the supplemental reports and to copies of the paid tax bills on file in the County Clerk's office.

We were not able to trace all of the selected 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 we did find that eleven (11) taxpayers' checks totaled \$248 more than the amounts marked as paid on the tax bills and reported. These eleven (11) bills were marked as if they were paid during the discount period and were reported to the taxing districts at the discount period amounts. However all were paid to the Sheriff's office at the face amount.

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.

WHITLEY COUNTY
LAWRENCE HODGE, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period July 7, 2006 through July 31, 2007
(Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2006-1 The Sheriff's Office Did Not Properly Account For And Distribute All Tax Payments Received From Taxpayers (Continued)

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.

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.

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.

WHITLEY COUNTY
LAWRENCE HODGE, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period July 7, 2006 through July 31, 2007
(Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2006-1 The Sheriff's Office Did Not Properly Account For And Distribute All Tax Payments Received From Taxpayers (Continued)

Sheriff's Response: The Whitey County Sheriff has implemented controls over the tax collection process in his office to provide appropriate oversight. All tax collections will 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 will be made daily and reconciled to the daily tax collection journal totals and all overpayments will be refunded to the taxpayers.

2006-2 The Sheriff Should Not Deposit Fee Account Money In His Tax Account

During our test of tax deposits, we determined the following:

Two (2) checks that should have been deposited to the 2006 fee account totaling \$6,683 and two hundred seventy nine (279) checks totaling \$14,920 that should have been deposited to the 2007 fee account were deposited to the 2006 tax account. These checks were included in thirteen (13) separate deposits made to the 2006 tax account from January 26, 2007 through August 31, 2007.

- One of the 2006 fee checks in the amount of \$3,060 and dated December 27, 2006, was a payment to the Sheriff's office for lake patrol. The other 2006 check in the amount of \$3,623 and dated January 22, 2007, was a reimbursement for 2006 deputies' salaries paid with Kentucky Law Enforcement Foundation Program Funds (KLEFPF). Both of these checks were posted to the 2006 fee account receipts ledger and the Sheriff's office provided auditors with a copy of a fee account deposit ticket dated February 5, 2007 which indicated that these checks had been deposited to the Sheriff's 2006 fee account. However we obtained a copy of the original fee account deposit ticket and the deposit detail from the bank and found that the copy provided by the Sheriff's office had been altered after the deposit was made. From the fee account deposit detail we determined that several smaller checks and cash made up the deposit to the 2006 fee account.
- The 279 fee checks due to the 2007 fee account included numerous payments for serving papers, carry concealed deadly weapons fees, accident reports, and auto inspections. Also included were one (1) House Bill 452 payment of \$1,705, one (1) state fee claim in the amount of \$1,906, and one (1) payment of \$675 received for transporting mental patients. While we were unable to determine whether the smaller fee payments had been posted to the Sheriff's 2007 fee account receipts ledger, we were able to determine that these three payments were all posted as 2007 fee receipts even though they were deposited to the 2006 tax account. The Sheriff's office provided the auditors with copies of fee account deposit tickets that indicated that these three payments had been deposited to the 2007 fee account. Again auditor's obtained copies of the original deposit tickets and deposit details from the bank and found that the deposits tickets provided by the Sheriff's office had been altered after the fee account deposits were made. Several smaller checks for various fee collections were included in the deposits to make up for these checks.

WHITLEY COUNTY
LAWRENCE HODGE, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period July 7, 2006 through July 31, 2007
(Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2006-2 The Sheriff Should Not Deposit Fee Account Money In His Tax Account (Continued)

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

When receipts go un-deposited or are commingled with other accounts, 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.

Additionally, since there were no surplus funds in the 2006 tax account, the fee account receipts noted above were probably not recorded in the receipts ledgers for those fee accounts and instead were use to replace those fee checks that were deposited to the 2006 tax account. This would indicate the fee checks deposited to the tax account were then used to cover un-deposited 2006 tax receipts.

As in any office, the Sheriff is expected to deposit all monies paid to his office into the correct bank account and in a timely manner.

We recommend the Sheriff prepare accurate deposit tickets prior to taking them to the bank and avoid depositing fee receipts to his official tax account. We also recommend that the Sheriff, after he has eliminated the deficit in his 2006 tax account, transfer \$6,683 and \$14,920 to his 2006 and 2007 fee accounts respectively.

Sheriff's Response: The Whitley County Sheriff will prepare accurate deposit tickets prior to taking them to the bank and avoid depositing fee receipts to his official tax account. After he has eliminated the deficit in his 2006 tax account, he will transfer \$6,683 and 14,920 to his 2006 and 2007 fee accounts respectively.

2006-3 The Sheriff Should Accurately Account For All Franchise Tax Collections And Distribute All Franchise Taxes by the Tenth of Month Following Collections

During our review of franchise taxes for tax year 2006, we noted that numerous franchise tax bills were collected but were not reported and paid to the taxing districts by the tenth of the following month. Franchise tax collections were paid to the taxing districts from two (2) to twelve (12) months after the date of taxpayer's checks. The Sheriff's copies of paid tax bills were often marked paid at dates that were much later than the dates of the taxpayers checks and payments were often held for several months before being deposited to the Sheriff's official tax account.

WHITLEY COUNTY
LAWRENCE HODGE, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period July 7, 2006 through July 31, 2007
(Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2006-3 The Sheriff Should Accurately Account For All Franchise Tax Collections And Distribute All Franchise Taxes By The Tenth Of Month Following Collections
(Continued)

We noted that eight (8) 2006 franchise tax bills and two (2) prior year franchise bills totaling \$167,258 were collected and deposited to the Sheriff's 2006 tax account prior to July 31, 2007; however these franchise tax bills were shown by the Sheriff's office as unpaid as of that date. These franchise tax bills were subsequently reported and paid to the taxing districts as if they were collected during the 2007 tax collection period. On January 8, 2008, the Sheriff transferred \$132,644 of this amount from the 2006 tax account to the 2007 tax account leaving an additional \$34,614 due. We verified that these bills were included on monthly tax reports for the 2007 tax collection period but 2007 taxes have not been audited. Therefore we cannot be certain that reported amounts were actually paid to the taxing districts.

We also noted that five (5) additional 2006 franchise bills totaling \$32,369 and four (4) additional prior years franchise bills totaling \$3,628 that were collected in June and July of 2007 but were deposited to the 2007 tax account and reported to the taxing districts as late as March 2008. Three of these prior year bills included ten percent (10%) penalties and sheriff's ten percent (10%) add-on fees totaling \$538 that were not included on the 2007 monthly tax reports that were subsequently prepared.

Auditors contacted several franchise tax companies to determine if bills that could not be traced to available deposit details and were shown as unpaid by the Sheriff's office as of July 31, 2007 had actually been paid. One company confirmed that they had paid a prior year bill in the amount of \$3,695 on July 12, 2007 but had paid it to the Whitley County School Board. We contacted the school board and verified that they had received this payment in error and had not forwarded the payment on to the Sheriff's office. The Sheriff's office however subsequently showed this bill as paid and reported it to the taxing districts in January 2008 as a December 2007 tax collection. Franchise company representatives also informed auditors that two (2) additional 2006 franchise bills and two (2) additional prior year bills totaling \$7,972 were also unpaid. Although the Sheriff's office showed these bills as unpaid as of July 31, 2007, they were subsequently reported as paid during the 2007 collection period and included on the 2007 monthly reports. If the Sheriff did not actually receive payment for these bills but reported them as collected and paid to the taxing districts, his 2007 tax account will be in a deficit.

We also determined that one franchise bill included an incorrect assessment for the school. As a result of this error the bill was overpaid by \$300. A refund is due to the taxpayer for this overpayment.

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.

WHITLEY COUNTY
LAWRENCE HODGE, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period July 7, 2006 through July 31, 2007
(Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2006-3 The Sheriff Should Accurately Account For All Franchise Tax Collections And Distribute All Franchise Taxes By The Tenth Of Month Following Collections
(Continued)

Bills should have been deposited into and paid to the taxing districts from the 2006 tax account by the tenth of the following month as required by KRS 134.300, but instead were paid much later and from the 2007 tax account. This scenario can be used to conceal the theft of tax payments to the Sheriff's office.

The amounts stated above have been included as paid tax bills for the 2006 tax collection period resulting in additional amounts due to the taxing districts. Since the Sheriff has a known \$54,444 deficit (including part of the franchise bills discussed above), personal funds may need to be deposited by the Sheriff to eliminate the deficit.

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 recommend the Sheriff properly account for all franchise tax collections by recording the correct paid dates on collected bills, depositing all franchise tax collections in a timely manner to the proper accounts, and paying franchise tax collections to the taxing districts by the tenth of the following month as required by KRS 134.400. We also recommend the Sheriff properly account for all penalties, interest, and Sheriff's ten percent (10%) add-on fees collected and pay proper amounts for these to the taxing districts and fee account. All franchise bills should be reviewed prior to being sent to the taxpayers to ensure that they are accurately calculated. We further recommend the Sheriff maintain documentation such as check stubs or copies of taxpayers checks in order to verify that bills are paid and attach such documentation to the Sheriff's copies of paid franchise bills.

Sheriff's Response: The Whitley County Sheriff has implemented controls over the tax collection process in his office. He will properly account for all franchise tax collections by recording the correct paid dates on collected bills, depositing all franchise tax collections in a timely manner to the proper accounts, and paying franchise tax collections to the taxing districts by the tenth of the following month as required by KRS 134.400. He will properly account for all penalties, interest, and Sheriff's ten percent (10%) add-on fees collected and pay proper amounts for these to the taxing districts and fee account. All franchise bills will be reviewed prior to being sent to the taxpayer to ensure that they are accurately calculated. He will maintain documentation such as check stubs or copies of taxpayers checks in order to verify that bills are paid and attach such documentation to the Sheriff's copies of paid franchise bills.

WHITLEY COUNTY
LAWRENCE HODGE, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period July 7, 2006 through July 31, 2007
(Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2006-4 The Sheriff's Office Did Not Properly Account For All Paid Tax Bills

In accordance with KRS 134.450, the Sheriff had his tax sale for 2006 taxes on July 31, 2007, and subsequently turned over unpaid 2006 tax bills to the County Clerk's office; however, the following occurred:

- An investment company then purchased a portion of these delinquent 2006 tax bills from the County Clerk's office and sent letters out to the delinquent taxpayers requesting payment. One of taxpayers contacted by the investment company presented documentation to the County Clerk to show that their tax bill for \$201 had been paid to the Sheriff's office by the taxpayer's financial institution. This payment was included as part of a larger amount paid for several bills. The financial institution's check was dated November 21, 2006 and was deposited by the Sheriff's office on December 4, 2006. Therefore, this bill should not have been turned over to the County Clerk as delinquent and then sold to the investment company.

Based on available records, there was no surplus in the 2006 tax. Any refund amounts due for bills that were turned over to the County Clerk's office as delinquent but were not, would increase the deficit amount and should be paid by the Sheriff from personal funds.

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. This may also result in a deposit of personal funds by the Sheriff for any deficits incurred.

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.

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. The Sheriff should 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 further recommend that when financial institutions pay several bills at once, all of the paid bills should be processed by the sheriff's office in a timely manner before the check is deposited. This would help to prevent paid tax bills from being reported as unpaid.

We also recommend the Sheriff refund the investment company from personal funds.

WHITLEY COUNTY
LAWRENCE HODGE, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period July 7, 2006 through July 31, 2007
(Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2006-4 The Sheriff's Office Did Not Properly Account For All Paid Tax Bills (Continued)

Sheriff's Response: The Whitley County Sheriff has implemented controls over the tax collection process in his office to provide appropriate in this area. The Sheriff 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. When financial institutions pay several bills at once, all of the paid bills will be processed by the sheriff's office in a timely manner before the check is deposited.

2006-5 The Sheriff Had A Known Deficit Of \$54,444 In His Official 2006 Tax Account

Because of known un-deposited receipts of \$54,444, the Sheriff had a known deficit of \$54,444. 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 \$54,444 to cover the known deficit in his official 2006 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.

Sheriff's Response: The Whitley County Sheriff will make every reasonable effort to reconcile this deficit in his official 2006 tax account as soon as possible. He will take immediate steps to ensure all monies received by his office are immediately deposited into an official account.

WHITLEY COUNTY
LAWRENCE HODGE, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period July 7, 2006 through July 31, 2007
(Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2006-6 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 2006 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, eight (8) supplemental reports for regular taxes totaling \$829,388 and one (1) supplemental report for gas bills totaling \$145, were prepared throughout the 2006 tax collection period. Three (3) of the supplemental reports for regular taxes totaling \$486,460 were used to report tax bills as collected at the discount rate after the discount period had ended.

We also found that the Sheriff's personal tax bills were marked paid June 12, 2007 (during the 21% penalty amount period) at the face period amount. Based on the date and amount paid these bills should have been reported to the taxing districts on a December supplemental report prepared in July of 2007. This was one of the supplemental reports for which no daily tax collection journal was provided to the auditors. Since this detailed listing was not provided auditors cannot be sure if the Sheriff's bills were reported at that time.

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.

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

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.

WHITLEY COUNTY
LAWRENCE HODGE, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period July 7, 2006 through July 31, 2007
(Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2006-6 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)

The Department of Revenue has prepared guidelines stating that reasonable cause as provided for in KRS 131.175 should be used for the waiver 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 waiver decisions, he may refer the taxpayer to the Revenue Cabinet for a determination to be made.

Sheriff's Response: The Whitley County Sheriff has implemented controls over the tax collection process in his office. He will 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 will 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 waiver decisions, he will refer the taxpayer to the Revenue Cabinet for a determination to be made.

WHITLEY COUNTY
LAWRENCE HODGE, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period July 7, 2006 through July 31, 2007
(Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2006-7 The Sheriff Did Not Deposit Receipts Of The Office In A Timely Manner And Did Not Reconcile Deposits To The Daily Collection Journal 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.

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 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.

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

WHITLEY COUNTY
LAWRENCE HODGE, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period July 7, 2006 through July 31, 2007
(Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2006-8 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.

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 \$54,444 in His Official 2006 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 Deposited Fee Account Money into the Tax Account
- The Sheriff Turned Over Tax Bills to the County Clerk's Office that were not Delinquent
- 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 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.

WHITLEY COUNTY
LAWRENCE HODGE, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period July 7, 2006 through July 31, 2007
(Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2006-8 The Sheriff's Office Lacked Adequate Segregation Of Duties Over The Accounting Functions (Continued)

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.
- 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 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: To adequately protect against misappropriation of assets and/or inaccurate financial reporting, the Sheriff will 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. Additionally, the Sheriff will provide this oversight to comply with the examples as set forth herein.

The Sheriff will 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.

WHITLEY COUNTY
 LAWRENCE HODGE, SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Period July 7, 2006 through July 31, 2007
 (Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2006-9 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 and December 2006 tax collections was not paid to the school districts until January 27, 2007. In addition a payment of \$1,978 was made to the Whitley County School Board on January 8, 2008, over 6 months after the tax collection period had ended. Based on our computation of interest due to the school districts and fee accounts, we determined that this resulted in the Sheriff overpaying interest to the Whitley County School Board by a total of \$1,174. Interest amounts due to the Corbin Independent School District and to the Sheriff's 2007 fee account was underpaid by \$484 and \$1,286 respectively.

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, 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 Whitley County School Board and pay the additional amounts due, as noted above to the Corbin Independent School District and the 2007 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 will make every effort to obtain a refund from the Whitley County School Board and pay the additional amounts due, as noted above to the Corbin Independent School District and the 2007 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.

2006-10 Un-refundable Duplicate Payments And Unexplained Receipts Should Be Deposited Into Separate Escrow Accounts And Remitted To The Kentucky State Treasurer In Accordance with Statute

The Sheriff deposited un-refundable duplicate payments and unexplained receipts in one non-interest-bearing account that was changed to an interest bearing account in April of 2007. We reviewed all receipts and expenditures of the escrow account since it had been opened and determined the following:

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FINANCIAL STATEMENT FINDINGS (Continued)

2006-10 Un-refundable Duplicate Payments And Unexplained Receipts Should Be Deposited Into Separate Escrow Accounts And Remitted To The Kentucky State Treasurer In Accordance with Statute (Continued)

- As of July 6, 2006, the Sheriff's escrow account included \$10,977 for un-refundable duplicate payments and unexplained receipts from tax collection periods prior to the 2003 tax collection period. During the 2006 tax collection period no disbursements were made from this surplus. As of July 31, 2007 the balance in the Sheriff's escrow account relating to surpluses prior to the 2003 collection period was \$10,977.
- As of July 6, 2006, the Sheriff's escrow account included \$1,807 for un-refundable duplicate payments and unexplained receipts from 2003 tax collections. During the 2006 tax collection period the source of \$220 of this amount was identified and this amount was paid from the account. As of July 31, 2007 the balance in the Sheriff's escrow account relating to the 2003 tax collection period was \$1,587.
- As of July 6, 2006, the Sheriff's escrow account included \$8,688 for un-refundable duplicate payments and unexplained receipts from 2004 tax collections. During the 2006 tax collection period, the Sheriff earned interest totaling \$58 on these funds. The source of \$1,098 of this amount was identified and paid from this balance. As of July 31, 2007 the balance in the Sheriff's escrow account relating to 2004 surplus was \$7,648.
- 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 no surplus exists for the 2005 taxes; therefore, no funds should have been transferred. The remaining \$1,740 of funds not already accounted for should be transferred back to the 2005 tax account.

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FINANCIAL STATEMENT FINDINGS (Continued)

2006-10 Un-refundable Duplicate Payments And Unexplained Receipts Should Be Deposited Into Separate Escrow Accounts And Remitted To The Kentucky State Treasurer In Accordance with Statute (Continued)

- Based on available records, there was no surplus of 2006 Taxes to be escrowed.

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 should 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.

In addition, we recommend that each year's surplus be deposited to separate interest bearing escrow accounts. This would prevent deposits from one tax year from being used to refund taxpayers for another tax year as listed above. As stated above, the Sheriff should transfer \$1,740 back to the 2005 tax account.

Sheriff's Response: The Whitley County Sheriff will attempt to fully comply with the recommended action as set forth herein. Further, he will hold the funds for a period of time but cannot comply with the recommendation as set forth herein as the time has expired. He will comply with any new dates as recommended.

Hereinafter, each year's surplus will be deposited to separate interest bearing escrow accounts.

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

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FINANCIAL STATEMENT FINDINGS (Continued)

2006-11 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. On November 11, 2006, the Sheriff loaned \$80,000 to his 2006 fee account from the 2006 tax account. This was transferred back to the 2006 tax account on January 24, 2007.

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.

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. New controls and oversights are being implemented so receipts are deposited in the appropriate account.

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 (Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2006-12 The Sheriff Should Settle 2006 Taxes

Based on available records, the Sheriff owes the following known additional amounts to the taxing districts for 2006 taxes:

State	\$	41
Corbin Independent School District		353
Library District		868
Health District		7
Soil Conservation District		450

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

County	\$	346
Whitley County Board of Education		372
Extension District		61

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.

