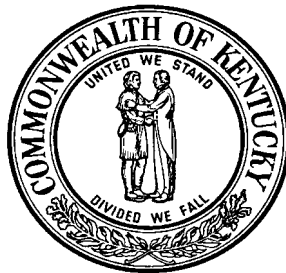


**REPORT OF THE AUDIT OF THE  
WHITLEY COUNTY  
SHERIFF'S SETTLEMENT - 2007 TAXES**

**For The Period  
August 1, 2007 Through July 31, 2008**



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

**209 ST. CLAIR STREET  
FRANKFORT, KY 40601-1817  
TELEPHONE 502.564.5841  
FACSIMILE 502.564.3094**



**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**WHITLEY COUNTY**  
**SHERIFF'S SETTLEMENT - 2007 TAXES**

**For The Period**  
**August 1, 2007 Through July 25, 2008**

The Auditor of Public Accounts was engaged to complete the audit of the Sheriff's Settlement - 2007 Taxes for the Whitley County Sheriff for the period August 1, 2007 through July 25, 2008. As a result of this engagement, we have issued a disclaimer of opinion on the Whitley County Sheriff's Settlement - 2007 Taxes.

**Report Comments:**

- 2007-1 The Sheriff's Office Did Not Properly Account For And Distribute All Tax Payments Received From Taxpayers
- 2007-2 The Sheriff Should Not Deposit Fee And Drug Account Money In His Tax Account
- 2007-3 The Sheriff Should Accurately Account For All Franchise Tax Collections And Distribute All Franchise Taxes By The Tenth Of Month Following Collections
- 2007-4 The Sheriff's Office Did Not Properly Account For All Paid Tax Bills
- 2007-5 The Sheriff Had A Known Deficit Of \$87,589 In His Official 2007 Tax Account
- 2007-6 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
- 2007-7 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
- 2007-8 The Sheriff's Office Lacked Adequate Segregation Of Duties Over The Accounting Functions
- 2007-9 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
- 2007-10 The Sheriff Should Not Loan Money To The Fee Account From The Tax Account
- 2007-11 The Sheriff Should Settle 2007 Taxes
- 2007-12 The Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of \$183,685 And Enter Into A Written Agreement To Protect Deposits
- 2007-13 The Sheriff Should Not Have Collected Taxes Before Signing The Official Receipt

**Deposits:**

The Sheriff's deposits as of December 24, 2007 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$183,685



CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT .....	1
SHERIFF'S SETTLEMENT - 2007 TAXES.....	3
NOTES TO FINANCIAL STATEMENT .....	5
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS .....	8
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 .....	13
COMMENTS AND RECOMMENDATIONS .....	17





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 - 2007 Taxes for the period August 1, 2007 through July 25, 2008. This tax settlement is the responsibility of the Whitley County 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 2007 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 identified during the engagement and lack of adequate internal controls resulted in a high level of audit risk. Additionally, the Sheriff did not provide us with a management representation letter.

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 the Sheriff did not provide us with a management representation letter 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 - 2007 Taxes for the period August 1, 2007 through July 25, 2008.

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 November 20, 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

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2007-1 The Sheriff's Office Did Not Properly Account For And Distribute All Tax Payments Received From Taxpayers
- 2007-2 The Sheriff Should Not Deposit Fee And Drug Account Money In His Tax Account
- 2007-3 The Sheriff Should Accurately Account For All Franchise Tax Collections And Distribute All Franchise Taxes By The Tenth Of Month Following Collections
- 2007-4 The Sheriff's Office Did Not Properly Account For All Paid Tax Bills
- 2007-5 The Sheriff Had A Known Deficit Of \$87,589 In His Official 2007 Tax Account
- 2007-6 The Sheriff Did Not Document Approval Of Waiver Of Penalties And Fees As Required By Statue And Department Of Revenue Guidelines And Granted Discounts On Tax Bills Paid After The Discount Period Had Ended
- 2007-7 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
- 2007-8 The Sheriff's Office Lacked Adequate Segregation Of Duties Over The Accounting Functions
- 2007-9 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
- 2007-10 The Sheriff Should Not Loan Money To The Fee Account From The Tax Account
- 2007-11 The Sheriff Should Settle 2007 Taxes
- 2007-12 The Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of \$183,685 And Enter Into A Written Agreement To Protect Deposits
- 2007-13 The Sheriff Should Not Have Collected Taxes Before Signing The Official Receipt

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

November 20, 2009



WHITLEY COUNTY  
LAWRENCE HODGE, SHERIFF  
SHERIFF'S SETTLEMENT - 2007 TAXES

For The Period August 1, 2007 Through July 25, 2008

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 690,253	\$ 1,203,518	\$ 2,366,436	\$ 1,097,910
Tangible Personal Property	124,227	310,311	185,723	319,626
Fire Protection	3,940			
Current Year Franchise Taxes	85,789	187,849	329,420	
Prior Year Franchise Taxes	44,435	99,746	113,216	
Additional Billings	2,883	5,264	11,937	4,934
Unmined Coal - 2007 Taxes	1,381	2,408	6,834	2,195
Oil and Gas Property Taxes	35,609	62,088	176,220	56,609
Limestone, Sand and Mineral Reserves	36	63	178	57
Clay	106	185	527	169
Penalties	8,460	14,964	32,925	13,727
Adjusted to Sheriff's Receipt	391	2,038		8,524
<b>Gross Chargeable to Sheriff</b>	<b>997,510</b>	<b>1,888,434</b>	<b>3,223,416</b>	<b>1,503,751</b>
 <u>Credits</u>				
Exonerations	6,032	10,507	26,330	9,583
Discounts	12,189	22,942	36,157	21,487
Delinquents:				
Real Estate	48,939	84,841	187,110	77,355
Tangible Personal Property	696	1,738	1,463	2,021
Unmined Coal - 2007 Taxes	5	10	27	9
Current Year Franchise - Uncollected	52,706	105,455	202,339	
Prior Year Franchise - Delinquent	1,958	4,224	8,436	
Prior Year Franchise - Uncollected	1,603	3,038	6,973	
<b>Total Credits</b>	<b>124,128</b>	<b>232,755</b>	<b>468,835</b>	<b>110,455</b>
Taxes Collected	873,382	1,655,679	2,754,581	1,393,296
Less: Commissions (a)	37,406	70,366	110,183	59,503

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

WHITLEY COUNTY  
LAWRENCE HODGE, SHERIFF  
SHERIFF'S SETTLEMENT - 2007 TAXES  
For The Period August 1, 2007 Through July 25, 2008  
(Continued)

	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Taxes Due	\$ 835,976	\$ 1,585,313	\$ 2,644,398	\$ 1,333,793
Taxes Paid	837,479	1,590,275	2,650,474	1,334,764
Refunds (Current and Prior Year)	561	966	1,488	906
Additional State Penalty				<u>2,295</u>
Due Districts or (Refund(s) Due Sheriff) as of Completion of Audit	<u>\$ (2,064)</u>	<u>\$ (5,928)</u>	<u>\$ (7,564)</u>	<u>\$ 418</u>
 (a) Commissions:				
10% on	\$ 10,000			
4.25% on	\$ 3,912,357			
4% on	\$ 2,754,581			
 (b) Special Taxing Districts:				
Library District		\$ (2,663)		
Health District		(994)		
Extension District		(2,219)		
Watershed District		<u>(52)</u>		
(Refunds Due Sheriff)		<u>\$ (5,928)</u>		
 (c) School Districts:				
Whitley County Board Of Education		\$ (7,862)		
Corbin Independent School District		<u>298</u>		
Due District or (Refund Due Sheriff)		<u>\$ (7,564)</u>		

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

WHITLEY COUNTY  
NOTES TO FINANCIAL STATEMENT

July 25, 2008

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.

WHITLEY COUNTY  
NOTES TO FINANCIAL STATEMENT  
July 25, 2008  
(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 Whitley County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). On December 24, 2007, the Sheriff's bank balance was exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured      \$183,685

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2007. Property taxes were billed to finance governmental services for the year ended June 30, 2008. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 7, 2007 through July 25, 2008. The beginning collection date is the date the first deposit of tax collections was made to the Sheriff's official 2007 tax account. The Sheriff's official receipt was dated November 29, 2007. It was signed by the Sheriff, and certified by the County Clerk on January 31, 2008.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2007. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was February 19, 2008 through July 25, 2008.

Note 4. Interest Income

The Whitley County Sheriff earned \$19,304 as interest income on 2007 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office. As of July 25, 2008, the Sheriff had overpaid the Whitley County School District and the Corbin Independent School District by \$841 and \$606 respectively. Interest due to the Sheriff's fee account was overpaid by \$2,633.

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

The Whitley County Sheriff collected \$37,797 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office. As of July 25, 2008, the Sheriff owed \$2,782 in 10% add-on fees to his fee account.

WHITLEY COUNTY  
NOTES TO FINANCIAL STATEMENT  
July 25, 2008  
(Continued)

Note 6. Advertising Costs And Fees

The Whitley County Sheriff collected \$1,685 of advertising costs and \$9,822 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed \$1,290 of the advertising costs to the county as required by statute. Advertising fees of \$9,410 were transferred to the fee account and used to operate the Sheriff's office. As of July 25, 2008, the Sheriff owed \$390 in advertising costs to the county and \$412 in advertising fees to his fee account.

Note 7. Incorrect Tax Rates

Incorrect tax rates were used to prepare the tax bills. The rates on the tax bills and official receipt for the County, Library District, Extension District and the Corbin Independent School District did not agree with the rates approved by the fiscal court and school district. Taxes charged to the Sheriff were calculated based on the rates used to prepare the tax bills.

Note 8. Unrefundable Duplicate Payments And Unexplained Receipts

The Sheriff deposited unrefundable duplicate payments and unexplained receipts in an interest-bearing account. The following are noted:

- As of July 31, 2007, 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 2007 tax collection period no disbursements were made from this surplus. As of July 25, 2008 the balance in the Sheriff's escrow account relating to surplus prior to the 2003 collection period was \$10,977.
- As of July 31, 2007, the Sheriff's escrow account included \$1,587 for un-refundable duplicate payments and unexplained receipts from 2003 tax collections. During the 2007 tax collection period no disbursements were made from this surplus. As of July 25, 2008 the balance in the Sheriff's escrow account relating to the 2003 tax collection period was \$1,587.
- As of July 31, 2007, the Sheriff's escrow account included \$7,648 for un-refundable duplicate payments and unexplained receipts. During the 2007 tax collection period, the Sheriff earned interest totaling \$181 on these funds. No disbursements were made from this surplus. As of July 25, 2008 the balance of the Sheriff's escrow account relating to the 2004 tax collection period was \$7,829.

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

July 25, 2008

Assets

Cash in Bank (All Tax Accounts)		\$	71,094
Collected Receivables-			
2007 Taxes Deposited Late	\$	124,215	
Interest Earned		663	
Transfers From 2008 Tax Account		78,203	
Transfers From 2008 Fee Account-			
Loans Repaid		36,000	
2007 Commission Error		52,140	
Refund Error		78	
Refund of Bank Service Charges		20	
Redeposit of Returned Checks		180	
Returned Check Fee		40	
		40	291,539
Uncollected Receivables-			
Refunds Due From Taxing Districts:			
Whitley County Fiscal Court-			
Overpayment of Taxes		2,064	
Whitley County Board of Education-			
Franchise Bill Collected in Error		4,064	
Overpayment of Taxes		7,862	
Overpayment of Interest		841	
Corbin Independent School District-			
Overpayment of Interest		606	
Library District-			
Overpayment of Taxes		2,663	
Health District-			
Overpayment of Taxes		994	
Extension District-			
Overpayment of Taxes		2,219	
Soil District-			
Overpayment of Taxes		52	

WHITLEY COUNTY  
LAWRENCE HODGE, SHERIFF  
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS  
July 25, 2008  
(Continued)

Assets (Continued)

Uncollected Receivables (Continued)

Due From 2006 Tax Account-			
Franchises Payments	\$	34,614	
Transfer Error		207	
Due From 2008 Fee Account-			
Overpayment of Interest		2,633	\$ 58,819
			<hr/>
Total Receivables			350,358
Total Assets			<hr/> 421,452

Liabilities

Paid Obligations-

    Outstanding Checks 23,747

Other Taxing Districts-

Kentucky State Treasurer	38,625
Whitley County Fiscal Court	8,443
Whitley County Board of Education	31,049
Corbin Independent School	4,705
Library District	4,102
Health District	4,295
Extension District	4,747
Soil Conservation District	1,499
Refunds Due Taxpayers	18,996
Lien Fees Paid County Clerk	598
Tax Commissions Due Sheriff's Fee Account	1,609
Interest Due Sheriff's Fee Account	6,812
Interest Due Whitley County Board of Education	3,638
Interest Due Corbin Independent School	1,274
Sheriff's Fees Due Sheriff's Fee Account	1,565

WHITLEY COUNTY  
LAWRENCE HODGE, SHERIFF  
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS  
July 25, 2008  
(Continued)

Liabilities (Continued)

Paid Obligations- (Continued)

Sheriff's 10 % Add-On Fees Due Sheriff's Fee Account	\$	9,334	
Advertising Costs Due Fiscal Court		1,295	
Loan To Sheriff's 2008 Fee Account		15,000	
Returned Check		1,948	
Returned Check Fee		10	
Bank Service Charges		20	
Transfer To 2008 Tax Account		176,295	
Total Paid Obligations	\$		335,859
Unpaid Obligations-			
Other Taxing Districts-			
Kentucky State Treasurer		418	
Corbin Independent School District		298	
Refunds Due Taxpayers		52,237	
Tax Commissions Due Sheriff's Fee Account		4	
Advertising Fees Due County		395	
2008 Tax Account -			
Franchise Payments		9,414	
Refund Due For Transfer Error		42	
2008 Fee Account -			
Fee Monies Deposited In Error		29,600	
Sheriff's 10% Add-On Fees		2,782	
Sheriff's Advertising Fees		412	
Refund For Transfer Error		52,141	
Returned Check Fees		292	
Drug Fund-			
Drug Fund Receipts Deposited In Error		1,400	
Total Unpaid Obligations			149,435
Total Liabilities			509,041
Total Fund Deficit as of July 25, 2008	\$		(87,589)



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 - 2007 Taxes for the period August 1, 2007 through July 25, 2008, and have issued our report thereon dated November 20, 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 a management representation letter. 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. We consider the deficiencies described in the accompanying comments and recommendations as items 2007-1, 2007-2, 2007-3, 2007-4, 2007-5, 2007-6, 2007-7, 2007-8, 2007-9, and 2007-10 to be significant deficiencies in 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)

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 - 2007 Taxes for the period August 1, 2007 through July 25, 2008, 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 2007-1, 2007-3, 2007-4, 2007-6, 2007-10, 2007-11, 2007-12, and 2007-13.

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

November 20, 2009

COMMENTS AND RECOMMENDATIONS



WHITLEY COUNTY  
LAWRENCE HODGE, SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Period August 1, 2007 Through July 25, 2008

**FINANCIAL STATEMENT FINDINGS**

**2007-1    The Sheriff's Office Did Not Properly Account For And Distribute All Tax Payments Received From Taxpayers**

The Sheriff's office prepared sixteen (16) supplemental tax reports for 2007 regular tax collections totaling \$1,165,561, four (4) supplemental reports for 2007 gas bills collected totaling \$129,617 and one (1) supplemental report for 2007 oil bills collected totaling \$592. During our review of these reports, we noted that fifteen (15) of the supplemental reports for regular collections totaling \$1,165,498, the four (4) supplemental reports for the gas collections, and the supplemental report for oil collections were prepared in order 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.

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 randomly compared a sample of the copies of the taxpayers' canceled checks to the 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. 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 or after 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 eight (8) taxpayers' checks, for fourteen (14) tax bills totaled \$3,600 more than the amounts marked as paid on the tax bills and reported. Three (3) of these fourteen (14) bills were marked as if they were paid during the face period and were reported to the taxing districts at the face period amounts. However, the Sheriff's office received payment at the five percent (5%) penalty amount. The remaining eleven (11) bills were marked as if they were paid during the five percent (5%) penalty period and were reported to the taxing districts at the five percent (5%) penalty period amount. However, the Sheriff's office received payment at the twenty-one percent (21%) penalty period amount.

Because the Sheriff lacked controls over the tax collection process in his office and did not provide appropriate oversight in this area, this situation was allowed to occur.

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

WHITLEY COUNTY  
LAWRENCE HODGE, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Period August 1, 2007 Through July 25, 2008  
(Continued)

**FINANCIAL STATEMENT FINDINGS (Continued)**

2007-1 The Sheriff's Office Did Not Properly Account For And Distribute All Tax Payments Received From Taxpayers (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.

KRS 134.300 and KRS 134.320 states by the 10<sup>th</sup> of each month following the date of collection, the sheriff must turn over to each taxing district all taxes collected for the district, deducting there from 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.

*Sheriff's Response: No response.*



WHITLEY COUNTY  
LAWRENCE HODGE, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Period August 1, 2007 Through July 25, 2008  
(Continued)

**FINANCIAL STATEMENT FINDINGS (Continued)**

**2007-2 The Sheriff Should Not Deposit Fee And Drug Account Money In His Tax Account**

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

One hundred twenty-seven (127) checks that should have been deposited to the 2007 fee account totaling \$3,923, one (1) drug fund check totaling \$1,400, and two hundred thirty-nine (239) checks that should have been deposited to the 2008 fee account totaling \$25,677 were deposited to the 2007 tax account. These checks were included in thirty-two (32) separate deposits made to the 2007 tax account from November 21, 2007 through July 31, 2008. When the 2007 fee audit was completed this information was not provided to the auditors. Those amounts that should have been deposited to the 2007 fee account were not reported as 2007 fees. Since the 2007 fee audit has been completed, we have included these as 2008 fees.

- Three (3) of the 2008 fee checks totaling \$10,029, were reimbursements for 2008 deputies' salaries paid with Kentucky Law Enforcement Foundation Program Funds (KLEFPF). Two (2) additional 2008 fee checks totaling \$5,023 were payments to the Sheriff's office for transporting prisoners and serving as bailiff of the court. All five (5) of these payments were posted to the 2008 fee account receipts ledger and the Sheriff's office provided auditors with copies of fee account deposit tickets which indicated that they had been deposited to the 2008 fee account. However, we obtained copies of the original fee account deposit tickets and the deposit details from the bank and found that the copies provided by the Sheriff's office had been altered after the deposits were made. From the fee account deposit details, we determined that several smaller checks and cash made up the deposits to the 2008 fee account.
- The remaining 361 fee checks deposited to the 2007 tax account included numerous payments for serving papers, copies, carry concealed deadly weapons fees, accident reports, and auto inspections. Also included was one (1) payment for transporting mental patients in the amount of \$855. While we were unable to determine whether the smaller fee payments had been posted to the Sheriff's 2008 fee account receipts ledger, we were able to determine that the \$855 payment for transporting mental patients was posted even though it was deposited to the 2007 tax account.

Because the Sheriff lacked controls over the tax collection and deposit process in his office and he did not provide adequate oversight in these areas, this situation was allowed 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.

WHITLEY COUNTY  
LAWRENCE HODGE, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Period August 1, 2007 Through July 25, 2008  
(Continued)

**FINANCIAL STATEMENT FINDINGS (Continued)**

2007-2 The Sheriff Should Not Deposit Fee And Drug Account Money In His Tax Account (Continued)

Additionally, since there were no surplus funds in the 2007 tax account, the fee account receipts noted above were most likely not recorded in the fee account receipts ledgers. This would indicate the fee checks deposited to the tax account were then used to cover un-deposited 2007 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 known deficit in his 2007 tax account, transfer \$29,600 and \$1,400 to his 2008 fee account and drug account respectively.

*Sheriff's Response: No Response.*

2007-3 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 2007, 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 one (1) to eleven (11) months after the date of taxpayers' checks. The Sheriff's copies of paid tax bills were often either not marked with a paid date or 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. In addition we noted:

- During the 2006 tax collection period, 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 and verified amounts paid to the taxing districts. However, the additional \$34,614 due from the 2006 tax account has not been transferred.

WHITLEY COUNTY  
LAWRENCE HODGE, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Period August 1, 2007 Through July 25, 2008  
(Continued)

**FINANCIAL STATEMENT FINDINGS (Continued)**

2007-3 The Sheriff Should Accurately Account For All Franchise Tax Collections And Distribute All Franchise Taxes By The Tenth Of Month Following Collections  
(Continued)

---

- Five (5) paid franchise bills included penalties and sheriff's ten percent (10%) add-on fees of \$1,514 and \$1,145 respectively. The penalties were not included on the 2007 monthly tax reports and, therefore, were not distributed to the taxing districts. In addition, the ten percent (10%) sheriff's add-on fees were not paid to the Sheriff's 2008 fee account.
- Two (2) paid franchise bills included discounts totaling \$122 that were not included on the monthly franchise tax reports.
- One franchise bill was overpaid by \$51,203. During the completion of the 2006 tax audit, we found that the Sheriff's office had received a payment of \$51,203 for a franchise bill and deposited it to the 2006 tax account. However the franchise bill was marked "void" by the sheriff's office and the funds were not distributed to the taxing districts because an amended bill had been prepared and sent to the franchise corporation and the additional amount due had not been received. The first payment of \$51,203 was transferred from the 2006 tax account to the 2007 tax account and the bill was shown as uncollected for the 2006 tax collection period. The amended bill was carried forward to the 2007 tax period and was subsequently included on the 2007 monthly franchise tax reports to the taxing districts. Before the amended bill was paid, the original franchise company was acquired by another company. This company paid the entire amount of the amended bill (\$58,663) instead of just the additional amended amount due (\$7,460) resulting in an overpayment of \$51,203.
- Ten (10) franchise bills totaling \$107,507 were paid and deposited to the 2007 tax account. However, these bills were shown as unpaid by the Sheriff's office and were not reported and paid to the taxing districts until the 2008 tax collection period. Of this amount, \$98,093 was transferred from the 2007 tax account to the 2008 tax account, leaving \$9,414 in the 2007 tax account. Since these bills were reported on the 2008 monthly franchise tax reports and paid from the 2008 tax account, we have counted them as unpaid for the 2007 tax collection period, and they will be included as paid bills when the 2008 tax audit is completed. The additional \$9,414 left in the 2007 tax account should be transferred to the 2008 tax account.
- Six (6) prior year franchise bills totaling \$14,710 were confirmed with the franchise companies as unpaid but were included on the Sheriff's monthly franchise tax reports as paid.

WHITLEY COUNTY  
LAWRENCE HODGE, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Period August 1, 2007 Through July 25, 2008  
(Continued)

**FINANCIAL STATEMENT FINDINGS (Continued)**

2007-3 The Sheriff Should Accurately Account For All Franchise Tax Collections And Distribute All Franchise Taxes By The Tenth Of Month Following Collections  
(Continued)

---

- One franchise 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, in fact, received this payment plus an additional payment of \$369 for penalties and had not forwarded these payments to the Sheriff's office. The Sheriff's office, however, showed this bill as paid and reported it to the taxing districts in January 2008 as a December 2007 tax collection.
- One 2007 franchise bill that was subsequently paid during the 2008 tax collection period was prepared using an incorrect assessment for school taxes. When this bill was prepared, taxes for the Whitley County School were calculated using the assessment for the Corbin Independent School. As a result of this error, this tax bill was overpaid by \$2,747 and a refund is due to the taxpayer from the 2008 tax account.

Because the Sheriff lacked controls over the tax collection process in his office and did not provide adequate oversight, this situation was allowed to occur.

Several bills should have been deposited into and paid to the taxing districts from the 2006 and 2007 tax accounts by the tenth of the following month as required by KRS 134.300, but instead were paid much later from the 2007 and 2008 tax accounts. Tax collections, including penalties and discounts, should have been properly reported on the monthly franchise tax reports. In addition, a refund of \$51,203 should have been made to the franchise company for the overpayment discussed above, and bills that were not collected should not have been reported as paid. These scenarios can be used to conceal the theft of tax payments to the Sheriff's office.

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 134.300. 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 accuracy. We further recommend the Sheriff maintain documentation such as check stubs or copies of taxpayer's 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 August 1, 2007 Through July 25, 2008  
 (Continued)

**FINANCIAL STATEMENT FINDINGS (Continued)**

2007-3 The Sheriff Should Accurately Account For All Franchise Tax Collections And Distribute All Franchise Taxes By The Tenth Of Month Following Collections (Continued)

---

*Sheriff's Response: No Response.*

2007-4 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 2007 taxes on July 25, 2008. On the day of the tax sale, an investment company purchased a portion of the delinquent 2007 tax bills from the Sheriff's office and the remaining unpaid bills were subsequently turned over to the County Clerk's office. The investment company sent letters out to the delinquent taxpayers requesting payment. One taxpayer contacted by the investment company presented documentation to the Sheriff's office to show that their tax bill for \$297 had been paid to the Sheriff's office during the discount period but was not marked paid and should not have been included as a delinquent tax bill.

Based on available records, there was no surplus in the 2007 tax. Therefore, should any of the bills that were turned over to the County Clerk's office as delinquent be sold and a determination then made that they had actually been paid, the deficit amount would increase and any refunds due should be paid by the Sheriff from personal funds.

Because the Sheriff lacked controls over the tax collection process in his office and did not provide any oversight in this area, this situation was allowed 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 marking them paid, 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.

*Sheriff's Response: No Response.*

WHITLEY COUNTY  
LAWRENCE HODGE, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Period August 1, 2007 Through July 25, 2008  
(Continued)

**FINANCIAL STATEMENT FINDINGS (Continued)**

2007-5 The Sheriff Had A Known Deficit Of \$87,589 In His Official 2007 Tax Account

Because of known undeposited receipts of \$87,589, the Sheriff had a known deficit of \$87,589 in his official 2007 tax account. Auditors were unable to determine the complete amount because deposits were not made intact daily and could not be reconciled to the daily tax collection journals. As discussed in comment 2007-1, taxes collected were not accurately reported on supplemental reports. Had deposits been made intact daily and agreed to the daily tax collection journals, the auditors would have been able to determine more accurately the amount of undeposited receipts and the deficit most likely would be more.

Because the Sheriff's office failed to deposit receipts paid by individuals and corporations for property and other taxes into the official tax account, this situation was allowed to occur.

When receipts go undeposited, 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 \$87,589 to cover the known deficit in his official 2007 tax account. We further recommend the Sheriff take immediate steps to ensure all monies received by his office are immediately deposited into the correct official account.

*Sheriff's Response: No Response.*

2007-6 The Sheriff Did Not Document Approval Of Waiver Of Penalties And Fees As Required By Statue And Department Of Revenue Guidelines And Granted Discounts On Tax Bills Paid After The Discount Period Had Ended

During the 2007 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, sixteen (16) supplemental tax reports for 2007 regular tax collections totaling \$1,165,561, four (4) supplemental tax reports for 2007 gas collections totaling \$129,617, and one (1) supplemental tax report for 2007 oil collections totaling \$592, were prepared throughout the 2007 tax collection period. Four (4) of the supplemental reports for regular taxes totaling \$992,749 were used to report tax bills as collected at the discount rate after the discount period had ended.

WHITLEY COUNTY  
LAWRENCE HODGE, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Period August 1, 2007 Through July 25, 2008  
(Continued)

**FINANCIAL STATEMENT FINDINGS (Continued)**

2007-6 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)

---

We also found that the Sheriff's personal tax bills were marked paid December 20, 2007 (during the face amount period) at the discount period amount; however, payment for these bills was not deposited until February 15, 2008. These bills were not reported to the taxing districts until March 2008 when they were included on a supplemental report.

Because the Sheriff lacked controls over the tax collection process in his office and did not provide appropriate oversight in this area, this situation was allowed to occur.

As a result, taxpayers were not charged penalties and interest owed, which ultimately resulted in taxing districts receiving less than they otherwise would have. Supplemental reports can also 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 the 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 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 waivers 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 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.

WHITLEY COUNTY  
 LAWRENCE HODGE, SHERIFF  
 COMMENTS AND RECOMMENDATIONS  
 For The Period August 1, 2007 Through July 25, 2008  
 (Continued)

**FINANCIAL STATEMENT FINDINGS (Continued)**

2007-6 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)

These forms will also be subject to audit by the State Auditor's Office." The Sheriff maintained five (5) penalty waivers, and supporting documentation for one (1) additional waiver to the discount period, totaling \$298, during the 2007 tax collection cycle.

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: No Response.*

2007-7 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 former 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.

Because the Sheriff lacked controls over the deposit and reconciliation process and did not provide any oversight in this area, this situation was allowed to occur.

Since 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 resulting in incorrect payments being made to the taxing districts. Receipts may go undeposited resulting in the Sheriff having to deposit personal funds to cover any shortages.



WHITLEY COUNTY  
 LAWRENCE HODGE, SHERIFF  
 COMMENTS AND RECOMMENDATIONS  
 For The Period August 1, 2007 Through July 25, 2008  
 (Continued)

**FINANCIAL STATEMENT FINDINGS (Continued)**

2007-7 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  
 (Continued)

---

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. Daily deposits should be reconciled to the totals per daily tax collection journals or a cash receipts journal and any differences be explained.

*Sheriff's Response: No Response.*

2007-8 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 former bookkeeper collected tax payments, prepared deposits, and prepared daily tax collection journals. The former 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.

WHITLEY COUNTY  
LAWRENCE HODGE, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Period August 1, 2007 Through July 25, 2008  
(Continued)

**FINANCIAL STATEMENT FINDINGS (Continued)**

2007-8 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 \$87,589 in His Official 2007 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 Sold A Bill At His Tax Sale That Was 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.

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.

WHITLEY COUNTY  
 LAWRENCE HODGE, SHERIFF  
 COMMENTS AND RECOMMENDATIONS  
 For The Period August 1, 2007 Through July 25, 2008  
 (Continued)

**FINANCIAL STATEMENT FINDINGS (Continued)**

2007-8 The Sheriff's Office Lacked Adequate Segregation Of Duties Over The Accounting Functions (Continued)

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 monthly reports.
- 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: No Response.*

2007-9 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 tax collections was not paid to the school districts until December 20, 2007 and the checks did not clear until January 18, 2008 and January 22, 2008. December interest payments to the school districts and fee account were dated January 3, 2008 but did not clear until February 15, 2008. Checks for all other interest payments to the schools were written on September 29, 2008, over two (2) months after the tax collection period had ended. Based on our computation of interest due to the school districts and fee accounts, the Sheriff overpaid interest to the Whitley County School Board and the Corbin Independent School District by a total of \$841 and \$606 respectively. Interest was overpaid to the 2008 fee account by \$2,633.

WHITLEY COUNTY  
LAWRENCE HODGE, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Period August 1, 2007 Through July 25, 2008  
(Continued)

**FINANCIAL STATEMENT FINDINGS (Continued)**

2007-9 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 (Continued)

Because the Sheriff lacked controls over the tax collection process in his office and he did not provide adequate oversight in this area, this situation was allowed to occur.

Furthermore, the school districts did 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 refunds of \$841 and \$606 from the Whitley County School Board and the Corbin Independent School District respectively for these overpayments of interest. In addition \$2,633 should be transferred back from the 2008 fee account for overpayment of interest. 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: No Response.*

2007-10 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. Between June 2, 2008 and July 31, 2008 the Sheriff made three (3) loans totaling \$58,000 to his 2008 fee account from the 2007 tax account. These loans were all subsequently transferred back to the 2007 tax account.

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.

WHITLEY COUNTY  
 LAWRENCE HODGE, SHERIFF  
 COMMENTS AND RECOMMENDATIONS  
 For The Period August 1, 2007 Through July 25, 2008  
 (Continued)

**FINANCIAL STATEMENT FINDINGS (Continued)**

2007-10 The Sheriff Should Not Loan Money To The Fee Account From The Tax Account (Continued)

---

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 (10<sup>th</sup>) 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: No Response*

2007-11 The Sheriff Should Settle 2007 Taxes

Based on available records, the Sheriff owes the following known additional amounts to the taxing districts for 2007 taxes:

State	\$ 418
Corbin Independent School	298

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

County	\$2,064
Whitley County School Board	7,864
Library District	2,663
Health District	994
Extension District	2,219
Soil Conservation District	52

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.

WHITLEY COUNTY  
LAWRENCE HODGE, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Period August 1, 2007 Through July 25, 2008  
(Continued)

**FINANCIAL STATEMENT FINDINGS (Continued)**

2007-11 The Sheriff Should Settle 2007 Taxes (Continued)

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: No Response.*

2007-12 The Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of \$183,685 And Enter Into A Written Agreement To Protect Deposits

On December 24, 2007, \$183,685 of the Sheriff's deposits of public funds were uninsured and unsecured. According to KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). We recommend the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (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.

*Sheriff's Response: No Response.*

2007-13 The Sheriff Should Not Have Collected Taxes Before Signing The Official Receipt

Based on our review of the Sheriff's bank statements, the Sheriff's office made its first deposit for 2007 tax collections on November 7, 2007. Monthly tax reports were prepared for November and December 2007 and January 2008. However the Sheriff did not sign the official receipt for tax bills until January 31, 2008, almost three months after the tax collections began.

KRS 134.140 (1) states, "The sheriff shall not receive or receipt any taxes until the tax bills have been delivered to him by the county clerk as provided in KRS 133.220 and 133.230." KRS 133.220 (1)(2) states, "The Department of Revenue annually shall furnish to each county clerk tax bill forms designed for adequate accounting control sufficient to cover the taxable property on the rolls. After receiving the forms, the county clerk shall prepare for the use of the sheriff or collector a correct tax bill for each taxpayer in the county whose property has been assessed and whose valuation is included in the certification provided in KRS 133.180." KRS 133.220 (3) states, "Tax bills prepared in accordance with the certification of the Department of Revenue shall be delivered to the sheriff or collector by the county clerk before September 15 of each year.

WHITLEY COUNTY  
LAWRENCE HODGE, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Period August 1, 2007 Through July 25, 2008  
(Continued)

**FINANCIAL STATEMENT FINDINGS (Continued)**

2007-13 The Sheriff Should Not Have Collected Taxes Before Signing The Official Receipt  
(Continued)

---

The clerk shall take a receipt showing the number of tax bills and the total amount of tax due each taxing district as shown upon the tax bills. The receipt shall be signed and acknowledged by the sheriff or collector before the county clerk, filed with the county judge/executive, and recorded in the manner required by law for recording the official bond of the sheriff.”

Auditors were informed that the tax bills were prepare, printed, and then delivered to the Sheriff by the Property Valuation Administrator before an official receipt was prepared. The official receipt was prepared at a later date by the Property Valuation Administrator and given to the County Clerk to be signed by the Sheriff.

We recommend the Sheriff refrain from collecting any taxes bills, other than franchise tax bills, until after an official receipt, prepared by the County Clerk, has been signed. Printed tax bills should be delivered to the County Clerk and the County Clerk should not deliver them to the Sheriff’s office until the official receipt is signed.

*Sheriff’s Response: No Response.*

