

**REPORT OF THE AUDIT OF THE
FORMER WHITLEY COUNTY
SHERIFF'S SETTLEMENT - 2009 TAXES**

**For The Period
April 16, 2009 Through April 15, 2010**



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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FORMER WHITLEY COUNTY SHERIFF'S SETTLEMENT - 2009 TAXES

**For The Period
April 16, 2009 Through April 15, 2010**

The Auditor of Public Accounts was engaged to complete the audit of the Sheriff's Settlement - 2009 Taxes for the former Whitley County Sheriff for the period April 16, 2009 through April 15, 2010. As a result of this engagement, we have issued a disclaimer of opinion on the Whitley County Sheriff's Settlement - 2009 Taxes.

Report Comments:

- 2009-01 The Former Sheriff's Office Lacked Adequate Segregation Of Duties Over All Accounting Functions
- 2009-02 The Former Sheriff Did Not Reconcile Deposits To The Daily Collection Reports Or A Daily Receipts Journal And Did Not Properly Account For Second Notice Fees
- 2009-03 The Former Sheriff Should Not Have Collected Taxes Before Signing The Official Receipt
- 2009-04 The Former Sheriff Should Settle 2009 Taxes
- 2009-05 The Former Sheriff Should Settle Taxes For All Prior Years

Deposits:

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

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C R I T L U A L L E N
A U D I T O R O F P U B L I C A C C O U N T S

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable Pat White Jr., Whitley County Judge/Executive

Honorable Lawrence Hodge, Former Whitley County Sheriff

Honorable Colan Harrell, Whitley County Sheriff

Members of the Whitley County Fiscal Court

Independent Auditor's Report

We were engaged to audit the former Whitley County Sheriff's Settlement - 2009 Taxes for the period April 16, 2009 through April 15, 2010. This tax settlement is the responsibility of the former Whitley County Sheriff.

The former Sheriff did not provide us with a management representation letter and the County Attorney did not provide us with a legal representation letter.

Since we were unable to obtain management and legal representation letters as required by auditing standards, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the former Sheriff's Tax Settlement - 2009 Taxes for the period April 16, 2009 through April 15, 2010.

In accordance with Government Auditing Standards, we have also issued our report June 10, 2011, on our consideration of the former Sheriff's internal control over financial reporting and on our tests of 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.

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

- 2009-01 The Former Sheriff's Office Lacked Adequate Segregation Of Duties Over All Accounting Functions
- 2009-02 The Former Sheriff Did Not Reconcile Deposits To The Daily Collection Reports Or A Daily Receipts Journal And Did Not Properly Account For Second Notice Fees



To the People of Kentucky

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Lori H. Flanery, Secretary

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Honorable Lawrence Hodge, Former Whitley County Sheriff

Honorable Colan Harrell, Whitley County Sheriff

Members of the Whitley County Fiscal Court

2009-03 The Former Sheriff Should Not Have Collected Taxes Before Signing The Official Receipt

2009-04 The Former Sheriff Should Settle 2009 Taxes

2009-05 The Former Sheriff Should Settle Taxes For All Prior Years

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen

Auditor of Public Accounts

June 10, 2011

WHITLEY COUNTY
LAWRENCE HODGE, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2009 TAXES

For The Period April 16, 2009 Through April 15, 2010

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 728,165	\$ 1,409,653	\$ 2,537,457	\$ 1,139,465
Tangible Personal Property	122,185	337,204	161,537	342,375
Fire Protection	4,013			
Increases Through Exonerations	26	51	130	41
Franchise Taxes	93,483	228,429	367,219	
Additional Billings	5,016	12,754	19,267	8,815
Unmined Coal - 2009 Taxes	1,384	2,678	6,847	2,164
Oil and Gas Property Taxes	38,873	75,254	192,372	60,802
Limestone, Sand and Mineral Reserves	108	208	533	168
Penalties	6,910	13,507	24,621	11,403
Adjusted to Sheriff's Receipt	(211)	(128)	221	(1,221)
Gross Chargeable to Sheriff	999,952	2,079,610	3,310,204	1,564,012
 <u>Credits</u>				
Exonerations	8,689	16,996	39,116	15,340
Discounts	12,472	26,204	37,574	20,586
Delinquents:				
Real Estate	54,161	104,266	219,592	84,241
Tangible Personal Property	2,750	7,591	10,113	22,946
Unmined Coal - 2009 Taxes	48	93	238	75
Franchise Taxes	1,656	3,607	5,290	
Total Credits	79,776	158,757	311,923	143,188
Taxes Collected	920,176	1,920,853	2,998,281	1,420,824
Less: Commissions (a)	39,107	81,636	119,931	60,385
Taxes Due	881,069	1,839,217	2,878,350	1,360,439
Taxes Paid	879,946	1,837,166	2,874,545	1,358,803
Refunds (Current and Prior Year)	1,096	2,064	3,641	1,718
Due Districts or (Refunds Due Sheriff) as of Completion of Audit	\$ 27	\$ (13)	\$ 164	\$ (82)

(a), (b), and (c) See Next Page.

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

WHITLEY COUNTY
 LAWRENCE HODGE, FORMER SHERIFF
 SHERIFF'S SETTLEMENT - 2009 TAXES
 For The Period April 16, 2009 Through April 15, 2010
 (Continued)

(a) Commissions:

4.25% on \$ 4,261,853
 4% on \$ 2,998,281

(b) Special Taxing Districts:

Library District	\$	(4)
Health District		(3)
Extension District		(5)
Soil District		(1)
		<hr/>

(Refunds Due Sheriff)	\$	<u>(13)</u>
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(c) School Districts:

Whitley County Board of Education	\$	158
Corbin Independent School		6
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Due Districts	\$	<u>164</u>
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WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2010

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 former 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.

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENT
April 15, 2010
(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 did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of April 15, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2009. Property taxes were billed to finance governmental services for the year ended June 30, 2010. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 2, 2009 through April 15, 2010. The beginning collection date is the date the first deposit of tax collections was made to the former Sheriff's official 2009 tax account. The former Sheriff's original official receipt was dated December 7, 2009. It was signed by the former Sheriff and certified by the County Clerk on December 7, 2009 but was subsequently amended three (3) times. The final amended official receipt was dated May 24, 2010. It was signed by the former Sheriff and certified by the County Clerk on May 26, 2010.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2009. 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 18, 2010 through June 28, 2010.

C. Oil, Gas, and Limestone Taxes

The real and personal property tax assessments were levied as of January 1, 2009. Property taxes were billed to finance governmental services for the year ended June 30, 2010. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 4, 2009 through April 15, 2010.

Note 4. Interest Income

The former Whitley County Sheriff earned \$5,266 in interest income on 2009 taxes. The former Sheriff distributed to the school district as required by statute, and the remainder was used to operate the former Sheriff's office. As of April 15, 2011, the former Sheriff owed additional interest of \$177 to his 2010 fee account and is due refunds of \$148 and \$58 from the Whitley County School Board and Corbin Independent School, respectively for overpayments of interest.

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENT
April 15, 2010
(Continued)

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

The former Whitley County Sheriff collected \$44,977 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the former Sheriff's office. As of April 15, 2011 the Sheriff owed \$123 in 10% add-on fees to his fee account.

Note 6. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

As of April 15, 2010, the former Sheriff had an unexplained surplus of \$1,440 in his 2009 tax account. In addition, as of April 15, 2009 the former Sheriff had an unexplained surplus of \$11,850 in his 2008 tax account.

In prior years, the former Sheriff deposited unrefundable duplicate payments and unexplained receipts in an interest-bearing account. The following are noted:

- As of April 15, 2009, the former 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 2009 tax collection period no disbursements were made from this surplus. As of April 15, 2010, the balance in the former Sheriff's escrow account relating to surplus prior to the 2003 tax collection period was \$10, 977.
- As of April 15, 2009, the former Sheriff's escrow account included \$1,587 for un-refundable duplicate payments and unexplained receipts from 2003 tax collections. During the 2009 tax collection period one (1) disbursement of \$9 was made from this surplus. As of April 15, 2010, the balance in the former Sheriff's escrow account relating to the 2003 tax collection period was \$1,578.
- As of April 15, 2009, the former Sheriff's escrow account included \$7,406 for un-refundable duplicate payments and unexplained receipts from 2004 tax collections and accumulated interest earned on the account balance. During the 2009 tax collection period, the former Sheriff earned additional interest totaling \$54 on these funds and no disbursements were made from this surplus. As of April 15, 2010, the balance in the former Sheriff's escrow account relating to the 2004 tax collection period was \$7,460.

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 in accordance with KRS 393.110 along with a written report. Currently escrow funds relating to tax collection periods prior to 2003, 2003, and 2004 are due to the Kentucky State Treasurer.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
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, Former Whitley County Sheriff
Honorable Colan Harrell, 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 former Whitley County Sheriff's Settlement - 2009 Taxes for the period April 16, 2009 through April 15, 2010, and have issued our report thereon date, June 10, 2011, wherein we disclaimed an opinion on the financial statement because we were not provided management and 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 former 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 former Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the former 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2009-01 and 2009-02 to be material weaknesses.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the former Whitley County Sheriff's Settlement - 2009 Taxes for the period April 16, 2009 through April 15, 2010, 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 as items 2009-03, 2009-04, and 2009-05.

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

June 10, 2011

COMMENTS AND RECOMMENDATIONS

WHITLEY COUNTY
LAWRENCE HODGE, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period April 16, 2009 Through April 15, 2010

FINANCIAL AUDIT FINDINGS:

2009-01 The Former Sheriff's Office Lacked Adequate Segregation Of Duties Over All Accounting Functions

A lack of adequate segregation of duties exists over all accounting functions. During review of internal controls, we noted that the former Sheriff's bookkeeper collected tax payments, prepared deposits, and prepared daily tax collection journals. The bookkeeper also prepared the monthly reports, prepared and mailed payments to the taxing districts, and prepared monthly bank reconciliations. Although she did not sign any, the bookkeeper also had the authority to sign checks for which dual signatures were not required. The former Sheriff did not provide strong oversight or compensating controls to offset this.

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

- The former Sheriff did not distribute proper amounts for interest to the school districts and his fee account.
- The former Sheriff did not reconcile deposits to daily collection report or a daily receipts journal.
- The former Sheriff had an unexplained surplus of \$1,440 in his 2009 tax account

A segregation of duties over various accounting functions, such as opening mail, collecting cash, preparing bank deposits, writing checks, reconciling bank records to the tax collection 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 inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

Former Sheriff's Response: No Response.

2009-02 The Former Sheriff Did Not Reconcile Deposits To The Daily Collection Reports Or A Daily Receipts Journal And Did Not Properly Account For Second Notice Fees

During our testing of daily receipts, we noted that although the former Sheriff's office made daily deposits in tact and in a timely manner and maintained copies of daily collection sheet reports and paid tax bills, deposit variances were not explained. In addition, the Sheriff did not maintain a cash receipts journal for tax collections.

Due to prior year findings, auditors expanded normal receipts testing for the 2009 tax year to include one (1) day for each month of tax collections for a total of seven (7) days, which were chosen at random. Each day selected was tested by tracing the amounts collected per the daily collection reports generated by the former Sheriff's computer system to the cash and checks per the deposit details auditors obtained directly from the former Sheriff's financial institution. In addition, the auditors compared the applied amount (amount reported) on the daily collection reports to the actual amount deposited.

WHITLEY COUNTY
 LAWRENCE HODGE, FORMER SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Period April 16, 2009 Through April 15, 2010
 (Continued)

FINANCIAL AUDIT FINDINGS: (Continued)

2009-02 The Former Sheriff Did Not Reconcile Deposits To The Daily Collection Reports Or A Daily Receipts Journal And Did Not Properly Account For Second Notice Fees
 (Continued)

Based upon our testing of those seven (7) daily receipt reports, we noted the following that were not reconciled or explained:

- Fourteen (14) taxpayers paid the face value of the tax bills during the two-percent (2%) discount period that were not refunded by the former Sheriff's office.
- One (1) taxpayer paid the 5% penalty of the tax bill during the face value period that was later refunded by the former Sheriff's office.
- One (1) taxpayer over paid their tax bill during the face value period that was not refunded by the former Sheriff's office.
- One (1) taxpayer over paid their tax bill during the 5% penalty period that was not refunded by the former Sheriff's office.
- One (1) taxpayer over paid their tax bill during the 5% penalty period that was later refunded by the former Sheriff's office.
- Six (6) taxpayers over paid their tax bills during the 10% penalty period. Two of those taxpayers were later refunded by the former Sheriff's office.
- Seven (7) taxpayers paid a five dollar (\$5) second notice fee during the 10% penalty period that was not refunded by the former Sheriff's office. Also, these fees were not turned over to the Fiscal Court.
- Total overages for these seven (7) days totaled \$105, less amounts uncollected of \$1, leaving a net total of overages of \$104.

According to the former Sheriff's bookkeeper, the five-dollar (\$5) second notice fees were not collected by the former Sheriff's office for the 2009 tax year. Although they were not collected consistently, as noted above, these fees were collected on some tax bills. KRS 134.122 does not prohibit the Sheriff's office from sending second notices to delinquent taxpayers, but since the fiscal court pays the vendor for the tax software program, including any additional charges for mailing second notice fees, any fees collected by the former Sheriff's office for this service should have been remitted to the fiscal court. Auditors were unable to determine how much was collected because there were no reports generated for these fees. In addition, no payments were made to the former Sheriff's fee account or to the fiscal court.

It is noted that there was a surplus in the 2009 tax account of \$1,440. However, auditors were unable to determine the total amount of five-dollar (\$5) second notice fees that should have been remitted to the fiscal court or the total amount of refunds that may be due to taxpayers. Therefore, we cannot be certain whether this surplus amount is sufficient to cover all second notice fees collected and refunds that may be due to taxpayers. We recommend the former Sheriff transfer the surplus funds to the current Sheriff to be put into escrow for three (3) years in accordance with KRS 393.110. During this time period, the current Sheriff should submit an annual report to the Treasury Department. If after three (3) years, these funds have not been claimed, they should be sent to the Kentucky State Treasurer in accordance with KRS 393.110.

Former Sheriff's Response: No Response.

WHITLEY COUNTY
 LAWRENCE HODGE, FORMER SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Period April 16, 2009 Through April 15, 2010
 (Continued)

FINANCIAL AUDIT FINDINGS: (Continued)

2009-03 The Former Sheriff Should Not Have Collected Taxes Before Signing The Official Receipt

Based upon our review of the former Sheriff's bank statements, the former Sheriff's office made its first deposit for the regular 2009 tax collections on October 2, 2009. Monthly reports were prepared for October and November 2009. However, the former Sheriff did not sign the official receipt for regular tax bills until December 7, 2009, two months after the tax collections began. Auditors noted that this official receipt was incorrect, and three (3) additional amendments were subsequently made to the official receipt with the final amendment signed by the former Sheriff on May 26, 2010.

KRS 134.119(3)(a) states, "[t]he sheriff shall accept payment from the day on which the tax bills are mailed by the sheriff to the taxpayer as provided in KRS 133.220 and 133.330" KRS 133.220(1) and (2) state, "[t]he 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, "[t]ax 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. 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 order book of the county judge/executive in the manner required by law for recording the official bond of the sheriff."

Former Sheriff's Response: No Response.

2009-04 The Former Sheriff Should Settle 2009 Taxes

Based upon available records, the former Sheriff owes the following known amounts to the taxing districts for 2009 taxes:

Whitley County Fiscal Court	\$	27
Whitley County Board of Education		158
Corbin Independent School District		6

WHITLEY COUNTY
 LAWRENCE HODGE, FORMER SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Period April 16, 2009 Through April 15, 2010
 (Continued)

FINANCIAL AUDIT FINDINGS: (Continued)

2009-04 The Former Sheriff Should Settle 2009 Taxes (Continued)

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

State	\$	82
Library District		4
Health District		3
Extension District		5
Soil District		1

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

Former Sheriff's Response: No Response.

2009-05 The Former Sheriff Should Have Settled Taxes For All Prior Years

During the 2009 tax settlement audit, we followed up on prior year tax settlement audits to determine whether the former Sheriff had deposited all deficit amounts from personal funds, obtained all refunds due from the taxing districts, and paid all additional amounts due. We obtained and reviewed bank statements for the 2005, 2006, 2007, and 2008 tax accounts from the dates the audits were completed through March 14, 2011. We noted the following:

- As of March 14, 2011, the former Sheriff's 2005 tax account had a balance of \$1,106. Based on our follow-up, receivables of \$2,091 remained uncollected and liabilities totaling \$20,619 had not been paid. In addition the former Sheriff had not deposited personal funds to eliminate the reported known deficit of \$17,422.
- As of March 14, 2011, the former Sheriff's 2006 tax account had a balance of \$5,996. This balance included \$187 in additional interest earned on the account balance since the audit was completed. This additional interest should be paid to the fiscal court. Based on our follow-up, receivables of \$4,171 remained uncollected and liabilities totaling \$67,603 had not been paid. In addition, the former Sheriff had not deposited personal funds to eliminate the reported known deficit of \$54,444. The Sheriff expended an additional \$2,784 for a refund to a taxpayer and an additional \$395 to the county court clerk for a 2006 tax bill that was turned over as delinquent but had been paid to the former Sheriff during the 2006 tax collection period. Since these additional expenditures were not accounted for when the 2006 tax audit was completed, the known deficit increased to \$57,623.

WHITLEY COUNTY
LAWRENCE HODGE, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period April 16, 2009 Through April 15, 2010
(Continued)

FINANCIAL AUDIT FINDINGS: (Continued)

2009-05 The Former Sheriff Should Have Settled Taxes For All Prior Years (Continued)

- As of March 14, 2011, the former Sheriff's 2007 tax account had a balance of \$24,561. This balance included \$186 in additional interest earned on the account balance since the audit was completed and \$281 for a 2005 tax refund due. The additional interest should be paid to the fiscal court and the 2005 tax refund should be transferred to the 2005 tax account. Based on our follow-up, receivables of \$37,454 had not been transferred from the 2006 and 2008 fee accounts and liabilities totaling \$149,137 had not been paid. In addition, the former Sheriff had not deposited personal funds to eliminate the reported known deficit of \$87,589.
- As of March 14, 2011, the former Sheriff's 2008 tax account had a balance of \$9,125. This balance included \$7 in additional interest earned on the account since the 2008 audit was completed. This additional interest should be paid to the fiscal court. Based on our follow-up, receivables of \$14,717 remained uncollected and liabilities of \$11,985 had not been paid. In addition, the former Sheriff had not deposited an unexplained surplus of \$11,850 into an interest bearing escrow account.

We recommend the former Sheriff settle all prior year taxes by depositing personal funds for all known deficit amounts, obtaining refunds for all amounts due from the taxing districts, paying all amounts due, and transferring amounts due from other accounts for each tax year. We also recommend that once all amounts due to the 2008 have been deposited and all liabilities paid, the former Sheriff transfer the surplus in the 2008 tax account to the current Sheriff to be escrowed.

Former Sheriff's Response: No Response.

