REPORT OF THE AUDIT OF THE BRACKEN COUNTY SHERIFF'S SETTLEMENT - 2000 TAXES

April 14, 2001

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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE
BRACKEN COUNTY
SHERIFF'S SETTLEMENT - 2000 TAXES

April 14, 2001

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2000 Taxes for Bracken County Sheriff as of April 14, 2001. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected net taxes of $2,059,866 for the districts for 2000 taxes. The Sheriff distributed taxes of $1,983,138 to the districts for 2000 taxes.

Report Comment:

- Lacks Adequate Segregation Of Duties

Deposits:

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

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To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Dwayne Jett, Bracken County Judge/Executive
Honorable Mike Nelson, Bracken County Sheriff
Members of the Bracken County Fiscal Court

Independent Auditor's Report

We have audited the Bracken County Sheriff's Settlement - 2000 Taxes as of April 14, 2001. This tax settlement is the responsibility of the Bracken County Sheriff. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Bracken County Sheriff's taxes charged, credited, and paid as of April 14, 2001, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated October 3, 2002, 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 grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

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Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment.

- Lacks Adequate Segregation Of Duties

Respectfully submitted,

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
October 3, 2002

BRACKEN COUNTY
MIKE NELSON, SHERIFF
SHERIFF'S SETTLEMENT - 2000 TAXES

April 14, 2001

Charges	County Taxes	Special Taxing Districts	School Taxes	State Taxes
Real Estate	$ 337,117	$ 299,061	$ 744,128	$ 245,018
Tangible Personal Property	26,892	20,243	52,206	40,492
Intangible Personal Property				8,144
Increased Through Erroneous Assessments	32	28	65	23
Current Year Franchise	91,576	71,679	122,752	
Prior Years Franchise	27,519	22,925	42,501	
Additional Billings	49	44	100	2,090
Bank Franchises	21,410			
Penalties	3,689	3,236	7,851	2,468
Adjusted to Sheriff's Receipt	20	7		5
Gross Chargeable to Sheriff	$ 508,304	$ 417,223	$ 969,603	$ 298,240
Credits				
Exonerations	$ 623	$ 552	$ 1,406	$ 460
Discounts	4,810	4,099	10,312	3,882
Delinquents:				
Real Estate	6,503	5,769	14,072	4,726
Tangible Personal Property	101	76	184	106
Current Year Franchise Uncollected	23,573	19,393	31,888	
Prior Year Franchise Uncollected	334	254	381	
Total Credits	$ 35,944	$ 30,143	$ 58,243	$ 9,174
Net Tax Yield	$ 472,360	$ 387,080	$ 911,360	$ 289,066
Less: Commissions *	20,363	16,451	27,341	12,573
Net Taxes Due	$ 451,997	$ 370,629	$ 884,019	$ 276,493
Taxes Paid	451,997	370,629	884,019	276,493
Due Districts or (Refund Due Sheriff) as of Completion of Fieldwork	$ 0	$ 0	$ 0	$ 0

* Commissions:

10% on	$	10,000
4.25% on	$	1,138,506
3% on	$	911,360

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

BRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT

April 14, 2001

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and 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 met, and as of April 14, 2001, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

Note 3. Property Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2000. Property taxes were billed to finance governmental services for the year ended June 30, 2001. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 29, 2000 through April 14, 2001.

Note 4. Interest Income

The Bracken County Sheriff earned $2,723 as interest income on 2000 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

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

The Bracken County Sheriff collected $12,236 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Bracken County Sheriff collected $425 of advertising costs and $425 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After seven years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2000 taxes, the Sheriff had $226 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

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COMMENT AND RECOMMENDATION

BRACKEN COUNTY
MIKE NELSON, SHERIFF
COMMENT AND RECOMMENDATION

April 14, 2001

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

Lacks Adequate Segregation Of Duties

We noted the lack of an adequate segregation of duties for the internal control structure and its operation that in our judgment is a reportable condition under standards established by the American Institute of Certified Public Accountants. Due to the entity's diversity of official operations, small size, and budget restrictions the official has few options for establishing an adequate segregation of duties. Management has considered and rejected additional cost when setting budget limits on spending for salaries and therefore accepts the degree of risk for a lack of an adequate segregation of duties. Therefore the Auditor of Public Accounts has judged the lack of an adequate segregation of duties as a reportable condition and a material weakness.

Because of the limitations of the Sheriff's office it appears that only compensating controls may achieve a proper segregation of duties. Compensating controls require the Sheriff's direct supervision over receipts and disbursements and includes but, is not limited to the following:

1) Cash recounted and deposited by the Sheriff.
2) Surprise cash counts by the Sheriff.
3) Reconciliation by the Sheriff of daily collection reports to the receipts ledger and deposit slip.
4) Reconciliation by the Sheriff of monthly collection reports to the receipts ledger and disbursements ledger.
5) Requiring dual signatures on checks with one being that of the Sheriff.
6) Periodic Examination by the Sheriff of tax distributions prepared by another employee.
7) Delivery by the Sheriff of tax distribution checks and monthly tax reports to the taxing districts.
8) Sheriff receiving signed receipt documenting delivery.

We recommend that these controls be performed in order to offset a lack of adequate segregation of duties. Documentation of these controls should be maintained for the auditor in order to verify their existence.

Sheriff's Response:

We are currently performing the above recommendations 1, 3, 4, and 5.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the Bracken County Sheriff's Settlement - 2000 Taxes as of April 14, 2001, and have issued our report thereon dated October 3, 2002. 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.

Compliance

As part of obtaining reasonable assurance about whether the Bracken County Sheriff's Settlement - 2000 Taxes as of April 14, 2001 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Bracken County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
October 3, 2002