REPORT OF THE AUDIT OF THE
LEE COUNTY
SHERIFF'S SETTLEMENT - 2008 TAXES

For The Period
May 2, 2008 Through June 1, 2009

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Morgan-Franklin, LLC
Certified Public Accountants

749 Broadway Street
P.O. Box 428
West Liberty, KY 41472

Brenda K. Morgan, CPA
Jody B. Franklin, CPA

Phone: (606) 743-1884
Fax: (606) 743-1895
www.morganfranklincpa.com

To the People of Kentucky
Honorable Steven L Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Steve Mays, Lee County Judge/Executive
Honorable Donnie Hogan, Lee County Sheriff
Members of the Lee County Fiscal Court

Independent Auditor's Report

We have audited the Lee County Sheriff's Settlement - 2008 Taxes for the period May 2, 2008 through June 1, 2009. This tax settlement is the responsibility of the Lee County Sheriff. Our responsibility is to express an opinion on this 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 in accordance with the modified cash basis, 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 Lee County Sheriff's taxes charged, credited, and paid for the period May 2, 2008 through June 1, 2009, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated October 8, 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 Steve Mays, Lee County Judge/Executive
Honorable Donnie Hogan, Lee County Sheriff
Members of the Lee County Fiscal

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

- 2008-1 Condition: The Sheriff's Office Should Complete His Tax Sale Before April 30 Of Each Year
- 2008-2 Condition: The Sheriff's Office Should Remit The Amount Of Interest Due To The School Board Monthly
- 2008-3 Condition: The Sheriff Should Escrow 2007 Tax Settlement Unexplained Receipts
- 2008-4 Condition: The Sheriff Should Escrow 2006 Tax Settlement Unexplained Receipts
- 2008-5 Condition: The Sheriff's Office Lacks Adequate Segregation of Duties
- 2008-6 Condition: The Sheriff Should Transfer Tax Commissions To The Fee Account Timely
- 2008-7 Condition: The Bookkeeper Should Prepare Monthly Bank Reconciliations For All Bank Accounts

Respectfully submitted,

Morgan - Franklin, LLC

Morgan- Franklin, LLC

October 8, 2009

LEE COUNTY
DONNIE HOGAN, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2008 TAXES

For The Period May 2, 2008 Through June 1, 2009

Charges	County Taxes	Special Taxing Districts	School Taxes	State Taxes
Real Estate	$ 782,341	$ 333,700	$ 500,550	$ 226,174
Tangible Personal Property	140,994	39,100	43,495	46,857
Fire Protection	2,327			
Franchise Corporation	311,874	95,550	118,765	
Additional Billings	3,434	1,087	1,358	403
Bank Franchises	18,692			
Penalties	12,263	5,149	7,691	3,642
Adjusted to Sheriff's Receipt	2,279	1,019	1,935	614
Gross Chargeable to Sheriff	1,274,204	475,605	673,794	277,690
Credits				
Exonerations	5,486	2,327	3,482	1,599
Discounts	12,608	4,814	6,960	3,326
Delinquents:				
Real Estate	19,700	8,373	12,560	5,675
Tangible Personal Property	3,479	965	1,073	1,356
Total Credits	41,273	16,479	24,075	11,956
Taxes Collected	1,232,931	459,126	649,719	265,734
Less: Commissions *	52,687	19,513	25,989	11,581
Taxes Due	1,180,244	439,613	623,730	254,153
Taxes Paid	1,178,485	439,074	623,211	253,770
Refunds (Current and Prior Year)	381	133	187	75
Due Districts or (Refunds Due Sheriff) as of Completion of Fieldwork	$ 1,378	** $ 406	$ 332	$ 308

* and ** See Page 4

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

LEE COUNTY
DONNIE HOGAN, SHERIFF
SHERIFF'S SETTLEMENT – 2008 TAXES
For The Period May 2, 2008 Through June 1, 2009
(Continued)

* Commissions:

10% on	$	10,000
4.25% on	$	1,947,790
4% on	$	649,718

** Special Taxing Districts:

Library District	$	234
Health District		60
Extension District		109
Soil Conservation District		3
Due Districts or (Refunds Due Sheriff)	$	406

LEE COUNTY
NOTES TO FINANCIAL STATEMENT

June 1, 2009

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. The Sheriff follows the guidance of the Audit Guide for Sheriff Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky, which does not require a management discussion and analysis or budgetary comparison information.

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 Lee 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.

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 1, 2009
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution's failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 1, 2009, the Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement.

Deposits Covered By FDIC	$ 53,722
Total Deposits at 6/1/09	$ 53,722

*Pledged securities held by a third party bank in the county officials name.

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2008. Property taxes were billed to finance governmental services for the year ended June 30, 2009. Liens are effective when the tax bills become delinquent. The collection period for these assessments was May 2, 2008 through June 1, 2009.

Note 4. Interest Income

The Lee County Sheriff earned $530 as interest income on 2008 taxes. As of June 1, 2009, the Sheriff owed $127 in interest to the school district and $403 in interest to his fee account.

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

The Lee County Sheriff collected $27,009 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 Lee County Sheriff collected $28,746 of advertising costs and 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 were 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 three years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2008 taxes, the Sheriff had $321 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department. $1,860 and $53 should have been escrowed for the 2006 and 2007 tax years, respectively.

Note 8. Related Parties

The County Finance Officer is one of the Sheriff's sisters. She reviews timesheets and invoices from the Sheriff's office prior to payment. The Property Valuation Administrator is also his sister and prepares tax bills for the Sheriff's Department.

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

Morgan-Franklin, LLC
Certified Public Accountants

749 Broadway Street
P.O. Box 428
West Liberty, KY 41472

Brenda K. Morgan, CPA
Jody B. Franklin, CPA

Phone: (606) 743-1884
Fax: (606) 743-1895
www.morganfranklincpa.com

To Honorable Steve Mays, Lee County Judge/Executive
Honorable Donnie Hogan, Lee County Sheriff
Members of the Lee 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 have audited the Lee County Sheriff's Settlement - 2008 Taxes for the period May 2, 2008 through June 1, 2009, and have issued our report thereon dated October 8, 2009. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. 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 Lee 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 Lee County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Lee 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 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 following deficiencies described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting: 2008-5, 2008-6 and 2008-7.

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 Lee County Sheriff's Settlement - 2008 Taxes for the period May 2, 2008 through June 1, 2009, 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 2008-1, 2008-2, 2008-3, and 2008-4.

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

This report is intended solely for the information and use of management, the Lee 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,

Morgan - Franklin, LLC

Morgan-Franklin, LLC

October 8, 2009

COMMENTS AND RECOMMENDATIONS

LEE COUNTY
DONNIE HOGAN, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period May 2, 2008 Through June 1, 2009

STATE LAWS AND REGULATIONS:

2008-1 Condition: The Sheriff's Office Should Complete His Tax Sale Before April 30 Of Each Year

Criteria: Per KRS 134.325 each sheriff shall conduct the sale of delinquent tax bills required by KRS 134.430 and make his records available for settlement with the Department of Revenue for all taxes collected for the Commonwealth before April 30 of each year during his term of office.

Effect: Noncompliance with KRS 134.325.

Cause: Unknown.

Recommendation: We recommend that the sheriff complete his tax sale before April 30 of each year.

Sheriff's Response: We will try but paperwork sometimes makes schedules impossible.

2008-2 Condition: The Sheriff's Office Should Remit The Amount Of Interest Due To The School Board Monthly

Criteria: KRS 134.140(3)(b) states that at the time of his monthly distribution of taxes to the district board of education, the sheriff shall pay to the board of education that part of his investment earnings for the month which is attributable to the investment of school taxes...

Effect: The School District is owed $126.69 as of June 1, 2009.

Cause: Lack of monitoring interest due to the School Board.

Recommendation: We recommend that the sheriff's office remit the amount of interest due to the school board monthly.

Sheriff's Response: We will start paying interest monthly immediately.

2008-3 Condition: The Sheriff Should Escrow 2007 Tax Settlement Unexplained Receipts

For the 2007 tax year, the Sheriff had $53 in unrefundable duplicate payments and unexplained receipts that were not escrowed.

Criteria: According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed monies. After three years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer.

Effect: The escrow account is underfunded, and the Treasury Department has not been notified of unclaimed monies for the 2007 tax year.

Cause: The sheriff does not have a corrective action plan for prior year findings.

Recommendation: We recommend the Sheriff escrow 2007 Tax Settlement unexplained receipts in accordance with the 2007 Tax Settlement audit.

Sheriff's Response: We are planning to write letter to Treasury on Escrow Account.

2008-4 Condition: The Sheriff Should Escrow 2006 Tax Settlement Unexplained Receipts

Per the Sheriff's 2006 Tax Settlement Audit, the sheriff should have escrowed $1,860 in unrefundable duplicate payments in accordance with KRS 393.110.

Criteria: According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed monies. After three years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer.

Effect: The escrow account is underfunded, and the Treasury Department has not been notified of unclaimed monies for the 2006 tax year.

Cause: The sheriff does not have a corrective action plan for prior year findings.

Recommendation: We recommend the Sheriff escrow prior year unexplained receipts in accordance with the 2006 tax settlement audit.

Sheriff's Response: We are planning to write letter to Treasury on Escrow Account.

SIGNIFICANT DEFICIENCIES - MATERIAL WEAKNESSES:

2008-5 Condition: The Sheriff's Office Lacks Adequate Segregation of Duties

The Sheriff's office lacks a proper segregation of duties because the bookkeeper receives all funds, prepares the daily checkout sheets, and also prepares the bank deposits. In addition, the bookkeeper records the receipts in the receipts ledger, prepares and signs the checks, posts to the disbursements ledgers, prepares bank reconciliations and quarterly financial statements.

Criteria: Good internal controls dictate the same employee should not handle, record and reconcile receipts.

Effect: Misappropriation of assets could occur.

SIGNIFICANT DEFICIENCIES - MATERIAL WEAKNESSES (CONTINUED):

Cause: The current design in the internal control structure does not reduce the level of risk that errors and fraud may occur and not be detected within a timely period by employees in the normal course of performing their assigned duties.

Recommendation: We recommend that the Sheriff segregate these duties or implement the following compensating controls:

- The Sheriff should periodically recount and make the deposit.
- The Sheriff should perform surprise cash counts.
- The Sheriff should reconcile monthly reports to source documents and the receipts and disbursements ledger.
- The Sheriff should attach tax bills to the daily checkout sheet.

These procedures provide evidence for comparison of source documents to the receipts ledger when compensating controls are enacted. These compensating controls should also be documented by initialing source documents.

Sheriff's Response: We will try to do some surprise checks.

2008-6 Condition: The Sheriff Should Transfer Tax Commissions To The Fee Account Timely

As of June 1, 2009 the Sheriff Fee Account is owed $11,945.31, for tax commissions not transferred over during the 2008 tax year.

Criteria: It is a good internal control policy for the Sheriff to transfer tax commissions to the fee account timely. Since the Lee County Sheriff is a fee pooling Sheriff, this would allow the Sheriff to remit more fees to the Fiscal Court more quickly to off set bills paid by the Fiscal Court.

Effect: The money was not remitted to the fiscal court in which, they could have used for operating expenses for the Sheriff's Office.

Cause: The Sheriff is not transferring commissions to the fee account timely. Monthly bank reconciliations are not prepared, therefore amount of cash in bank is not immediately known.

Recommendation: We recommend the Sheriff transfer tax commissions to the fee account timely.

Sheriff's Response: Bank statements will be done by Treasurer Monthly and we will transfer commissions timely.

LEE COUNTY
DONNIE HOGAN, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period May 2, 2008 Through June 1, 2009
(Continued)

SIGNIFICANT DEFICIENCIES - MATERIAL WEAKNESSES (CONTINUED):

2008-7 Condition: The Bookkeeper Should Prepare Monthly Bank Reconciliations For All Bank Accounts

During our audit, we noted that the Bookkeeper did not perform monthly bank reconciliations.

Criteria: Bank reconciliations are necessary to determine the amount of cash on had at the end of each month.

Effect: Cash on hand at the end of each month is unknown.

Cause: The bookkeeper utilizes a printout of all transactions from the bank, however this does not show the deposits in transit or outstanding checks.

Recommendation: We recommend that the Bookkeeper prepare monthly bank reconciliations for all bank accounts.

Sheriff's Response: Treasurer will make monthly bank reconciliations.