

**REPORT OF THE AUDIT OF THE
PIKE COUNTY
SHERIFF'S SETTLEMENT - 2011 TAXES**

**For The Period
April 19, 2011 Through April 17, 2012**



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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
PIKE COUNTY
SHERIFF'S SETTLEMENT - 2011 TAXES

For The Period
April 19, 2011 Through April 17, 2012

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2011 Taxes for the Pike County Sheriff for the period April 19, 2011 through April 17, 2012. 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 taxes of \$20,635,165 for the districts for 2011 taxes, retaining commissions of \$755,103 to operate the Sheriff's office. The Sheriff distributed taxes of \$19,879,421 to the districts for 2011 taxes. Taxes of \$503 are due to the districts from the Sheriff and refunds of \$1,646 are due to the Sheriff from the taxing districts.

Report Comment:

2011-01 The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

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

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable Wayne T. Rutherford, Pike County Judge/Executive

Honorable Charles E. Keesee, Pike County Sheriff

Members of the Pike County Fiscal Court

Independent Auditor's Report

We have audited the Pike County Sheriff's Settlement - 2011 Taxes for the period April 19, 2011 through April 17, 2012. This tax settlement is the responsibility of the Pike 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 Pike County Sheriff's taxes charged, credited, and paid for the period April 19, 2011 through April 17, 2012, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated February 7, 2013 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

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable Wayne T. Rutherford, Pike County Judge/Executive

Honorable Charles E. Keesee, Pike County Sheriff

Members of the Pike County Fiscal Court

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

2011-01 The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

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

Adam H. Edelen
Auditor of Public Accounts

February 7, 2013

PIKE COUNTY
CHARLES E. KEESEE, SHERIFF
SHERIFF'S SETTLEMENT - 2011 TAXES

For The Period April 19, 2011 Through April 17, 2012

<u>Charges</u>	Special			
	<u>County Taxes</u>	<u>Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 1,827,978	\$ 2,594,549	\$ 6,170,283	\$ 1,798,494
Tangible Personal Property	742,599	1,069,673	2,839,795	2,465,352
Fire Protection	7,500			
Delinquent Solid Waste	3,505,411			
Franchise Taxes:				
Current Year	178,331	255,655	732,569	
Prior Year	249,905	323,624	1,042,054	
Additional Billings	10,868	15,485	42,834	29,525
Limestone, Sand and Mineral Reserves	599	851	2,794	590
Penalties	20,442	21,823	60,756	17,802
Adjusted to Sheriff's Receipt	(463)	(613)	(1,853)	(410)
Gross Chargeable to Sheriff	<u>6,543,170</u>	<u>4,281,047</u>	<u>10,889,232</u>	<u>4,311,353</u>
<u>Credits</u>				
Exonerations	482,585	27,749	51,618	42,756
Discounts	47,195	63,883	158,656	68,684
Delinquents:				
Real Estate	132,283	187,704	539,057	130,165
Tangible Personal Property	9,401	13,538	33,886	31,591
Delinquent Solid Waste	2,836,772			
Franchise Taxes:				
Current Year - Delinquent & Uncollected	4	5	15	
Prior Year - Delinquent & Uncollected	79,618	97,841	354,631	
Total Credits	<u>3,587,858</u>	<u>390,720</u>	<u>1,137,863</u>	<u>273,196</u>
Taxes Collected	2,955,312	3,890,327	9,751,369	4,038,157
Less: Commissions *	<u>125,601</u>	<u>165,339</u>	<u>292,541</u>	<u>171,622</u>
Taxes Due	2,829,711	3,724,988	9,458,828	3,866,535
Taxes Paid	2,828,992	3,725,047	9,458,891	3,866,491
Refunds (Current and Prior Year)	<u>216</u>	<u>296</u>	<u>1,012</u>	<u>260</u>
Due District or (Refunds Due Sheriff) as of Completion of Audit	<u>\$ 503</u>	<u>\$ (355)</u>	<u>\$ (1,075)</u>	<u>\$ (216)</u>

* and ** See next page.

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

PIKE COUNTY
CHARLES E. KEESEE, SHERIFF
SHERIFF'S SETTLEMENT - 2011 TAXES
For The Period April 19, 2011 Through April 17, 2012
(Continued)

* Commissions:

4.25% on	\$	10,883,796
3% on	\$	9,751,369

** Special Taxing Districts:

Library District	\$	(136)
Health District		(113)
Extension District		<u>(106)</u>

(Refunds Due Sheriff)	\$	<u><u>(355)</u></u>
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PIKE COUNTY
NOTES TO FINANCIAL STATEMENT

April 17, 2012

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 Pike 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.

PIKE COUNTY
 NOTES TO FINANCIAL STATEMENT
 April 17, 2012
 (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 Pike County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 17, 2012, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2011. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2012. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 1, 2011 through April 17, 2012.

Note 4. Interest Income

The Pike County Sheriff earned \$287 as interest income on 2011 taxes. As of February 7, 2013, the Sheriff owed \$111 in interest to the school district and \$121 in interest to his fee account.

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

The Pike County Sheriff collected \$82,279 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the Sheriff's office. As of February 7, 2013, the Sheriff owed \$191 in 10% add-on fees to his fee account.

Note 6. Unrefundable Duplicate Payments And Unexplained Receipts

The Sheriff deposited unrefundable duplicate payments and unexplained receipts in an interest-bearing account. The Sheriff's escrowed amounts were as follows:

2008	\$3,135
2010	\$4,622

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. The 2008 escrow amount of \$3,135 along with a written report is now due the Kentucky State Treasurer in accordance with KRS 393.110.

**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**



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Wayne T. Rutherford, Pike County Judge/Executive
Honorable Charles E. Keesee, Pike County Sheriff
Members of the Pike 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 Pike County Sheriff's Settlement - 2011 Taxes for the period April 19, 2011 through April 17, 2012, and have issued our report thereon dated February 7, 2013. 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

Management of the Pike County Sheriff's office is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the 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 Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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 comment and recommendation, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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 statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comment and recommendation as item 2011-01 to be a material weakness.



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 Pike County Sheriff's Settlement - 2011 Taxes for the period April 19, 2011 through April 17, 2012, 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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Pike County Sheriff's response to the finding identified in our audit is described in the accompanying comment and recommendation. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

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



Adam H. Edelen
Auditor of Public Accounts

February 7, 2013

COMMENT AND RECOMMENDATION

PIKE COUNTY
CHARLES E. KEESSEE, SHERIFF
COMMENT AND RECOMMENDATION

For The Period April 19, 2011 Through April 17, 2012

INTERNAL CONTROL - MATERIAL WEAKNESS:

2011-01 The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of adequate segregation of duties over tax receipts and disbursements. The employee responsible for handling tax receipts also records the receipts in the ledger, prepares the bank deposit, and performs the monthly bank reconciliation. In addition, the employee prepares the disbursement checks and is an authorized signer on checks. By the same employee performing these functions, the risk that errors or fraud may go undetected increases. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. The Sheriff should document this review by initialing and dating the bank deposit, daily checkout sheet, and receipts ledger.
- The Sheriff should periodically perform surprise cash counts and recount cash. The Sheriff should document this by initialing the deposit ticket.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff should document this by initialing the bank reconciliation and the balance in the checkbook.

Sheriff's Response: We don't have enough employees to properly segregate duties.

Auditor's Reply: Even though the Sheriff's office has limited staff, the Sheriff should consider implementing the recommended compensating controls, which would not require additional employees.

