

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

**For The Period  
April 16, 2011 Through April 16, 2012**



**ADAM H. EDELEN  
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**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**WHITLEY COUNTY**  
**SHERIFF'S SETTLEMENT - 2011 TAXES**

**For The Period**  
**April 16, 2011 Through April 16, 2012**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2011 Taxes for the Whitley County Sheriff for the period April 16, 2011 through April 16, 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 \$7,399,986 for the districts for 2011 taxes, retaining commissions of \$306,760 to operate the Sheriff's office. The Sheriff distributed taxes of \$7,083,765 to the districts for 2011 taxes. Taxes of \$1,226 are due to the districts from the Sheriff and refunds of \$592 are due to the Sheriff from the taxing districts.

**Report Comment:**

2011-01 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

**Deposits:**

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



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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 Pat White Jr., Whitley County Judge/Executive  
Honorable Colan Harrell, Whitley County Sheriff  
Members of the Whitley County Fiscal Court

Independent Auditor's Report

We have audited the Whitley County Sheriff's Settlement - 2011 Taxes for the period April 16, 2011 through April 16, 2012. This tax settlement is the responsibility of the Whitley 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 Whitley County Sheriff's taxes charged, credited, and paid for the period April 16, 2011 through April 16, 2012, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated November 20, 2012 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 Pat White Jr., Whitley County Judge/Executive  
Honorable Colan Harrell, Whitley County Sheriff  
Members of the Whitley 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 Over Receipts And Disbursements

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Adam H. Edelen", written in a cursive style.

Adam H. Edelen  
Auditor of Public Accounts

November 20, 2012

WHITLEY COUNTY  
COLAN HARRELL, SHERIFF  
SHERIFF'S SETTLEMENT - 2011 TAXES

For The Period April 16, 2011 Through April 16, 2012

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 757,466	\$ 1,544,065	\$ 2,684,242	\$ 1,185,160
Tangible Personal Property	107,202	263,917	161,001	327,760
Fire Protection	112			
Increases Through Exonerations	383	785	1,957	643
Franchise Taxes				
Current Year	43,898	101,214	162,871	
Prior Year	64,950	151,384	266,923	
Prior Year Additional Bills	1,343	2,643	5,928	2,209
Additional Billings	5,044	11,690	3,657	14,048
Unmined Coal - 2011 Taxes	4,244	8,652	21,004	6,639
Unmined Coal - 2010 Taxes	22	43	109	34
Oil and Gas Property Taxes	16,920	34,491	83,734	26,465
Penalties	6,713	13,802	25,349	11,675
Adjusted to Sheriff's Receipt	6,639	5,881	8,706	4,410
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Gross Chargeable to Sheriff	1,014,936	2,138,567	3,425,481	1,579,043
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<u>Credits</u>				
Exonerations	14,772	31,577	39,044	28,079
Discounts	12,211	25,649	37,877	20,976
Delinquents:				
Real Estate	59,270	119,958	234,942	92,043
Tangible Personal Property	1,188	2,819	2,931	4,875
Oil	56	114	278	88
Gas	418	852	2,068	654
Delinquent 2010 Additional Bills	1,238	2,412	5,558	1,951
Unmined Coal - 2011 Taxes	547	1,116	2,709	856
Unmined Coal - 2010 Taxes	22	43	109	34
Franchise Taxes				
Current Year - Uncollected	1,196	2,836	4,623	
Prior Year - Uncollected	10	27	15	
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Total Credits	90,928	187,403	330,154	149,556
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The accompanying notes are an integral part of this financial statement.

WHITLEY COUNTY  
 COLAN HARRELL, SHERIFF  
 SHERIFF'S SETTLEMENT - 2011 TAXES  
 For The Period April 16, 2011 Through April 16, 2012  
 (Continued)

	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Taxes Collected	\$ 924,008	\$ 1,951,164	\$ 3,095,327	\$ 1,429,487
Less: Commissions *	<u>39,270</u>	<u>82,924</u>	<u>123,813</u>	<u>60,753</u>
Taxes Due	884,738	1,868,240	2,971,514	1,368,734
Taxes Paid	883,764	1,865,835	2,967,416	1,366,750
Penalty				26
Refunds (Current and Prior Year)	<u>1,105</u>	<u>2,179</u>	<u>3,833</u>	<u>1,736</u>
Due Districts or (Refund Due Sheriff) as of Completion of Audit	<u>\$ (131)</u>	<u>\$ 226</u>	<u>\$ 265</u>	<u>\$ 274</u>

\* Commissions:

4.25% on \$ 4,304,659  
 4% on \$ 3,095,327

\*\* Special Taxing Districts:

Library District	\$ 56
Health District	58
Extension District	573
Soil District	<u>(461)</u>

Due Districts or  
(Refund Due Sheriff)

\$ 226

WHITLEY COUNTY  
NOTES TO FINANCIAL STATEMENT

April 16, 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 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 16, 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 Whitley 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 16, 2012, 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, 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 October 3, 2011 through April 16, 2012.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2011. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 30, 2012 through July 16, 2012.

Note 4. Interest Income

The Whitley County Sheriff earned \$2,897 as interest income on 2011 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 November 20, 2012, the Sheriff owed \$299 in interest to the Whitley County school district, \$84 in interest to the Corbin County school district and \$718 in interest to his fee account.

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

The Whitley County Sheriff collected \$47,515 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the Sheriff's office.

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 Pat White Jr., Whitley County Judge/Executive  
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 have audited the Whitley County Sheriff's Settlement - 2011 Taxes for the period April 16, 2011 through April 16, 2012, and have issued our report thereon dated November 20, 2012. 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 Whitley 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 Whitley County Sheriff's Settlement - 2011 Taxes for the period April 16, 2011 through April 16, 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.

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,

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

November 20, 2012

COMMENT AND RECOMMENDATION



WHITLEY COUNTY  
COLAN HARRELL, SHERIFF  
COMMENT AND RECOMMENDATION

For The Period April 16, 2011 Through April 16, 2012

INTERNAL CONTROL - MATERIAL WEAKNESS:

2011-01 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

During our review of internal controls, we noted the Sheriff's office lacks adequate segregation of duties over receipts and disbursements. The bookkeeper collects tax payments from customers, prepares the deposits, and prepares monthly tax reports. The bookkeeper also takes the deposits to the bank, prepares the monthly payments to the taxing districts, signs the checks, and performs monthly bank reconciliations.

Segregation of duties over collecting taxes, preparing daily deposits, preparing monthly reports, and preparing disbursements 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.

The Sheriff should separate the duties of collecting taxes, preparing daily deposits, preparing and mailing disbursements, and preparing financial reports. If these duties could not be segregated due to limited staff or limited budget, then strong oversight should be provided to the employee responsible for these duties and this oversight should be documented.

*Sheriff's Response: None.*

