

REDACTED



KPMG Report
to
**Beaufort County Solicitor &
Beaufort County Administrator**
Regarding
**Investigation of Beaufort County
Treasurer's Office**

June 22, 2010
Privileged and Confidential
This report contains 28 pages
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June 22, 2010

Mr. Duffie Stone, County Solicitor
Beaufort County
102 Industrial Village Road
Beaufort, SC 29901

Dear Mr. Stone:

We have completed our engagement to provide investigative services to assist Beaufort County with respect to a Forensic investigation involving the Beaufort County Treasurer's Office and other tasks related to the assignment that were identified and mutually agreed upon during the course of the engagement, as outlined in our engagement letter dated March 9, 2010.

The data included in this report was obtained from Beaufort County, on or before June 22, 2010. We have no obligation to update our report or to revise the information contained therein to reflect events and transactions occurring subsequent to June 22, 2010.

This report is intended solely for the purpose set forth above and for your information and is not to be used for any other purpose or to be distributed to any other parties outside of Beaufort County.

Please contact Joseph Sullivan at 404-222-3262 if you have any questions or comments. We look forward to working with you again the future.

Very truly yours,

KPMG LLP

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I Executive Summary

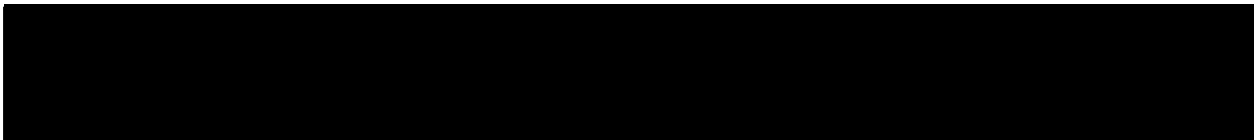
A Introduction

KPMG LLP (“KPMG”) was engaged on March 9, 2010, by the Beaufort County Solicitor and County Administrator to assist with a Forensic investigation involving the Beaufort County (the “County”) Treasurer’s Office and to perform other tasks related to this assignment as identified and mutually agreed to during the course of this engagement. These tasks included a review of the procedures related to the redemption of property sold during the yearly tax sale, an analysis of the Treasurer’s Office Execution Fund accounts, and an analysis of the Undistributed Current Taxes account.

The investigative procedures KPMG performed do not constitute an audit, examination or review in accordance with standards established by the American Institute of Certified Public Accountants (“AICPA”). Had KPMG conducted additional procedures or obtained additional information, the conclusions could be different.

B Background

In late 2007, Casaundra White, an employee in the County’s Treasurer’s Office, was caught stealing \$600 from her bank deposit bag. When Ms. White was confronted by County Treasurer, Joy Logan, she claimed she took the funds to help pay the medical bills of her ill father. Since the money was immediately repaid, Ms. Logan allowed Ms. White to continue working and did not contact the authorities. Ms. White resigned from the County in August 2007 and was rehired in February 2008.



Ms. White was fired in February 2010 when the Sherriff’s Office intended to pursue criminal charges.

KPMG was contacted by David Starkey, Beaufort County CFO, and asked if we would be able to assist with an investigation that was needed in County’s Treasurer’s Office.

C Limitations on Investigation and Analysis

Documentation

KPMG requested and reviewed certain documents related to the tasks identified above. It should be noted that as of the date of this report, not all requested documentation had been provided.



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Should additional documents be made available, KPMG will need to review those in order to determine if they change the findings or analysis presented in this report.

Interviews

At the onset of the engagement, KPMG conducted fact gathering interviews with individuals from the County Administration, Finance Department, and Treasurer’s Office. Because of the sensitive nature of the engagement and potential criminal proceedings, KPMG did not conduct any investigative interviews. Should the County request that KPMG participate in any additional interviews, KPMG would need to determine if any information obtained during those interviews change the findings and analysis presented in this report.

D Key Findings

1 Redemption of Property Sold at Tax Sale

KPMG obtained the records from the 2007 and 2008 Tax Sales. For each of those years, four sets of binders were maintained. The binders are manually updated for properties sold during the tax sale, properties redeemed during the year following the tax sale, amount required from property owner to redeem his/her property, and amount paid to bidder for properties which were redeemed.

KPMG was not able to locate a bank deposit for every property which was redeemed.

	2006 Tax Sale ¹	2007 Tax Sale	2008 Tax Sale
Number of Properties Redeemed	Not Applicable	321	729
Number of Redemptions With No Deposit Located	3	28	27
Value of Redemptions With No Deposit Located	(\$57,878)	(\$146,720)	(\$37,504)

There are 201 instances in which it took 5 or more days from the day a reclamation payment was received by the Treasurer’s Office until it was deposited in the bank. KPMG located one instance in which the number of days from the day the property was redeemed until the check was deposited was 70 days. On average, there is a 6 day lag between the date a property is redeemed and the date funds are deposited into the bank.

¹ See “Refunds Prior to 2007 Tax Sale”



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2 Undistributed Current Taxes account

The Beaufort County Treasurer’s Office records revenue in the County’s general ledger based on the date the payment is applied to the customer’s account (with the exception of automobiles). Cash receipts (including checks and credit cards) are recorded in the County’s general ledger based on the day the cash is received (with the exception for prior year taxes). In essence, revenue is recorded based on accrual account and cash receipts are recorded based on cash account. Therefore, the tax reconciliation account at any month end will contain either a debit or credit balance depending on the amount of revenue recorded for the month and the total cash received each day during the month.

The Treasurer’s Office does not reconcile the Undistributed Current Taxes account each month to verify all revenue recorded for that month has a corresponding cash receipt.

3 Treasurer’s Office Execution Fund

Treasurer’s Office uses the Execution Fund accounts to track the sources and disbursements of funds related to the collection of delinquent taxes. The Beaufort County Treasurer’s Office manually records disbursements from the accounts for the following items:

Nature of Disbursement	FY 2009	FY 2010 (to-date)
Clothing - Land's End	\$4,615	\$5,026
Meals	\$3,193	\$2,964
Legal, Howell Gibson	\$45,896	\$101,981
Printing, Postage and Supplies	\$183,705	\$33,300
Other, Delinquent Tax Related	-	\$685
Other, Unknown	\$73	\$735
Total Checks/Check Runs	\$237,484	\$144,690

The “Other, Unknown” disbursements include:

- \$658 Netbook computer and accessories purchased from Staples
- \$25 Publix Gift Card
- \$21.39 “Novelty Electr” from Belk



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II Overview of Investigation and Procedures

A Objectives

KPMG’s objective was to obtain an understanding of the facts and circumstances surrounding certain procedures employed and accounts used by the County’s Treasurer’s Office.

As a preliminary step, KPMG met with representatives of the Beaufort County Solicitor’s Office, County Administration, the Finance Department, and the Beaufort County Sherriff’s office to obtain an understanding of the facts and circumstances and scope of the engagement.

KPMG then developed a project workplan consisting of the following major tasks:

- Background and Interviews
- Tax Sale and Redemption Process / Reconciliation of Surplus Tax Account
- Analysis of Undistributed Current Taxes account (clearing account)
- Analysis of Execution Fund accounts (06030 XXXXX)

B KPMG’s Workplan

KPMG conducted its work in Beaufort County, SC between March 9, 2010 and May 12, 2010. KPMG’s approach was to identify, document, and analyze procedures and activities related to the areas identified in our above workplan. KPMG’s tasks are described below:

1 Interviews

KPMG conducted the following preliminary fact gathering interviews.

- Joy Logan – County Treasurer
- Herschel Evans – Deputy Treasurer
- Candy Harvey – Treasurer’s Office Back-Office Supervisor
- Maritza Schmidt – Treasurer’s Office Back-Office Employee
- Betty Brown (“BB”) – Treasurer’s Office Cashier Supervisor
- Shelia Green – Treasurer’s Office Cashier

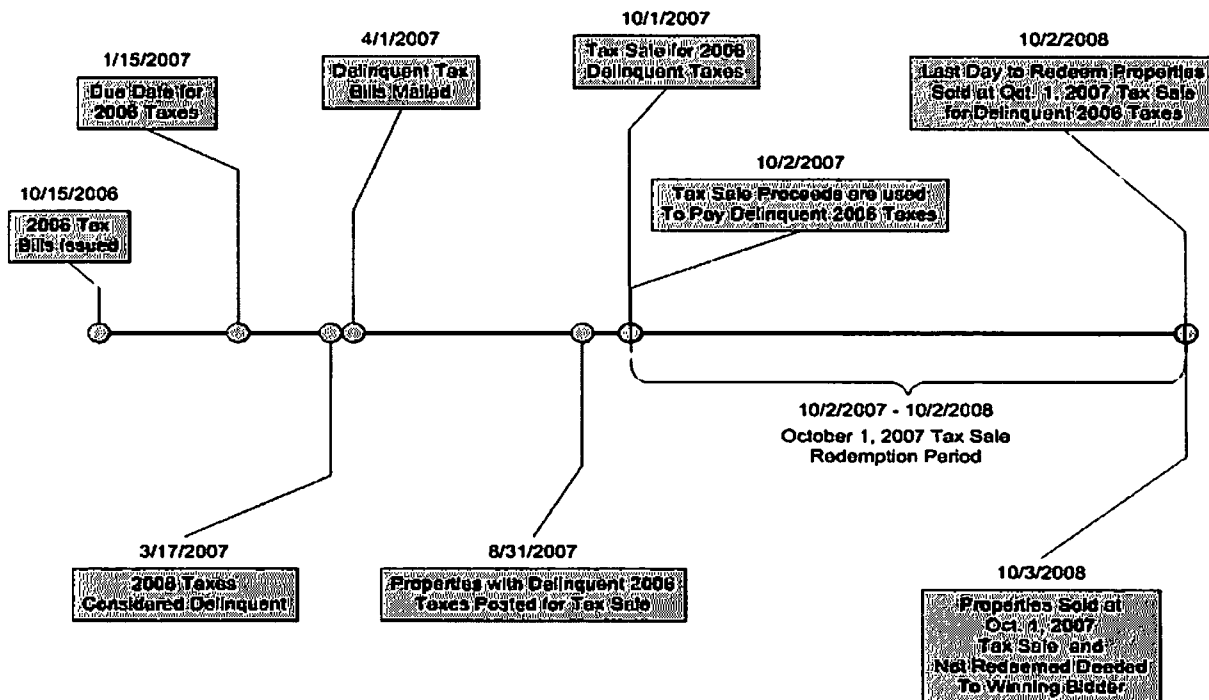
2 Tax Sale and Redemption Process / Reconciliation of Surplus Tax Account

Tax Year Life Cycle

In order to understand the Tax Sale and Redemption process, KPMG obtained an understanding of the tax year life cycle. The below timeline (representative of tax year 2006) provides an overview of the key dates.



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Tax Sale

On the Friday prior to the tax sale (first Monday in October), the County’s MIS department provides the Treasurer’s Office a report of properties with delinquent taxes. This report is used by the Deputy Treasurer, currently Herschel Evans, to track the results of the tax sale.

Properties with delinquent taxes are often stricken from the report prior to the tax sale. Mr. Evans stated that properties can be stricken from the report for multiple reasons. However, he further stated that the majority of stricken properties relate to situations where the County receives payments for the delinquent taxes subsequent to the generation of the report by the MIS department and prior to the tax sale. Properties stricken from the tax sale have a manual line drawn through the property owner’s information on the tax sale report.

During the tax sale the Deputy Treasurer records the winning bid amount for each property on the tax sale report. Subsequent to the date of the tax sale, properties sold in the tax sale can be voided. When a property is voided from the tax sale the winner’s bid is returned. Voided properties are manually noted on the tax sale report with “VOID.” Mr. Evans stated that properties are generally voided as a result of an error on the County’s part, such as failure to properly notify the taxpayer of taxes due. Payments from winning bidders at the tax sale are deposited into the Beaufort County Treasurer Surplus Account (a/c 0005127085554) (“Surplus Account”) at BB&T. Subsequent to the tax sale, funds from this account are used to pay delinquent taxes.



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According to statute, a property owner has 12 months from the date of the tax sale to redeem his/her property. To redeem his/her property, the property owner is required to pay all taxes, fees, and penalties due to the County plus an interest penalty equal to 3% of the winning bid for each quarter from the date of the tax sale until the date of redemption. The interest is collected by the County and passed onto the winning bidder.

Redemption Process

All redemptions must be paid in guaranteed funds (cashiers check, cash, credit/debit card) and are deposited into the Surplus Account. When a taxpayer (or his delegate) comes to redeem his or her property, the cashier pulls out the tax sale binders to determine the amount due from the taxpayer. Each year the Treasurer's Office creates two sets of tax sale/redemption binders. The first set of binders includes all properties sold at the tax sale in the current year and is organized alphabetically by property owner. Support documents contained in the first set of binders includes a copy of each property's delinquent tax bill and the redemption calculation form. The redemption calculation form is a manual calculation of the amount due in order to redeem the property. Each quarter these forms are manually updated to reflect the additional interest penalty incurred. When properties are redeemed, the cashier notes the date of the redemption in the first set of binders. The support documents for properties not redeemed are removed from the first set of binders subsequent to the redemption period and placed in the deeded property file cabinet. The second set of binders includes all properties redeemed by the property owners and is organized by month of redemption. This set of binders includes copies of the redemption receipt form and bidder redemption letter.

After the taxpayer pays the cashier to redeem the property, the cashier prepares a redemption receipt form and fills out a manual receipt. Both are given to the property owner as proof of redemption. The cashier makes a copy of the redemption receipt form. The manual receipt is a tri color carbon copy (white, yellow, pink). The white copy of the manual receipt is given to the taxpayer. The yellow copy is attached to the bidder redemption letter and included in the second set of tax sale binders. The pink copy of the manual receipt is kept in the cashier's receipt book.

Once a redemption occurs, the cashier is responsible for generating and mailing a bidder redemption letter. This letter is sent to the winning bidder informing him/her that the property has been redeemed, and that he or she should return to the Treasurer's Office to collect his or her bid along with interest due. Prior to mailing the bidder redemption letter, the cashier makes a copy of the bidder redemption letter and includes it in the second set of tax sale binders.

Prior to September 2009, all redemption payments (cash and check) were placed in a lock box in the back-office and deposited as a single amount into the Surplus Account. Starting in September 2009, each cashier was responsible for completing her own Surplus Account deposit ticket and including it with the daily tax collection deposit. When cash is received



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for redemptions, the cashier is supposed to have the amount collected verified by a Supervisor; however, there is no verification that the cash is ever deposited into the Surplus Account.

It should be noted that the collection and recording of redemption payments is a manual process and completed outside of any electronic system. This was true during the use of Legacy and is still true since the conversion to Manatron.

Analysis

Tax Sale Analysis

KPMG analyzed the tax sales held on October 1, 2007 ("2007 Tax Sale") and October 6, 2008 ("2008 Tax Sale"). This analysis was performed in order to verify that all amounts received by the County for property redemptions were subsequently deposited into the Beaufort County Surplus Account (a/c 0005127085554). The 2007 Tax Sale related to delinquent 2006 taxes and the 2008 Tax Sale related to delinquent 2007 taxes.

The analysis process began by obtaining the complete population of the properties available for the 2007 and 2008 Tax Sales. The County's MIS department provided KPMG with electronic copies of the reports that were provided to the Deputy Treasurer on the Friday prior to the tax sales held on October 1, 2007 and October 6, 2008. These electronic reports included all properties with delinquent tax amounts due as of the date of the report. The reports included the following information: Property owner's name, Current year taxes due, Account number, and Key number.

KPMG created a spreadsheet ("KPMG's spreadsheet") using the information provided by the MIS department. This spreadsheet was used to record important data points captured during the analysis.

The 2007 and 2008 hard copy tax reports were then obtained from the Deputy Treasurer. These reports represent hard copy printouts of the information provided by the MIS department. The Deputy Treasurer stated that he used these reports to track the results of the tax sale including voided and stricken properties and the winning bid amount for each property sold at the tax sale. Subsequent to the tax sale, these hard copy reports are manually updated with the date of redemption for properties sold at the tax sale and later redeemed. These hard copy reports are the only vehicle to identify properties which were sold at the tax sale but never redeemed. Information from this hard copy report was input into KPMG's spreadsheet.



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	2007 Tax Sale	2008 Tax Sale
Properties with Delinquent Tax (included on MIS report)	495	933
Properties Stricken Prior to Tax Sale	(8)	(44)
Properties Voided Subsequent to Sale	(64)	(25)
Properties Available for Redemption	423	864
Properties Noted as Not Being Redeemed	(102)	(135)
Properties Redeemed	321	729

The 2007 and 2008 Tax Sale binders (both sets) were then obtained to gather the following information for the redeemed properties:

- Date of Redemption
- Cashier's Manual Receipt Number
- Total Amount Paid for Redemption
- Type of Tender Received for Redemption

This information was then entered into KPMG's spreadsheet.

Surplus Account Deposits

All Surplus Account deposit slips for the period of October 2007 through December 2009 were obtained from the Treasurer's Office. Payments for multiple redemptions were included in a single deposit. However, each redemption payment is listed as a separate line item on the deposit slip and includes the cashier's manual receipt number and amount of the redemption. KPMG created a separate spreadsheet ("deposit completeness spreadsheet") to verify the completeness of the population of deposit slips. Each manual receipt number and redemption amount included on deposit slips were entered into the spreadsheet. The sum of the deposit slips (per the spreadsheet) was then compared to total deposits per the Surplus Account bank statements. Copies of any missing deposit slips were then requested from the bank.

Deposit slips for all amounts deposited into the Surplus Account were obtained from either the Treasurer's Office or the bank. The only remaining reconciling items (between the spreadsheet and credits per the bank statements) included interest and bank transfers.



Matched Redemptions to Deposits

The unique identifier used to trace redemption payments to a Surplus Account bank deposit was the cashier's manual receipt number. Receipt numbers from KPMG's spreadsheet, which were obtained from the tax sale binders, were then matched to the corresponding receipt number from the deposit completeness spreadsheet. After completing this matching process three populations were identified:

- Deposits without a corresponding redemption (i.e. money was deposited in to the Surplus Account but could not be tied to a 2007 or 2008 redemption),
- Redemptions matched to a deposit per the cashier's manual receipt number but the amount deposited was not an exact match to the redemption amount per the tax sale binders, and
- Redemptions for which no deposit was located.

Deposits without a Corresponding Redemption

Included in the population of deposits without a corresponding redemption were the following items for which the Treasurer's Office was able to provide an explanation:

- Tax Sale – Payments from winning bidders
- Deeds – Payments to transfer deeds after redemption period
- Voided Tax – Payments from winning bidders subsequently voided

The remaining outstanding deposits without a corresponding redemption for which the Treasurer's Office was not able to provide an explanation totaled \$40,453.90.

Deposit Amount Not an Exact Match to Redemption

There was a population of redemptions matched to a deposit per the cashier's manual receipt number but the amount deposited was not an exact match to the redemption amount per the tax sale binders, resulting in a partial difference.

	2007 Tax Sale	2008 Tax Sale
Amount Deposited Was Greater Than Redemption Amount	\$633.53 (7 redemptions)	\$7,212.32 (14 redemptions)
Amount Deposited Was Less Than Redemption Amount	\$1,000.10 (2 redemptions)	\$274.41 (7 redemptions)

No Deposit Located for Redemption

There are redemptions for which a deposit in the Surplus Account could not be located.



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Tender Type	2007 Tax Sale	2008 Tax Sale
Cash	\$13,810.07	\$19,515.48
Checks	\$117,515.72	\$5,946.84
Unknown	\$15,393.98	\$12,042.15
Total	\$146,719.77	\$37,504.47

Cash Redemptions

No additional procedures were performed with regards to the differences identified as cash payments.

Check or Unknown Redemptions

The remaining populations of differences identified as being a payment type of check or unknown were investigated further.

The Treasurer's Office uses an electronic check deposit system for the Tax Account, which allows checks to be scanned and deposited in the back-office without physically taking the checks to the bank. The electronic check deposit system stores data for the current and previous two years, and allows a user to search for deposits based on certain search criteria. KPMG and the Treasurer's Office utilized this search functionality to determine if any of the checks or unknown payment types which were not deposited into the Surplus Account were instead scanned and deposited into the Tax account. The search was performed based on the dollar amount of the redemption payment and a starting date range. As a result of this process, certain missing redemption payments were identified as being deposited into the Tax Account. Redemptions from the 2007 Tax Sale that were deposited into the Tax Account totaled \$117,515.72 and those from the 2008 Tax Sale were \$45,671.36².

From BB&T's online system, KPMG was able to obtain:

- An image of the redemption checks which were deposited in the Tax Account,
- The amount and date of the daily deposit in which the check was included, and
- Detail of the daily deposit, which listed all other checks included as part of the deposit.

² Redemptions payments totaling \$39,724.52 were initially deposited in the Tax Account but were subsequently transferred to the Surplus Account.



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In order to determine the cashier responsible for depositing the redemption check in the Tax Account, KPMG obtained the Legacy (for deposits made prior to December 2008) or Manatron (for deposits made after December 2008) system report for the session in which the daily deposit was made.

Once all necessary information was obtained for each deposit under review, KPMG performed further procedures to verify the nature of all checks included in the daily deposit. In doing so, KPMG attempted to trace each check listed in the BB&T deposit detail to a corresponding payment posted to a customer account as stated in the Legacy or Manatron system report. Any check which could not be matched to a payment applied to a customer account was further researched. Based on KPMG's research, checks which were not applied to a customer account were found to be either a Treasurer's Office employee personal cashed check or a payment made for the redemption of a property.

Since the redemption payments and tax collection processes are separate, redemption payments deposited into the Tax Account (either in error or because the redemption payment was combined with a tax payment) should be subsequently transferred to the Surplus Account for tracking purposes. KPMG performed additional procedures to verify whether the redemption payments included in the Tax Account were subsequently transferred to the Surplus Account. These procedures resulted in the identification of four checks totaling \$29,858.27 which were transferred from the Tax Account to the Surplus Account. In addition, a check for \$9,866.25, which was deposited into the Tax Account, was found to include both a tax payment and a redemption payment. The portion relating to the redemption payment was in the process of being transferred to the Surplus Account when the owner of the check issued a stop payment. Therefore the transfer was cancelled, and the check did not clear the bank. The five checks discussed above pertain to redemptions made from the 2008 Tax Sale. As these checks were either subsequently transferred out of the Tax Account or never cleared the bank, they are considered adjustments to the original population of redemption checks deposited into the Tax Account.

Taking the above adjustments into consideration, 2007 Tax Sale redemptions equaling \$117,515.72 and 2008 Tax Sale redemptions equaling \$5,946.84 were redemption checks deposited into the Tax Account and were not subsequently transferred to the Surplus Account. Additional procedures were then performed to understand the facts surrounding these checks. The procedures performed were modified accordingly based on the nature of the Legacy and Manatron systems.

Legacy

KPMG obtained the Legacy system report and Daily Tax Report for the daily sessions identified as including the deposit of a redemption payment. The Legacy system did not track payments by type of tender collected. As a result, KPMG performed procedures to verify that the tendered amounts reported by the cashier per the Daily Tax Report were

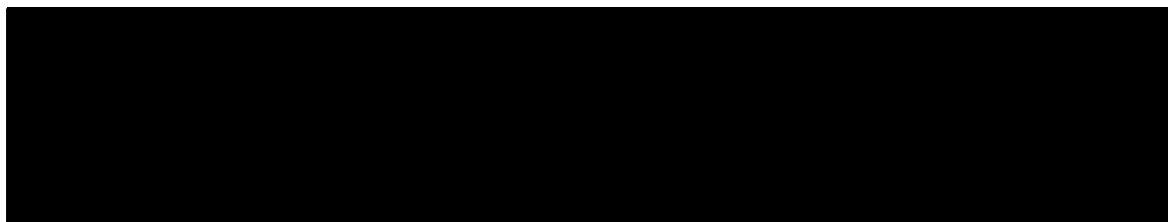


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consistent with the tender of payments actually collected by the cashier. To verify the checks collected during the session, KPMG traced each check listed in the BB&T deposit detail to a corresponding payment posted in the daily Legacy session report. The remaining population of payments posted to the daily Legacy session represented cash or credit/debit card transactions.

Each Daily Tax Report reviewed by KPMG contained a discrepancy between the tendered amounts reported by the cashier on the Daily Tax Report and tendered amounts actually collected based on activity in the Legacy session report. Additional analysis was performed to understand the purpose of any checks that were deposited by the cashier but could not be traced to the Legacy report (excluding employee cashed checks) and any cash/credit card differences identified. Through analysis of the Legacy sessions, KPMG arrived at three different scenarios in which a redemption check was deposited into the Tax Account and funds were subsequently removed from the Tax Account.

1. A refund was issued in the same amount as the redemption check which was deposited into the Tax Account. This resulted in an overstatement of checks reported in the cashier's Daily Tax Report, as the redemption check was never applied as a customer payment.
2. The amount of cash/credit card transactions reported by the cashier on the Daily Tax Report was less than the amount of cash/credit card transactions collected according to the activity posted in Legacy. Further, the amount of cash/credit card transactions under-reported by the cashier equaled the same amount as the redemption check deposited into the Tax Account. This would result in an overstatement of checks and understatement of cash/credit card payments as reported in the cashier's Daily Tax Report.
3. A combination of the above two scenarios. The amount of the refund issued plus the amount of cash/credit transactions under-reported equaled the amount of the redemption check which was deposited into the Tax Account.

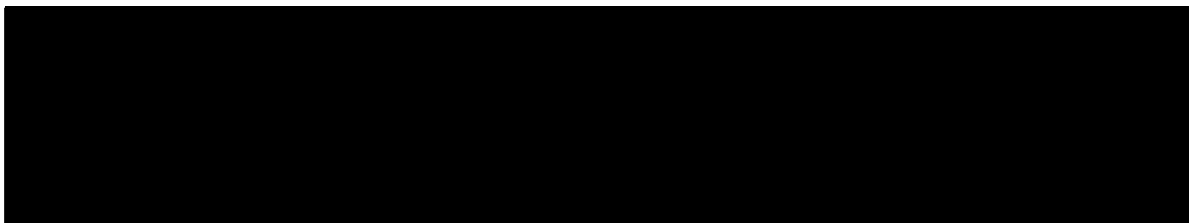


The Daily Tax Reports were the only means by which a cashier documented refunds owed to customers. Through informal discussions with employees in the back-office and through review of the Daily Tax Reports, KPMG noted that when a cashier recorded a refund it was



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common practice for the cashier to document the customer name, the amount, and the key number associated with the customer's property (a key number is unique to each property). Also, the cashier often included a brief description of the purpose of the refund.



Manatron

Under the Manatron system, cashiers are required to record the type of tender collected for each transaction. KPMG performed procedures similar to those discussed in the previous section to verify that the tendered amounts recorded by the cashier in Manatron were consistent with the tender of payments actually collected by the cashier. These procedures were performed because the type of tender actually recorded for each transaction is input manually by the cashier.

KPMG traced each check listed on the BB&T deposit detail to a corresponding payment posted in the daily Manatron session (excluding the redemption check, which did not apply to a customer payment). KPMG then reviewed the Manatron system report for any remaining payments which were coded as checks that did not have a corresponding check in the daily deposit. In each session, the sum of the unmatched payments which were coded as checks equaled the amount of the redemption check deposited into the Tax Account. In the identified scenarios, it is unknown whether the customer made a payment (i.e. with cash) on his or her account which was never deposited into the County's Tax Account, or whether the redemption check was applied to an unpaid customer account.

If the redemption check was applied to an account for which the customer paid in cash, the cashier would, in effect, be replacing the customer's cash payment with funds from the redemption check. Accordingly, the customer's cash payment would not be deposited into the Tax Account. In this scenario, checks would be overstated and cash would be understated as reported in the cashier's daily session. If the redemption check were applied to an unpaid customer account, this would result in an overstatement of checks as reported in the cashier's daily session, with no effect on cash transactions. Based on the support available, KPMG was not able to determine whether a particular customer did or did not make a payment on his or her account.

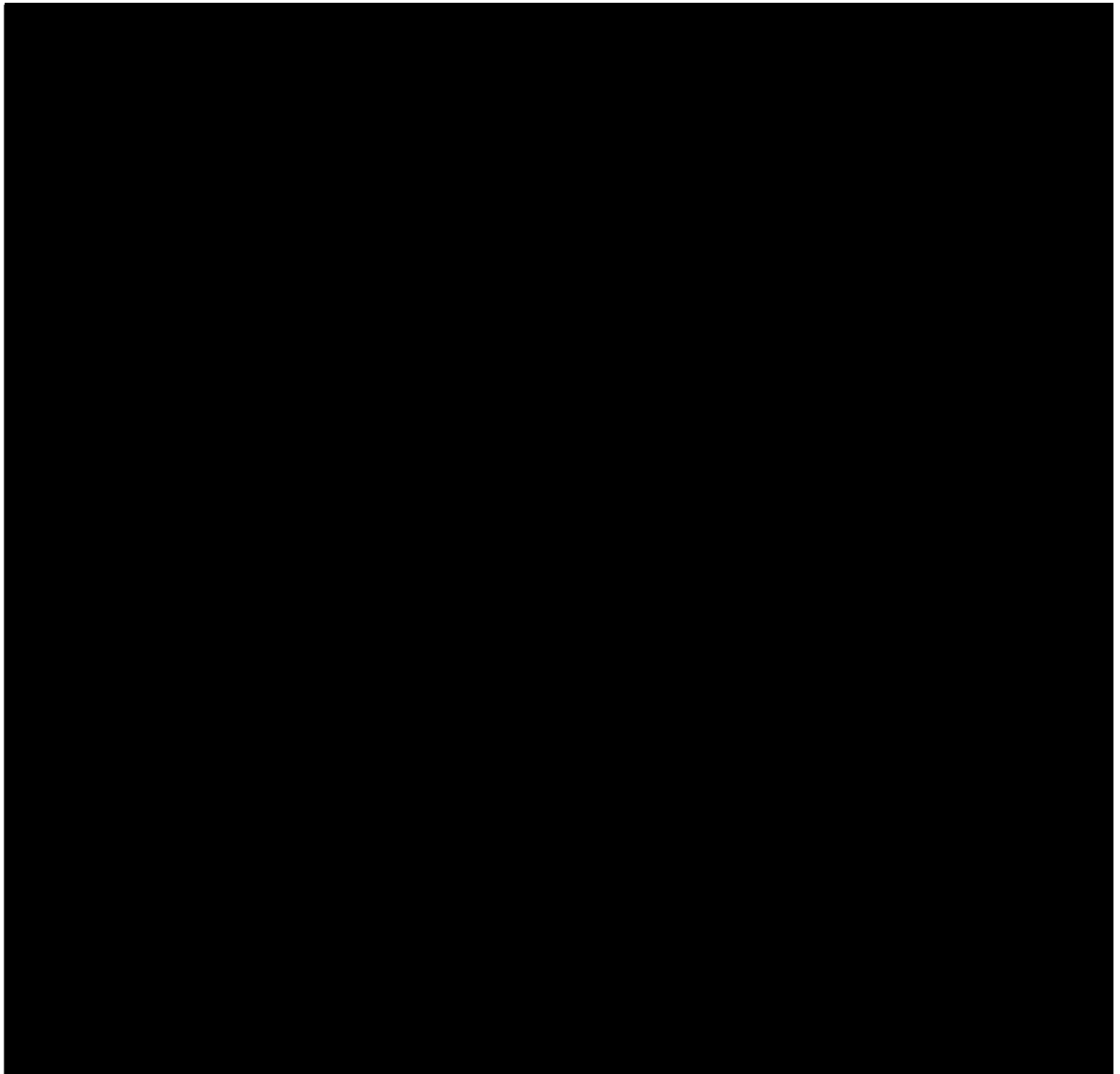
Through observation of the Manatron system reports, KPMG also notes it is common practice for the cashier to record the check number for any payments coded as checks. The



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unmatched payments coded as checks were either recorded with no check number or recorded as "Check #9999."

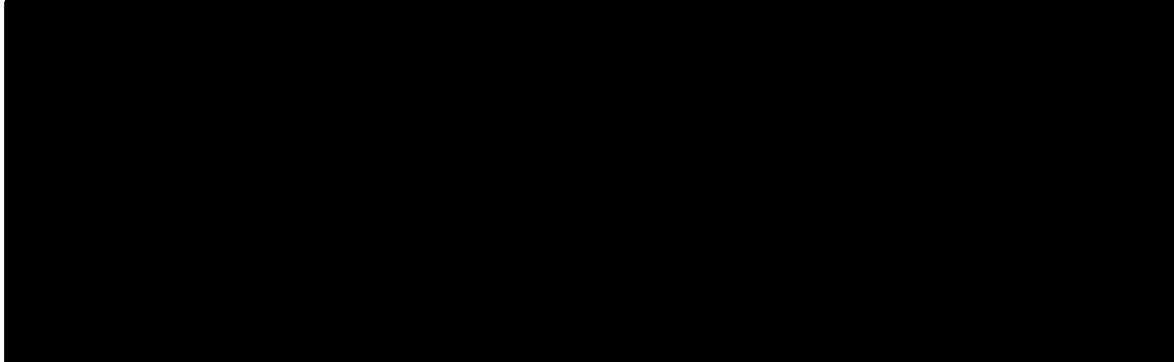
Refunds Prior to 2007 Tax Sale



³ KPMG did not analyze the October 2, 2006 Tax Sale. Redemptions identified from this tax sale related to the analysis of refunds from fiscal year 2005 through fiscal year 2009.



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3 Analysis of Undistributed Current Taxes account (clearing account)

KPMG was asked to analyze the Undistributed Current Taxes (a/c 010-22000) general ledger account utilized by the County’s Treasurer’s Office. This account functions as a clearing account for taxes collected by the Treasurer’s Office.

General Leger Entries

Cash

Back-office employee, Maritza Schmidt, is responsible for posting cash receipts from the cashiers’ daily sessions, to the general ledger. Prior to recording a journal entry, Schmidt reviews each of the cashier’s daily Manatron/Legacy⁴ reconciliations to confirm that the payment amounts from Manatron/Legacy agrees to what was deposited at the bank.

The cashiers’ daily reconciliation reports contain reconciled totals for cash, checks, and credit/debit transactions for the session. Schmidt verifies that the reconciliation total, as input by the cashier, for cash, credit/debit transactions, and checks reconciles to the amounts deposited with the bank as found on the following documents:

- The processed deposit slip from the bank (pink copy)
- The BB&T check report
- Credit/Debit transaction report

The cashier’s processed deposit slip, which is returned by the bank, is given to Schmidt so she can reconcile cash deposited in the bank with the cash reported on the Manatron/Legacy session. Schmidt stated that she generally waits a couple of days for the deposits to clear the bank account before reviewing the session reconciliations. The cashier also provides Schmidt a copy of her credit/debit transaction report for each day’s session. When the

⁴ Prior to the conversion to Manatron in December 2008, the Treasurer’s Office recorded all tax transactions in Legacy.



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Cashier Supervisor reviews the cashier’s reconciliation report she attaches a copy of the BB&T check deposit report.

After Schmidt verifies all the daily reconciliations for the cashiers, she creates a manual journal entry to record the cash⁵ receipts in the County’s general ledger as follows:

Cash –GL Account Numbers for each bank account (DR)	XXX
Undist’d Current Taxes – 00010-22500 ⁶ (CR)	XXX

Revenue

Back-office supervisor, Candy Harvey, is responsible for posting revenue, from the cashiers’ daily sessions, to the general ledger. Harvey indicated that when the County first switched over to the Manatron system, she mapped the general ledger accounts to Manatron so revenue entries would be automatically posted. She also stated that she must approve the general ledger auto entry for revenue before it will be processed by the system. The tax reconciliation clearing account, 00010-22500, is used to enable this process. The general ledger auto entry for revenue is recorded as follows:

Undis’t Current Taxes – 00010-22500 (DR)	XXX
Various Revenue accounts – County departments (CR)	XXX

Harvey further stated that prior to the switch to the Manatron system it was necessary to manually create the journal entry to upload revenue to the County’s general ledger⁷. To enable this process the MIS department provided Harvey a “Green Bar” report, which separated revenue into the appropriate departments for disbursement. This Green Bar report was used to create the manual entries.

In theory, the debit to the tax clearing account recorded by Schmidt and the credit recorded by Harvey for revenue should offset each other, resulting in a zero balance in the clearing account.

Analysis

KPMG was provided fiscal year 2008 and 2009 account data for the clearing account. KPMG decided to analyze the activity in the clearing account for October 2007.

⁵ The journal entry includes all receipts: cash, check and debit/credit card transactions.

⁶ The County is currently using account 010-22500 as the tax reconciliation account; however, prior to the conversion to Manatron, the account number was 010-22000.

⁷ The County is currently using account 010-22500 as the tax reconciliation account; however, prior to the conversion to Manatron, the account number was 010-22000.



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Cash - October 2007

The total cash collected in October 2007 as listed in the Legacy session reports totaled \$11,332,467.05. However, the sum of the journal entries recorded by Schmidt in October 2007 totaled \$10,977,649.83, resulting in a difference of \$354,817.33. This difference relates to tax payments received in October 2007 which related to previous tax years. The total tax collections in October 2007 which related to previous tax years as listed in the session reports totaled \$398,454.88. However, since revenue for automobile tax payments is always considered current it was necessary to back out automobiles from this total. Automobile payments collected in October 2007 which related to prior years totaled \$43,637.44.

Legacy Session Total	\$11,332,467.05
Payments Related to Prior Tax Years	(398,454.88)
Automobile Payments Considered Current	43,637.44
Journal Entry Recorded by Schmidt	\$10,977,649.83

Revenue

In order to gain an understanding of the accounting for revenue, KPMG reviewed the October 2007 Green Bar report and the tax distribution journal entry recorded by Harvey in the general ledger. KPMG noted differences in 2001 through 2007. Harvey stated that the difference was due to automobile taxes which are considered current. The remaining difference of \$13.23 was not considered in the analysis.

Harvey recorded a \$11,904,903.20 debit to the Undistributed Current Taxes account for October 2007.

Back-dated Payments

After gaining an understanding of the journal entries recorded for revenue and cash, KPMG met with Cashier Supervisor, Betty Brown, to discuss how cashier's record payments which relate to previous months. Brown stated that often the cashiers must backdate payments and that the Legacy system tracked both the date of cash receipt, "Paid Date", and the date posted to the tax payers account, "PAI Date." However, the Legacy session reports reviewed by KPMG only contained the Paid Date. As a result, KPMG worked with George Wright from the MIS department to obtain the PAI Date for the October 2007 sessions. Using the PAI (effective) Date, KPMG sorted the total session data for the month of



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October noting that \$16,824.65 of the amounts recorded by Schmidt in her journal entries for current period cash receipts actually related to dates prior to October 2007.

At the end of October 2007, the account contained an un-reconciled debit of \$944,078.02.

October Revenue Entry (DR to 010-22000)	\$11,904,903.20
October Cash Entries (CR to 010-22000)	(10,977,649.83)
Cash Recorded in October that Relate to Prior Months	16,824.65
Un-Reconciled Balance as of October 31, 2007 (DR)	\$944,078.02

4 Analysis of Execution Fund accounts (06030 XXXXX)

The Execution Fund is a series of general ledger accounts (a/c 06030 XXXXX) utilized by the Treasurer’s Office to track the sources and disbursements of funds related to the collection of delinquent taxes by the Treasurer’s Office. It is KPMG’s understanding that the use of these funds is at the discretion of the County Treasurer.

Account Activity

The activity for fiscal year 2009 and 2010 (YTD) is:

	2009	2010
Sources	(\$1,101,191.70)	(\$966,691.00)
Disbursements	\$683,749.20	\$1,084,541.77
Net Account Activity	(\$417,442.50)	\$117,850.77

Sources

Properties with outstanding taxes as of March 17th are considered delinquent. The County mails delinquent tax bills on April 1st. As of this date, the County assesses a \$75 fee for costs associated with property seizure. Subsequent to August 31st, all delinquent properties are advertised in the local newspaper as being available for auction at the tax sale. All properties advertised for tax sale are assessed a \$50 fee for advertising costs. The \$75 and \$50 fees are collected by the Treasurer’s Office and recorded in the Execution Fund. In 2009 and 2010 the County collected approximately \$1.1 million and \$967,000 in delinquent fees respectively.



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Disbursements

Disbursements from the Execution Fund accounts represent expenditures associated with the seizure of delinquent properties and the collection of delinquent taxes. Disbursements are either recorded through the County’s accounts payable process or through manual journal entries posted by the Treasurer’s Office.

Analysis

KPMG is not providing an opinion as to the appropriateness of the sources or disbursements of funds in any Execution Fund account. The comments made are based on factual circumstances surrounding the sources and disbursements of funds as provided by Treasurer’s Office and County employees or as identified in the supporting documents provided to KPMG.

Sources

KPMG recalculated the 2009 sources using the number of delinquent properties as of April 1, 2009 and September 1, 2009 and the fees charged by the County at these two dates. According to detail from the Manatron system, 10,350 properties were delinquent as of April 1, 2009 and 3,960 of these properties remained delinquent as of September 1, 2009. The properties with outstanding taxes as of April 1, 2009 were assessed a \$75 fee for seizure and the delinquent properties as of September 1, 2009 were assessed an additional \$50 fee for advertising. Total sources, as recalculate using the Manatron data, were then compared to the sources contained in the account detail, with a noted difference of approximately \$7,000 as follows:

Date	No. Accounts	Fee	Total Fee
Delinquent Accounts - April 1, 2009	10,350	\$75	\$776,250
Delinquent Accounts - August 31, 2009	3,960	\$50	\$198,000
Total Sources - Recalculated			\$974,250
Total Sources – Account Detail			\$966,691

Disbursements

Using information from the account detail, KPMG separated the disbursements into the following categories: Checks, Check Runs, Insurance, Salaries, Transfer, Vendor, and Unknown.



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Disbursement Break-Out	2009	2010
Checks	\$171,080.10	\$79,566.10
Check Runs	\$66,403.77	\$65,123.79
Insurance	\$30,439.09	\$70,123.00
Salaries	\$222,755.77	\$390,678.18
Transfer	-	\$270,433.00
Vendor	\$169,931.49	\$207,923.17
Unknown	\$23,138.98	\$694.53
Total Disbursements	\$683,749.20	\$1,084,541.77

Insurance and Salaries

Disbursements categorized as “salaries” represent an allocation of the total salary for all of the Treasurer’s Office employees. Disbursements categorized as “insurance” represent an allocation of the Treasurer’s Office insurance costs. These allocations are automatically recorded based on a percentage as determined by the Treasurer’s Office and the County. These automatic entries were not further analyzed.

Transfer

The Finance Department transferred \$270,000 in 2010 (YTD) in order to transfer costs from the Treasurer’s Office General Fund to the Execution Fund. According to the County’s CFO, this transfer was recorded in order to appropriately state the disbursements for financial reporting purposes. This entry was not further analyzed.

Vendor

Payments to vendors are made through the County’s accounts payable process. These entries were not further analyzed.

Checks and Check Runs

Checks and check runs are disbursements made directly by the Treasurer’s Office and manually recorded into the Execution Fund. The Treasurer’s Office was asked to supply the following support for these disbursements:

- Copies of the supporting invoice for all checks recorded in Execution Fund accounts in 2009 and 2010, and



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- Payee, check number and invoice for all check runs recorded in Execution Fund accounts in 2009 and 2010.

The detail was requested in order to determine the nature of these expenditures. KPMG identified the following categories of disbursements based on the supporting invoices, copies of checks obtained from the Treasurer's Office, and/or through discussions with Treasurer's Office employees:

Nature of Disbursement	2009	2010
Clothing - Land's End	\$4,615.95	\$5,025.55
Meals	\$3,193.42	\$2,964.13
Legal, Howell Gibson	\$45,895.96	\$101,980.74
Printing, Postage and Supplies	\$183,705.45	\$33,299.85
Other, Delinquent Tax Related	-	\$684.97
Other, Unknown	\$73.09	\$734.65
Total Checks/Check Runs	\$237,483.87	\$144,689.89

Unknown

Based on the detail provide, the nature of the disbursement items categorized as "unknown" was not readily determinable. Joy Logan was provided with the detail for items in this category and asked to determine and provide the appropriate support for the disbursements. On May 12, 2010, Joy returned this detail to KPMG noting that several of the entries were recorded by the finance department. As of the date of this report, Ms. Logan has not provided any additional support for these disbursements.



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III Key Findings and Results

A Tax Sale and Redemption Process / Reconciliation of Surplus Tax Account

1 Recordkeeping for Tax Sale and Redemptions is Manual

The Treasurer's Office is provided a file from the MIS Department; however, any adjustments made to the file are done manually. The results of the Tax Sale are manually tracked. Two sets of binders are kept for properties that are redeemed. One set of binders contains a piece of notebook paper for each property sold at the Tax Sale that is manually updated each quarter to reflect the additional interest due from the property owner. The second set of binders contains copies of two receipts and the bidder redemption letter, all of which are manually completed by the cashier.

2 Reconciliation of Redemption to Surplus Tax Account

There is no supervisory review of any documentation for properties that are redeemed. As such, there is no reconciliation between the amount collected by the Treasurer's Office for redeemed properties and the amount of money deposited into the Surplus Tax account.

3 Timing of Deposits

There are 201 instances in which it took 5 or more days from the day a reclamation payment was received by the Treasurer's Office until it was deposited in the bank. KPMG located one instance in which the number of days from the day the property was redeemed until the check was deposited was 70 days. On average, there is a 6 day lag between when a property is redeemed and the funds are deposited into the bank.

4 Discrepancies between Redemption Payments and Amount Deposited in Surplus Account

Redemptions for which there was either No Deposit or a Partial Deposit:

	2006 Tax Sale ⁸	2007 Tax Sale	2008 Tax Sale	Total
Cash	-	(\$14,810.17)	(\$19,519.48)	(\$34,329.65)
Credit Card	-	-	(\$0.11)	(\$0.11)

⁸ See "Refunds Prior to 2007 Tax Sale"



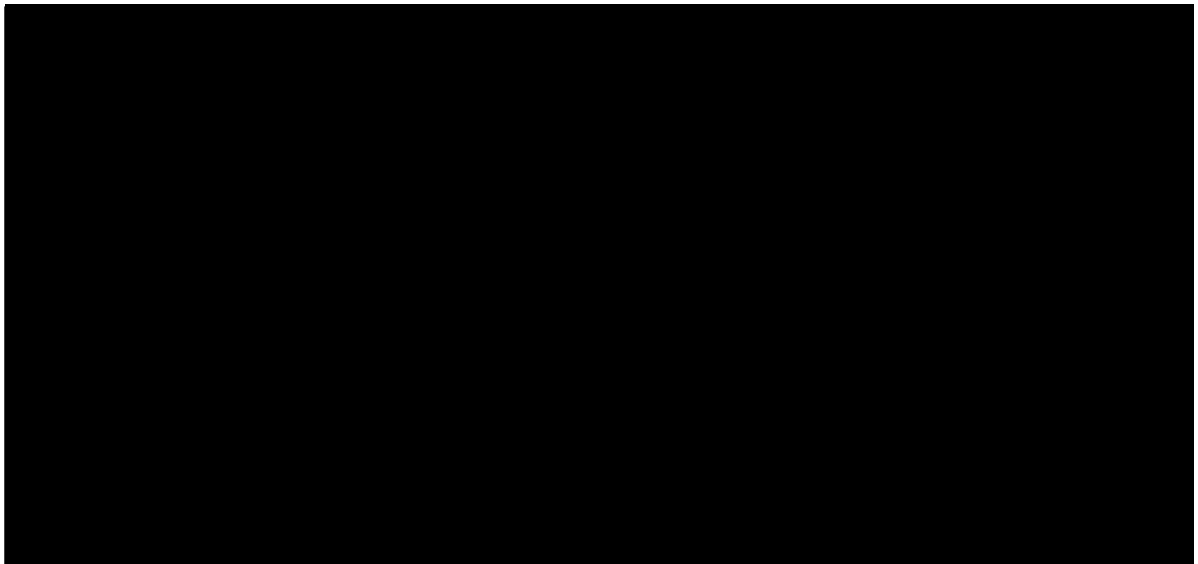
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Check	(\$57,877.88)	(\$117,515.72)	(\$5,947.07)	(\$181,340.67)
Unknown	-	(\$15,393.98)	(\$12,312.22)	(\$27,706.20)
Total	(\$57,877.88)	(\$147,719.87)	(\$37,778.88)	(\$243,376.63)

Amounts deposited that Exceed the redemption amount:

	2006 Tax Sale ⁹	2007 Tax Sale	2008 Tax Sale	Total
Cash	-	-	\$1,022.15	\$1,022.15
Credit Card	-	-	\$0.82	\$0.82
Check	-	\$3.45	\$1,015.64	\$1,019.09
Unknown	-	\$630.08	\$5,173.71	\$5,803.79
Total	-	\$633.53	\$7,212.32	\$7,845.85

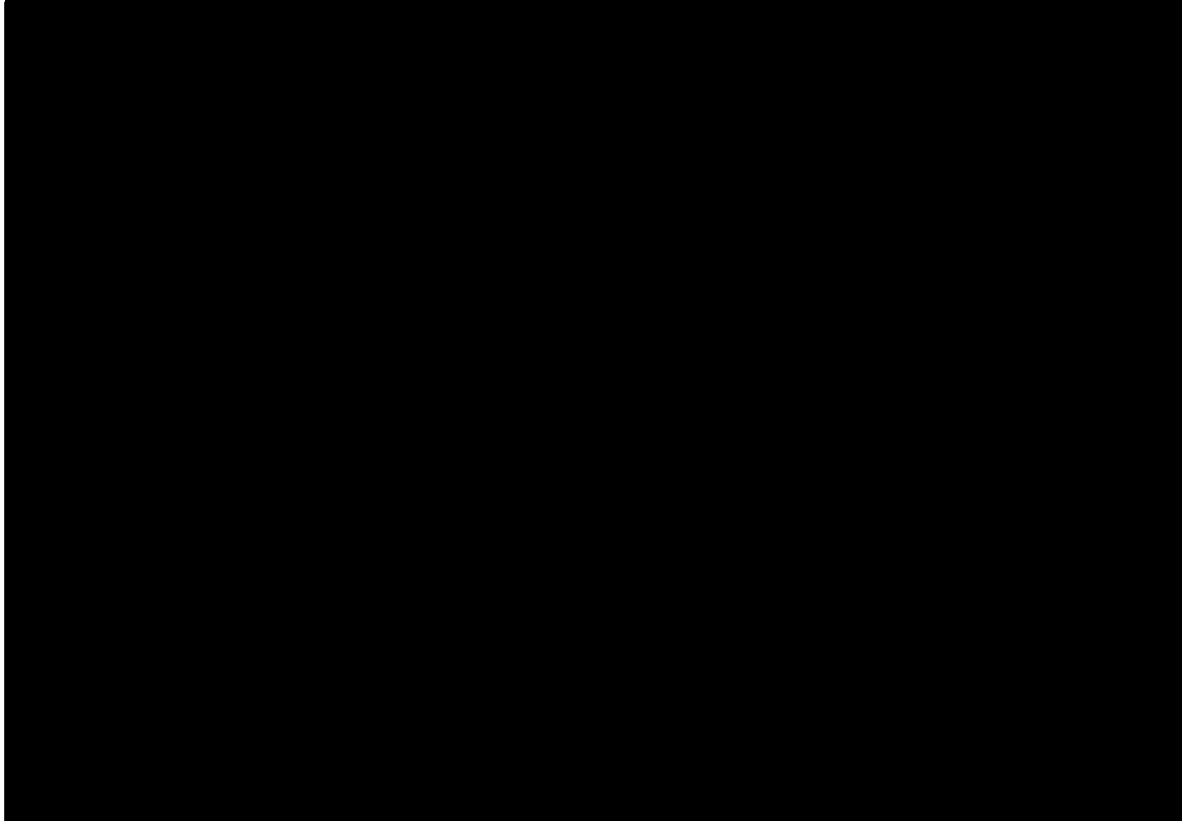
5 Refunds / Shortages



⁹ See "Refunds Prior to 2007 Tax Sale"



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6 Segregation of Duties

There is no segregation of duties between the collection, recording, and reconciliation of redemption payments. Each cashier is responsible for all three steps when she collects a redemption payment.

B Analysis of Undistributed Current Taxes account (clearing account)

1 Inconsistent Accounting Treatment

KPMG noted that the Treasurer's Office records revenue to the County's general ledger based on the date tax payments are posted to taxpayer's accounts, with the exception of automobile payments. Revenue for automobile payments is always considered current. However, cash receipts are posted to the County's general ledger based on the date of cash receipt, with the exception of payments for prior year taxes. Payments received for prior





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year taxes are posted to the prior year tax reconciliation account unless the payment is for an automobile. Based on these facts the tax reconciliation account at any month end will contain either a debit or credit balance depending on the amount of the revenue recorded for the month and the total cash received each day during the month.

In essence, revenue is recorded based on accrual account and cash receipts are recorded based on cash account.

2 Account Reconciliation

The Treasurer's Office does not reconcile the Undistributed Current Taxes account each month to verify all revenue recorded for the month has a corresponding cash receipt.

3 Institutional Knowledge

Ms. Schmidt's and Ms. Harvey's institutional knowledge of the Treasurer's Office are extensive. They play key roles in the daily operations of the Treasurer's Office. When one is absent, there is no one with the knowledge to perform her duties; thus, these key duties are not performed until she returns.

C Analysis of Execution Fund accounts (06030 XXXXX)

1 Meals

The total disbursement for meals in the two periods analyzed was \$6,158. The following chart includes a breakout of the meals by payee.

Payee	Total
Larry's Giant Subs	\$5.98
Berry Island	\$291.00
Bi Lo	\$14.13
Chick-Fil-A	\$140.00
Crabs by C'Mons	\$12.00
Culligan Water	\$1,121.09
Domino's	\$451.50
Fat Babys and Bella Italia	\$62.71
Giuseppi's	\$10.69
Jersey Mike's	\$1,242.03
Keith's Place	\$473.29
Magnolia Café	\$214.71



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Panda Express	\$16.87
Papa John's	\$150.00
Pizza Hut	\$31.64
Romeo's Pizza	\$17.00
Upper Crust	\$1,115.95
Wal-Mart	\$786.96
Grand Total	\$6,157.55

Meals were purchased in the following months¹¹:

	2008	2009	2010
January	N/A	\$979.79	\$836.61
February	N/A	\$36.58	\$57.92
March	N/A	\$80.27	\$29.46
April	N/A	\$99.75	\$26.59
May	N/A	\$0	N/A
June	N/A	\$22.35	N/A
July	\$122.12	\$99.75	N/A
August	\$22.35	\$0	N/A
September	\$103.63	\$141.30	N/A
October	\$1,155.01	\$1,171.07	N/A
November	\$86.57	\$58.93	N/A
December	\$485.00	\$542.50	N/A

2 Clothing

The total disbursement to Land's End in the two periods analyzed was \$9,642. Items purchased include:

- Long/Short Sleeve Blouses
- Sleeveless Shirts/Shells
- Cardigan
- Polo Shirts
- Hooded Jacket
- Zip Tote Bags
- Lunch Coolers
- Logo Application Fee

¹¹ It was not always evident from the receipt what day the actual purchase was made; therefore, the date of the journal entry was used.



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3 Other

The nature of the “Other” amounts totaling \$1,492.71 was not readily determinable based upon the support documentation provided. The following items were included in this total:

- A netbook computer and accessories purchased by Joy Logan from Staples for \$658
- A \$25 Publix gift card
- An item identified as “Novelty Electr” from Belk

D Other Observations

Manatron allows a cashier to have multiple sessions open concurrently. As a result, cashiers can have reconciliation problems if they attempt to reconcile one session with payments posted to another session.

The cashiers have the ability to override the session date in Manatron. When opening a session to apply backdated payments, the cashiers change the session date to the date the payments are being applied.

Manatron requires cashiers to indicate the type of tender received from a taxpayer; therefore, a reconciliation based on tender type should be performed and a cashier’s draw should be balanced at the end of each session.

The problem of compartmentalization is pervasive throughout the Treasurer’s Office, that is, individual employees do not understand the entire business process of the office. Treasurer Logan’s subordinates may comprehend their own specific job but do not seem to understand the proverbial “big picture” of the responsibilities and job functions of others.

The Deputy Treasurer does not ensure that he receives a deposit bag from each cashier each day. He only deposits those bags for which he is provided. Mr. Evans should keep a log of specific deposits he brings to the bank each afternoon. This would document exactly which cashiers gave him a deposit bag to transport to the bank.

A cashier is to only maintain \$50 in her cash drawer after closing a Manatron session. Cashiers close their daily sessions at staggered times throughout the afternoon. Often a cashier will open a new session before leaving for the day. Any payments received in the new session are kept in the cashiers’ cash drawer and placed in the vault until the following day’s deposit. This allows for extra cash to be kept in the Treasurer’s Office overnight.

A rubber stamp of Joy Logan’s signature is kept in the back-office. Many employees have access to this stamp. This stamp is used routinely on official County correspondence.