



2100 Dominion Tower
999 Waterside Drive
Norfolk, VA 23510

October 4, 2002

The Honorable Members of the Board of Supervisors
County of James City, Virginia

Ladies and Gentlemen:

We have audited the financial statements of the County of James City, Virginia (the County) as of and for the year ended June 30, 2002, and have issued our report thereon dated October 4, 2002. In planning and performing our audit of the financial statements of the County, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. We have not considered internal control since the date of our report.

During our audit, we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized as follows:

For the year ended June 30, 2002, business license revenues were approximately \$3.9 million. As part of our audit, we reviewed the business license process and its related internal controls. During our procedures, we identified certain operational items, which we believe would improve the overall efficiency and functionality of this process.

Segregation of duties is fundamental to maintaining strong internal controls. During our testing, we noted that many of the functions within the Commissioner of the Revenue's office are performed by the same person, with minimal supervision. For example, business license assessments and collection of fees occur with one individual. We recommend that more individuals within the department could be utilized more effectively to improve the segregation of duties without increasing headcount.

During our testing, we also noted that there were significant time delays between the date that business license taxpayers became delinquent and the date the delinquent filer information was transmitted to the Treasurer's office for collection. As a result, the Treasurer's office was unable to pursue collection procedures on these delinquent filers until six months after the taxpayers became delinquent. The fact that business licenses are billed on a calendar year basis presents a challenge in recording revenue in the proper fiscal year. We recommend that the Commissioner of the Revenue's office formalize and communicate a schedule of key dates in the business license process and distribute it to other departments involved in the process. This timetable should be developed to ensure that the transmittal of delinquent taxpayer information occurs within a reasonable period of time. This should improve both the quantity and timing of business license revenues for the County.

Finally, due to the fact that the business license process is a significant revenue source for the County, we recommend that a multi-departmental committee conduct a review of all controls and procedures within the process. This committee should be comprised of at least one member from each of the departments which participate in the process and should work together to improve the operational effectiveness of the business license process.



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Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the County gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

This report is intended solely for the information and use of the Board of Supervisors, management, and others within the County and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

KPMG LLP