



Auditor of Public Accounts  
Mike Harmon

**FOR IMMEDIATE RELEASE**

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**Harmon Releases Audit of Caldwell County Fiscal Court**

**FRANKFORT, Ky.** – State Auditor Mike Harmon has released the audit of the financial statement of the Caldwell County Fiscal Court for the fiscal year ended June 30, 2015. State law requires annual audits of county fiscal courts.

Auditing standards require the auditor's letter to communicate whether the financial statement presents fairly the receipts, disbursements, and changes in fund balances of the Caldwell County Fiscal Court in accordance with accounting principles generally accepted in the United States of America. The fiscal court's financial statement did not follow this format. However, except for the general fund noted below, the fiscal court's financial statement is fairly presented in conformity with the regulatory basis of accounting, which is an acceptable reporting methodology. This reporting methodology is followed for 115 of 120 fiscal court audits in Kentucky.

Our report presents a modified audit opinion because the Caldwell County did not have adequate occupational tax records to enable us to form an audit opinion on the receipts, disbursements, or balance of the Caldwell County General Fund. In all other respects, the fiscal court's financial statement is fairly presented in accordance with the regulatory basis of accounting.

As part of the audit process, the auditor must comment on non-compliance with laws, regulations, contracts, and grants. The auditor must also comment on material weaknesses involving the internal control over financial operations and reporting.

The audit contains the following comments:

**The fiscal court failed to keep required accounting records for occupational and net profit taxes.** The Caldwell County Fiscal Court failed to maintain subsidiary ledgers for occupational and net profit taxes. Subsidiary ledgers were requested from the Occupational Tax Administrator (OTA). The OTA did not provide any supporting documentation until a meeting

was held with the county judge/executive eight working days later. The documents then received were not subsidiary ledgers, but a recap of deposits for the entire year. The recap of deposits did not agree to the deposit books or the county treasurer's receipts ledger. The occupational tax deposit ledger was understated by \$10,299, and the net profit tax deposit ledger was understated by \$71,273, when compared to the year-end financial statement and deposit tickets.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The Department for Local Government (DLG) County Budget Preparation & State Local Finance Officer Policy Manual requires all counties to maintain a uniform system which includes a cash receipts ledger. The manual describes a cash receipts ledger as follows: "A monthly compilation by fund and account code of receipts recorded on the cash receipts journal. Each item will have a separate page in the cash receipts ledger. Each ledger page will identify the name of the revenue account, the account code and the amount budgeted. A monthly total is posted and a cumulative total is maintained. At the end of each quarter, the year-to-date figure is carried directly to the treasurer's portion of the quarterly financial statement." Additionally, good internal controls require proper record keeping in order to prevent and deter misappropriation of county revenue.

The OTA refused to use software already purchased by the county that would have provided sufficient accounting records through a subsidiary ledger. Additionally, there was a lack of management oversight to verify that the OTA was keeping the required accounting records.

Failure to keep required accounting records and subsidiary ledgers may lead to misappropriation of assets, misleading financial statements, and also causes the fiscal court to be non-compliant with state laws and regulations. Additionally, the lack of supporting documentation of occupational tax receipts caused the county to receive a qualified audit opinion.

We recommend the fiscal court require subsidiary ledgers and other supporting accounting records be maintained for occupational and net profit taxes. Additionally, the fiscal court should verify that the OTA is using purchased software and that the occupational tax and net profit tax records are maintained in a timely manner.

*County Judge/Executive's response: The OTA has been instructed to use the software program provided by the fiscal court to maintain a uniform system which includes a cash receipts ledger/subsidiary ledger. Monthly reports, as well as cumulative annual reports, shall be made available to the Fiscal Court. Delinquent reports will also be generated regularly. The OTA has been advised of these expectations.*

**The jailer failed to properly document assets or declare assets as surplus property.** The jailer purchased a Chevrolet 1500 for \$13,000 on November 15, 2014 and traded in a GMC Envoy for a credit of \$3,299. On May 15, 2015, the jailer purchased a Chevrolet Suburban for \$16,500 which included a trade-in of the previously purchased Chevrolet 1500 for \$10,199. Additionally, the jailer purchased a Ford tractor in December 2014, which he later sold for \$4,000 and did not collect a proper receipt. The jailer never declared these items as surplus or how these items were to be disposed.

KRS 67.0802(2) states, “Before selling or otherwise disposing of any real or personal property, the county shall make a written determination setting forth and fully describing: (a) The real or personal property; (b) Its intended use at the time of acquisition; (c) The reasons why it is in the public interest to dispose of it; and (d) The method of disposition to be used.” Additionally, good internal controls dictate management oversight of capital assets to prevent misappropriation or theft.

Lack of oversight and monitoring caused assets to be improperly disposed of. Assets could be misappropriated if the appropriate procedures are not followed for declaring property as surplus.

We recommend that the jailer properly declare property as surplus prior to disposition in accordance with KRS 67.0802(2).

*County Jailer’s response: All issues brought to my attention will be corrected in a timely manner.*

**The fiscal court failed to properly document required supporting payroll information.** The fiscal court did not require timesheets for the county treasurer, finance officer, road supervisor, EMA Director, or assistant county attorney. Additionally, timesheets for three other employees (a sheriff deputy, the former county judge administrative assistant, and the occupational tax administrator) had no supervisor approval. Also, there was no record maintained for the jailer’s or sheriff’s employee leave balances. Fiscal court employees were also not keeping correct records of time worked. Employees were recording 40 hour work weeks, when in actuality 35 to 37.5 hour schedules were being worked.

KRS 337.320 requires “(1) Every employer shall keep a record of: (a) The amount paid each pay period to each employee; (b) The hours worked each day and each week by each employee; and (c) Such other information as the commissioner requires.” Additionally, good internal controls dictate management oversight of payroll activities to prevent misappropriation or theft.

A lack of internal controls including requiring timesheets for all employees as well as proper documentation of supervisor review of timesheets, and documentation of actual time worked caused inaccurate payroll records. Also, a breakdown in communication caused no documentation to be maintained for jail and sheriff’s employee leave balances. The jailer and sheriff thought the finance officer was keeping leave balances and the finance officer thought the jailer and sheriff were keeping the balances. The effects include possible payments to employees for time not earned or received. Additionally, the fiscal court could be paying benefits not due to employees and is misstating the hourly wages paid to employees.

We recommend the fiscal court require timesheets for all employees, all timesheets document actual hours worked and be signed by employee’s supervisor, and leave balances be maintained for all employees in order to be in compliance with KRS 337.320.

*County Judge/Executive’s response: All employees will continue to keep accurate time sheets which are to be reviewed and signed by their supervisor. Time sheets will include actual time worked for each day. Expectations are that employees will be on the job 8 hours (including two*

*15 minute breaks) and a 30 minute unpaid lunch break. Paid leave balances are kept in the Judge/Executive's office for all County employees.*

**The jail lacks adequate segregation of duties over the accounting functions and has insufficient internal controls.** A lack of segregation of duties exists over the accounting functions at the Caldwell County Jail. One employee collected inmate fees, prepared deposits, made deposits, prepared monthly reports, remitted monthly reports along with inmate fees to the county treasurer, and made payments from the bank account. There were no compensating controls implemented that would offset the lack of segregation of duties.

This condition is due to the jail not segregating duties or implementing compensating controls. Lack of oversight could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the Department for Local Government.

Segregation of duties over the related accounting functions, or the implementation of compensating controls, is essential for providing protection from asset misappropriation and helping prevent inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the jailer segregate duties or implement compensating controls such as:

- Comparing the daily bank deposit to the daily checkout sheet and then comparing the daily checkout sheet to the receipts ledger. Any differences should be reconciled. The jailer could document this by initialing the bank deposit, daily deposit, and receipts ledger for the day checked.
- Comparing the monthly, quarterly, and annual financial reports to receipts and disbursements ledgers for accuracy. Any differences should be reconciled. The jailer could document this by initialing the receipts and disbursements ledgers or denoting the comparison on the financial reports.

Additionally, the jailer should not allow anyone to sign documents using his signature.

*County Jailer's response: All issues brought to my attention will be corrected in a timely manner.*

**The jailer did not require daily deposits, issue receipts for all funds collected, require disbursements be made by check, remit inmate fees to the treasurer timely, or create a system for collection of inmate accounts receivable.** The jailer failed to implement proper accounting procedures for the jail commissary. Deposits are not being made on a daily basis. Inmates' monies were kept in a drawer and given back to them in the form of cash rather than properly depositing the inmate funds and disbursing the monies by check. Receipts were not issued to inmates for commissary purchases or to persons who left money for inmates. Inmate fees were held and not remitted to the treasurer in a timely manner. The jail administrative assistant refuses to issue receipts except for inmate fees paid to the fiscal court. Inmate fees are paid to the treasurer in cash. Additionally, there is currently no cumulative total for funds owed the jail by inmates. Inmate fees collected could not all be traced to inmate activity since there was no documentation of all inmates incarcerated on any given day. If an inmate is booked and leaves the same day, the inmate does not appear on any inmate log.

Jail commissary fund instructions issued by the Department for Local Government pursuant to KRS 68.210 require daily deposits and all disbursements be made by check as part of the minimum accounting requirements for the jail commissary. Additionally, KRS 64.840 requires issuance of receipt for payment of fine, forfeiture, tax, or fee. Additionally, good internal controls dictate management oversight of commissary receipts to prevent misappropriation or theft.

A lack of management oversight resulted in jail revenues being understated in some months since fees were not remitted timely. The lack of daily deposits, not issuing receipts, or lack of a system for accounts receivable could lead to misappropriated cash and incorrect reporting on the financial statements.

We recommend the jailer require receipts be deposited daily and all disbursements be made by check in order to be in compliance with the minimum accounting standards promulgated pursuant to KRS 68.210. The jailer should issue receipts in accordance with KRS 64.840. The jailer should require inmate fees to be deposited and be remitted to the county treasurer by check in a timely manner. Also, the jailer should create a system of tracking all inmate activity including accounts receivable.

*County Jailer's response: All issues brought to my attention will be corrected in a timely manner.*

**The fiscal court failed to record or approve a salary schedule.** The Caldwell County Fiscal Court did not record or approve a salary schedule or document salary changes, nor was there supporting documentation in personnel files to support salary payments to employees. KRS 64.530 states, "(1) Except as provided in subsections (5) and (6) of this section, the fiscal court of each county shall fix the reasonable compensation of every county officer and employee except the officers named in KRS 64.535 and the county attorney and jailer."

The fiscal court was unaware that an approved salary listing was required. The approved salary list also gives the county treasurer authority to pay employees. The lack of an approved employee salary listing could cause improper payments to employees.

We recommend the Caldwell County Fiscal Court set and approve a salary schedule in order to properly document approved salaries.

*County Judge/Executive's response: Salary schedules will be approved by the Fiscal Court. Salary information is kept in the personnel files of each employee.*

The audit report can be found on the [auditor's website](#).

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