



Auditor of Public Accounts
Mike Harmon

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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, 2019. 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. Because of the matter described in the Basis for Qualified Opinion paragraph, we issued a qualified opinion on the financial statement.

Caldwell County Fiscal Court did not provide adequate documentation for occupational tax receipts and net profit receipts. As a result, we were unable to obtain sufficient appropriate audit evidence to conclude that the financial statement as a whole is free from material misstatement.

In our opinion, except for the effects of the matters discussed in the Basis for Qualified Opinion on Regulatory Basis of Accounting paragraph, the financial statement referred to above presents fairly, in all material respects, the fund balances of the Caldwell County Fiscal Court as of June 30, 2018, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government (DLG) described in Note 1.

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

The audit contains the following comments:

The Caldwell County Fiscal Court has internal control weaknesses and noncompliances over occupational tax and net profit taxes: This is a repeat finding and was included in the prior year audit report as Finding 2018-001. The Caldwell County Fiscal Court failed to maintain ledgers for occupational tax and net profit taxes. The occupational tax administrator provided auditors with a recap of deposits, rather than a subsidiary ledger for occupational and net profit tax receipts.. Tax returns were requested for companies for testing of occupational tax and net profit, however occupational tax administrator failed to provide requested information. 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.

Failing to maintain ledgers may lead to misappropriation of assets, misleading financial statements, and causes the county to be non-compliant with state laws and regulations. Additionally, the lack of supporting documentation of occupational tax and net profit tax receipts caused the county to receive a modified audit opinion.

The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* requires all counties to maintain a uniform system which includes a cash receipts ledger. Further the Caldwell County Fiscal Court Occupational Tax Ordinance states "It shall be the duty of the Caldwell County Tax Administrator to collect and the Caldwell County Treasurer to receive the occupational taxes imposed by this Ordinance. The Tax Administrator and Treasurer shall keep records showing the amount received by him/her from each licensee and employer and the date of such receipt." Also good internal controls dictate that the occupational tax administrator should maintain documentation regarding taxes received.

We recommend the fiscal court require subsidiary ledgers as well as other supporting accounting records be maintained for occupational and net profit taxes. Additionally, the fiscal court should provide proper management oversight by verifying that the OTA is using purchased software and that the occupational tax and net profit tax records are maintained as required by the county's Occupational Tax Ordinance.

County Judge/Executive's Response: Occupational and Net Profit Taxes control responsibility has been shifted to other departments.

The Caldwell County Jail does not have an adequate accounts receivable process: This is a repeat finding and was included in the prior year audit report as Finding 2018-003. The Caldwell County Jail does not have an adequate accounts receivable process. Upon release, the jail does not attempt to collect any monies from the inmates. If an inmate returns to the jail, then they will collect some of the owed fees then. The jail makes no attempt to collect the accounts receivable because management feels that the costs of trying to collect the monies owed by former inmates outweigh the benefits.

According to debt reports printed by the jail bookkeeper, the Caldwell County Jail has \$1,203,691 in outstanding receivables as of June 30, 2019 that could be collected. Prudent accounting practices require an attempt of collection for an account as large as the Jail accounts receivable.

We recommend the jailer improve the accounts receivable process at the Caldwell County Jail and improve attempts to collect the outstanding accounts receivable balance.

County Judge/Executive's Response: The jailer will be responding to this question.

County Jailer's Response: The jail will correspond with the County Attorney to try to rectify this situation. Attempts were made to collect per diem and booking charges from the inmates released, however if the inmate is rearrested on non-payment of jail fees, they will end up owing the jail more than the original debt.

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

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