



Auditor of Public Accounts
Mike Harmon

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Harmon Releases Audit of Ohio County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Ohio County Fiscal Court for the fiscal year ended June 30, 2017. 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 Ohio 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, 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.

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 Ohio County Detention Center lacks adequate segregation of duties: This is a repeat finding and was included in the prior year audit report as Finding 2016-001. The Ohio County Detention Center lacks adequate segregation of duties over jail commissary receipts and disbursements. The jailer prepares deposits, prepares checkout sheets for inmate fees collected, handles cash collected from inmates, and approves and signs commissary checks. According to the jailer, this lack of segregation of duties is a result of a limited budget, which restricts the number of qualified employees the Ohio County Detention Center can hire for accounting functions.

Without the proper internal controls, the jailer creates the opportunity for undetected misappropriation of assets and inaccurate financial reporting. Good internal controls dictate that

duties over the various accounting functions such as preparation of deposits, checkout sheet preparation, collection of cash, and preparation of checks be segregated in order to lower the risk of undetected misappropriation of assets and inaccurate financial reporting. We recommend the Ohio County Detention Center implement segregation of duties over receipts and disbursements of the jail commissary. If the duties cannot be segregated due to a limited number of staff or budget, strong oversight should be provided over the employee responsible for the duties. In addition, any compensating controls performed should be documented.

County Jailer's Response: Jailer Gerry Rip Wright has implemented segregation of duties over Jail commissary receipts and disbursements by giving a deputy the ability to sign commissary checks, having the deputy review and sign daily deposits, and having the deputy review and sign check out sheets for inmate fees collected.

Auditor's Reply: These controls were not implemented until after the fiscal year ended June 30, 2017.

The Ohio County Fiscal Court lacks adequate controls over occupational and net profit taxes: This is a repeat finding and was included in the prior year audit report as Finding 2016-005. The following internal control deficiencies were noted:

- Penalty waivers were not approved by anyone other than the occupational tax office. One business tested did not submit their second quarter occupational tax return in a timely manner. The occupational tax administrator (OTA) was not aware of this until she (the OTA) did the annual reconciliation and a penalty of \$3,583 was waived. According to the OTA, the penalty was waived since it was the business' first time not submitting a return in a timely manner. The OTA also said some penalties were being applied to delinquent tax bills, but only as the OTA office deems necessary.
- Net profit tax returns were not maintained properly. One business tested did not file a net profit tax return at all. The OTA stated that she (the OTA) has attempted to reach out to this business several times and is getting ready to turn the business over as delinquent to the county attorney.
- Tax credits applied did not have documented review by another individual. Two businesses tested applied carryover credit balances of \$4,833 and \$4,425. Balances existed with these businesses for more than one taxable year.

According to the occupational tax administrator, this lack of internal controls is a result of a limited budget, which restricts the number of qualified employees the fiscal court can hire within the occupational tax office. Due to the fiscal court not specifically stating in the occupational tax ordinance any written procedures for waiving penalties, the occupational tax office understood it is at their discretion.

Without the proper internal controls, the fiscal court creates the opportunity for undetected misappropriation of assets and inaccurate financial reporting. Good internal controls dictate that accurate and sufficient records be maintained in order to ensure all fees are collected by the county.

The Ohio County Occupational Tax Ordinance 2009-2 Section 10 (3) states, “[t]he authority to refund or credit overpayments of taxes collected pursuant to this ordinance is vested exclusively in the county.” Section 12 (1) states, “[a] business entity subject to tax on net profits may be subject to a penalty equal to five percent (5%) of the tax due for each calendar month or fraction thereof if the business entity (a) fails to file any return or report on or before the due date prescribed for filing or as extended by the county. The total penalty levied pursuant to this subsection shall not exceed twenty-five percent (25%) of the total tax due; however, the penalty shall not be less than twenty-five dollars (\$25). Section (3) states, “[i]n addition to the penalties prescribed in this section, any business entity or employer shall pay, as part of the tax, an amount equal to twelve percent (12%) per annum simple interest on the tax shown due, but not previously paid, from the time the tax was due until the tax is paid to the county.”

We recommend written procedures be developed for waiving penalties. We also recommend someone independent of the tax collections process review taxpayer account balances to ensure credits are being applied correctly in future tax years and to ensure all businesses are filing tax returns in accordance with the county occupational tax ordinance.

County Judge Executive’s Response: Occupational Tax Administrator (OTA)

- 1. The Judge Executive has implemented a written policy concerning waivers of penalties. No penalty shall be waived without the written consent of the Judge Executive. The OTA shall submit all supporting documentation to the Judge before any penalties are waived. OTA shall attached documentation showing Judge Executive’s signature to each penalty waived.*
- 2. The Judge Executive has implemented a written policy requiring an OCCTAX Quarterly delinquent report be submitted to his office or office he designates no later than the 20th of the month following each quarter ended.*
- 3. The Judge Executive has implemented a written policy requiring an OCCTAX Net Profit delinquent report be submitted to his office or office he designates no later than June 30th of each year.*
- 4. The Judge Executive has implemented a written policy requiring the OTA to submit to his office or office he designates a yearly report on all active accounts so they may be reviewed by someone independent of the tax collections process as required by KY State Auditors.*

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

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