



Auditor of Public Accounts
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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, 2018. 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: The Caldwell County Fiscal Court failed to maintain ledgers for occupational tax and net profit taxes. The occupational tax administrator (OTA) provided auditors with a recap of deposits, rather than a subsidiary ledger for occupational and net profit tax receipts. Tax returns for companies were requested for testing of occupational tax and net profit, however the 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 adequate documentation of occupational tax and net profit tax receipts caused the county to receive a modified audit opinion.

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

Former County Judge/Executive's Response: Issues were addressed, and new procedures for bookkeeping, as well as new Occ. Tax software has been implemented.

Weak internal controls resulted in the misstatement of capital assets on the county's schedule of capital assets: This is a repeat finding and was included in the prior year audit report as Finding 2017-004. Material weaknesses exist over the reporting of capital assets of Caldwell County. The fiscal court failed to periodically conduct physical inspections of all assets to make comparisons to the capital asset list. The fiscal court's ending balance of the schedule of capital assets for the period of audit was misstated by \$624,062. However, numerous misstatements were noted involving asset additions and deletions because fiscal court did not properly update the capital asset list.

Additions were misstated overall by \$794,028 because some current year additions were excluded from the county's capital asset schedule. Furthermore, prior year additions had been reported as additions for the current year as well. Deletions were misstated overall by \$62,338 because items

disposed in fiscal years 2019 and 2020 were shown as deletions for the current year. It was also noted that the vehicle identification numbers (VINs) were incorrect on a few assets.

These misstatements occurred because the fiscal court failed to emphasize strong internal controls over the reporting of capital assets and instead relied on a single employee without sufficient supervision. Due to these weak internal controls, capital assets are left vulnerable to misappropriation or misstatement. In this case, misstatements were able to occur without detection.

Strong internal controls over capital assets are necessary to ensure accurate financial reporting and to protect assets from misappropriation. In order to strengthen the fiscal court's internal controls over capital assets, we recommend the fiscal court establish a detailed inventory system. This system should include a detailed description of each fiscal court asset, an inventory control number or serial number, the date acquired, purchase price, location, date destroyed or sold as surplus, and a brief description of why the asset was discarded. The inventory of county assets should be updated throughout the year as new assets are acquired or old assets are retired. This system should be applied consistently in accordance with the county's capitalization policy. Also, all asset additions and retirements should be properly authorized by fiscal court and documented in the fiscal court minutes. We also recommend the county conduct a physical inspection of the county's assets at the end of each year to make comparisons to the county's inventoried assets.

Former County Judge/Executive's Response: Issues were addressed, and has been turned over to a different employee.

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 \$743,325 in outstanding receivables as of June 30, 2018, 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.

Former County Judge/Executive's Response: Will accept responses of jailer.

County Jailer's Response: The jail will correspond with the County Attorney to try to rectify the 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 Caldwell County Jail does not have adequate segregation of duties: This is a repeat finding and was included in the prior year audit report as Finding 2017-005. The Caldwell County Jail

does not have adequate segregation of duties over receipts and disbursements. The jail's finance officer collects receipts from the kiosks, has access and can make changes to the ledgers, and performs the monthly bank reconciliations. There was no documented review of daily check out sheets postings to the receipts and disbursements ledgers, or financial statement preparation. Additionally, the Caldwell County Jail only requires one signature on checks.

Per the jailer, the Caldwell County Jail has limited options for establishing segregation of duties due to the small size of staff and limited resources. A lack of segregation of duties could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies, such as the Department for Local Government (DLG). In addition, too much control by one individual without oversight can lead to undetected irregularities to occur. Segregation of duties over these functions, or the implementation of compensating controls, is essential for providing protection from asset misappropriation and helping prevent inaccurate financial reporting.

We recommend the Caldwell County Jail segregate duties to the extent possible. If proper segregation of duties is not possible due to budget constraints, we recommend the Caldwell County Jail implement compensating controls over receipts and disbursements.

Former County Judge/Executive's Response: See Jailer's notes.

County Jailer's Response: Caldwell County Jail has a finance officer. We are making every effort to split up the duties between administration.

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

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