



Auditor of Public Accounts  
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FOR IMMEDIATE RELEASE

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### **Edelen Releases Audit of Caldwell County Fiscal Court**

**FRANKFORT, Ky.** – State Auditor Adam Edelen has released the audit of the financial statements of the Caldwell County Fiscal Court for the fiscal year ended June 30, 2011. State law requires annual audits of county fiscal courts.

The audit found that the county's financial statements, in all material respects, fairly present the county's assets, liabilities, and net assets arising from cash transactions and revenues received and expenditures paid in conformity with the modified cash 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:

**Lack of adequate internal controls over the collection of and accounting for occupational and net profits taxes.** During testing of occupational and net profit taxes, we noted that no occupational tax subsidiary ledger was maintained, there were missing tax returns for three employers, documentation of when tax returns were received is inconsistent, some returns are dated several weeks prior to the date they were stamped received, tax returns are not processed daily, receipts are not deposited daily, delinquent net profit and occupational taxes are not maintained nor are the delinquent taxes collected. The occupational tax administrator maintains all occupational and net profit tax records, prepares deposits, and posts receipts with no one else reviewing tax collections or postings. When the occupational tax administrator is absent, deposits are not made nor are returns processed. We viewed a large amount of unprocessed returns that were left locked in the occupational tax administrator's office. The control deficiency described above is considered to be significant and material.

We recommend tax forms be attached to envelopes received in, occupational tax ledger be maintained and printed at year end, occupational tax payer files should be updated, deposits be made daily, occupational tax returns be processed when received, and collection of delinquent taxes be attempted. Someone independent of the occupational tax office should prepare a mail receipts listing and review daily receipts received. These processes should be reviewed by someone other than the occupational tax administrator and the review should be documented.

*County Judge/Executive Brock Thomas' response: Issues revised would require change of Occupational Tax Ordinance. Parties will examine changes, if any, to issues reversal.*

*Occupational Tax Administrators response: See Appendix B.*

**Lack of adequate segregation of duties over revenues and bank reconciliations and financial statement preparation.** During testing we noted that there is a lack of segregation of duties over revenues and bank reconciliations. The treasurer performs all accounting functions over cash and receives, posts, and reconciles revenues as well as prepares the quarterly financial statements. There were no documented compensating controls to offset the lack of segregation of duties or reduce the deficiency to less than significant level. We recommend the fiscal court implement the following compensating internal controls.

1. Have someone independent of the treasurer's office review and re-compute the bank reconciliation. Outstanding items should be reviewed. The review/re-computation should be documented.
2. Have someone independent of the treasurer's office prepare a mail receipts listing.
3. Have someone independent of the treasurer's office compare receipts listing to the daily check out sheets to the receipts ledger to determine all receipts are properly accounted for. The review should be documented.

*County Judge/Executive Brock Thomas' response: I will work with Treasurer to develop and institute a plan to improve our process.*

**The former Jailer lacked adequate segregation of duties over the accounting functions.**

A lack of segregation of duties existed 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, reconciled the bank account and made payments from the bank account. There were no compensating controls implemented that would offset the lack of segregation of duties. The former Jailer should have segregated duties or implemented the following compensating controls:

- The Jailer should have periodically compared the daily bank deposit to the daily checkout sheet and then compared the daily checkout sheet to the receipts ledger. Any differences should have been reconciled. The Jailer could have documented this by initialing the bank deposit, daily checkout sheet, and receipts ledger for the day checked.
- The Jailer should have compared the monthly, quarterly, and annual financial reports to receipts and disbursements ledgers for accuracy. Any differences should have been reconciled. The Jailer could have documented this by initialing the receipts and disbursements ledgers or denoting the comparison on the financial reports.

- The Jailer should have periodically compared the bank reconciliation to the balance in the checkbook. Any differences should have been reconciled. The Jailer could have documented this by initialing the bank reconciliation and the balance in the checkbook

*County Jailer John Pettit's response: I will periodically compare these items and initial same. Any differences will be reconciled.*

**The Jailer should have required daily deposits, all disbursements be made by check, and inmate fees be remitted to the treasurer timely.** During testing of Jail Commissary records, we noted deposits were not made daily. Inmates' monies were kept in a lock box and given back to them in the form of cash rather than properly depositing the inmate funds and disbursing the monies by check. Inmate fees were paid to the treasurer in cash. Inmate fees were held and not remitted to the treasurer in a timely manner.

Jail Commissary Fund Instructions issued by the Department for Local Government require daily deposits and all disbursements be made by check as part of the minimum accounting requirements for the Jail Commissary as prescribed by KRS 68.210.

The Jailer should have required receipts be deposited daily and all disbursements be made by check in order to be in compliance with the minimum accounting standards as prescribed by KRS 68.210. The Jailer should have required inmate fees be remitted to the county treasurer by check in a timely manner.

*County Jailer John Pettit's response: Due to the large number of inmates and insufficient staff, I do receive and return small amounts of money to inmates who may be in jail for an hour or so. Receipts are signed. All deposits are made as soon as possible.*

**The County should approve a salary schedule.** The County did not approve and set the salaries for the County employees. KRS 64.530 states the Fiscal Court of each county shall fix the compensation of every County officer and employee. We recommend the County list all employees and each salary or hourly pay rate. The County should also include the starting pay rates for entry-level positions. The County should revise this list as increases are approved by the Fiscal Court.

*County Judge/Executive Brock Thomas' response: We will examine this matter further and implement appropriate changes if needed.*

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

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