



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, 2020. 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.

The Caldwell County Fiscal Court did not provide adequate documentation for occupational tax receipts and net profit tax 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, 2020, 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 failed to maintain adequate financial records for occupational taxes and net profit taxes: This is a repeat finding and was included in the prior year audit report as Finding 2019-001. Audit procedures were unable to obtain reasonable assurance for the amount of occupational and net profit tax collections reported by the county. The Caldwell County Fiscal Court failed to maintain subsidiary ledgers for occupational taxes and net profit taxes. Subsidiary ledgers for occupational tax receipts and net profit tax receipts were not available between July 2019 and February 2020.

The county did not require occupational and net profit tax collections to be accounted for using the tax software which would have maintained the financial information necessary to support these collections. Failing to record ledgers may lead to misappropriation of assets and misleading financial statements. Because subsidiary ledgers were not maintained, the county is non-compliant with state laws and regulations. Additionally, due to the lack of supporting documentation for occupational tax and net profit tax receipts the county will 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. The manual states, "[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."

Furthermore, the Caldwell County Fiscal Court Occupational Tax Ordinance states, "[i]t 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 county maintain adequate financial records to support occupational tax and net profit tax collections.

We recommend the Caldwell County Fiscal Court require all occupational and net profit tax collections be accounted for using the tax software and implement control procedures to ensure occupational and net profit tax collections being reported are adequately support.

County Judge/Executive's Response: These duties have been given to a new employee. The software is being utilized on a daily basis.

The Caldwell County Fiscal Court failed to implement adequate internal controls over payroll: The Caldwell County Fiscal Court has internal control deficiencies and noncompliances regarding payroll and timekeeping. The salary schedule used by the payroll officer to prepare paychecks for all county employees was not approved by the fiscal court. There was no evidence maintained that documented where the fiscal court of the county had fixed the reasonable compensation of every county officer and employee in accordance with KRS 64.530.

During testing, we noted inconsistencies in the sheriff's office time keeping records when compared to payroll office records. The Caldwell County Fiscal Court required the sheriff's office be fee pooling, the sheriff turns over fees collected each month, and then the county pays all of the sheriff's office payroll as well as other operating expenses. The sheriff's office turns in timesheets to the payroll office, and the payroll office then pays the sheriff's employees along with other county employees.

The following issues related to the sheriff's payroll were noted:

- Five out of the 16 sheriff's employees tested were not included on the salary schedule used by the payroll officer to prepare pay checks.
- Pay rates per the salary schedule did not agree with the actual rate paid to eight sheriff employees. Each of these employees were paid per hour more than what was on the salary schedule.
- The sheriff's office timesheets, which were reviewed and approved by the sheriff or chief deputy, did not always calculate the total hours worked correctly or document actual hours worked. One example of this was a sheriff's deputy was paid for 40 hours of regular pay plus two hours of overtime due to the timesheet's totals showing these amounts, however the time worked per the deputy's timesheet only documented 34 hours worked.
- The sheriff's office is keeping an unofficial log for comp time that is not supported by timesheets or other documentation. The Caldwell County Fiscal Court had not adopted a compensatory time policy. Employees who are eligible to receive overtime benefits are to be paid for overtime earned. There was no documentation that employees requested compensatory time rather than being paid for overtime worked. Comparison of comp time logs to timesheets showed that time taken off as comp was not shown on the employee's timesheet. Additionally there was no documentation that compensatory time is awarded consistently at time and a half when employees worked in excess of 40 hours in a week as prescribed by KRS 337.285.
- One employee was paid two bereavement days for leave on non-scheduled work days.
- Four instances in one pay period were noted where sheriff employee timesheets did not agree with the corresponding dispatch call out logs. There were two instances where timesheets had more hours than dispatch call logs and there were two instances where timesheets had less hours than dispatch call logs.

The findings listed above are due to the lack of effective internal controls. Internal controls over the payroll process are designed effectively, but the controls are not functioning properly which is partly due to the sheriff not following existing controls by implemented by the fiscal court. According to the sheriff, he was unaware that they had to record actual hours worked on timesheets and thought his office could administer comp leave without going through the payroll officer.

Because internal controls are not functioning properly, employees may have been paid for hours not worked, paid for bereavement leave the employee was not entitled to, and some employees may not have been properly paid overtime or awarded comp time when working in excess of 40 hours a week.

Strong internal controls over payroll are vital in ensuring that payroll amounts are calculated and accounted for properly. Strong internal controls are also important in safeguarding the county's assets and those given the responsibility of accounting for them, as well as helping make certain the county is in compliance with state statutes.

The Caldwell County Administrative Code Section 5.45 states, “[n]onexempt employees will receive overtime pay at the rate of one and one-half (1.5) times the hourly wages for actual hours worked in excess of eight (8) hours per day or forty (40) hours in any work week. Also, section 5.38 Bereavement Leave of the County Administrative Code states, “[l]eave shall be limited to three (3) working days without loss of pay.”

KRS 337.320(1) states, in part, “[e]very employer shall keep a record of...the hours worked each day and each week by each employee.” Likewise, KRS 337.285(1) states “[n]o employer shall employ any of his employees for a work week longer than forty (40) hours, unless such employee receives compensation for his employment in excess of forty (40) hours, unless such employee receives compensation for his employment in excess of forty (40) hours in a work week at the rate of not less than one and one-half (1-1/2) times the hourly wage rate at which he is employed.”

Additionally, KRS 64.530(1) states “[e]xcept 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.”

We make the following recommendations to address these findings:

- The fiscal court should fix the salaries of county officers and employees.
- The fiscal court should properly maintain a record of hours worked each day and each week by each employee in accordance with KRS 337.320.
- All payroll items should run through the payroll officer.
- The sheriff should ensure that correct timesheets are submitted for all sheriff office employees, and that timesheets document hours actually worked each day.
- All reviewers should ensure timesheets are thoroughly reviewed and are accurate before submitting to the payroll office for processing.
- If the county wishes to utilize compensatory time, then the county should adopt a compensatory time policy by amending the county administrative code to allow for compensatory time in lieu of overtime payment.
- Agreement of comp time in lieu of overtime payment should be documented for each eligible employee.
- Overtime and or comp time should be awarded to employees based on hours actually worked, per KRS 337.285 and according to the Caldwell County Administrative Code.
- An individual independent of the payroll process should review payroll transactions to verify that all amounts have been calculated properly and that they are properly supported.

County Judge/Executive's Response: Salary schedules are kept in the employee's personnel files. All sick time and comp time has been move to Administrative Assistant. Fiscal Court passed a new comp time ordinance on August 24, 2021. There is also a Sheriff's response.

County Sheriff's Response: In response to bullet points one and two - bullet point two is basically stating the same cause and effect of bullet one. The sheriff's office disagrees with the finding, as well as the wording of this bullet point. The sheriff's office fills out the appropriate paperwork for salaries of the employees and turns these in to the payroll office. It is the opinion of the sheriff's office if the proper paperwork was not turned in, the employees would not be receiving the agreed upon pay. The employees would have brought this to the attention of the sheriff. As to the comment of eight employees not matching the agreed upon rate; once again, the paperwork for hourly wages are set and turned over the payroll office. The policy has been followed for twenty-two years and nothing has been brought to the attention of the sheriff's office stating this was not in compliance on previous fiscal court audits.

Controls to be placed include copies for both the payroll office and the sheriff. Please note these are the same controls as the past but due diligence will be noted.

In response to bullet point three – While the timesheets are signed off on in the sheriff's office, they are reviewed by multiple sources. After the audit findings with the timesheet mentioned, the sheriff's office recognized what the deputy tallied as a total did not match what he placed on the timesheet.

Control consists of continued coordination with the court and finance officer to review timesheets.

In response to bullet point four - The sheriff's office disagrees with the finding. They were correct, but not documented to satisfy the auditor's requirement. The sheriff's office has kept this comp log for many years. At no point in any previous audit, has there been a mention of this being "unofficial." The question would arise, how can something be deemed "unofficial" when the county had not yet adopted its own policy on comp time? The sheriff office disagrees the comp log was "unofficial" due to the fiscal court not having adopted its own comp time policy and therefore the sheriff's office adopted their own policy on comp time, which has been utilized for many years, making it "official" to the sheriff's office. It has sufficed to show the comp time earned and paid out. The compensatory time has always been paid 1.5 times and therefore we disagree with this finding. It is the opinion of the sheriff's office if in previous audits, if this was found to be noncompliant, it would have been brought to the attention of the fiscal court and they would have adopted a county-wide policy.

Controls consist of a county-wide comp policy adopted by the fiscal court, along with comp forms 8/24/21 and the sheriff's office will submit the comp time earned to the payroll office.

In response to bullet point five - The sheriff's office disagrees with this finding. After review of the timesheet of the said infraction, it is found that the employee was actually paid vacation time earned; per the county policy, an employee may be paid vacation time earned when circumstances have arisen and they have not been able to use the time.

Controls are continued review of timesheets and following the county policy.

In response to bullet point six - The sheriff's office disagrees with this finding. Dispatch call logs are not reflective of all the work a deputy performs, as many times it is off the record due to reasons of not wanting the listening public (scanners) to know the circumstances of particular situations where it can affect the safety of the community and deputies. This was explained during the audit. The dispatch center, which is a separate and independent agency, is not responsible for record keeping of time worked for the sheriff's office or any other entity to which they provide service. No emergency service agencies use the dispatch call logs as official time logs for time worked/paid. Therefore, the sheriff's office disagrees with the findings because call logs from the dispatch are not a true mechanism of the daily hours worked for the employees.

Controls of the sheriff's office will review timesheets and continue to ensure time noted is accurate and consistent with time authorized.

The sheriff's office would like to respond to the cause and state the existing controls were followed; albeit an oversight noted to one timesheet and the acknowledgement the county had not adopted a county-wide policy, the sheriff's office had a comp policy in place that had been in practice for over twenty years and was not notified previously of this not being compliant.

Auditor's Reply: The sheriff's office failed to keep complete time records that documented the actual hours worked by employees. There were no records to substantiate comp logs maintained by the sheriff's office. Nor was there any documentation that employees agreed to receive comp time in lieu of being paid for overtime.

Additionally the sheriff's office did not adhere to the County's Administrative Code for time paid for bereavement or overtime. The Caldwell County Administrative Code Section 5.45 states, "Nonexempt employees will receive overtime pay at the rate of one and one-half (1.5) times the hourly wages for actual hours worked in excess of eight (8) hours per day or forty (40) hours in any work week." Also, section 5.38 Bereavement Leave of the County Administrative Code states, "Leave shall be limited to three (3) working days without loss of pay." Caldwell County's Administrative Codes states "There is no compensation for vacation days that you do not take."

The Caldwell County Fiscal Court failed to implement adequate internal controls over disbursements: During testing of disbursements we noted the following issues:

- Forty-four of 70 disbursements tested either did not have a purchase order or the purchase order was made after the invoice date.
- Four credit card disbursements made during the two months tested did not have itemized receipts.
- Sixty-six of 71 credit card disbursements did not have a purchase order or the purchase order was made after the invoice date.

The Caldwell County Fiscal Court failed to implement internal controls over disbursements to ensure proper handling and compliance with applicable laws. The fiscal court's failure to establish

effective internal controls over disbursements resulted in numerous instances of noncompliance reflected above. These deficiencies could also result in line items being over budget, claims being paid which are not valid obligations of the fiscal court, inaccurate reporting, and misappropriation of assets.

KRS 68.210 gives the state local finance officer the authority to prescribe a system of uniform accounts. The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* which outlines requirements for counties' handling of public funds, including required purchasing procedures for counties.

We recommend the Caldwell County Fiscal Court strengthen internal control procedures over disbursements by ensuring all disbursements include an itemized receipt or invoice. We also recommend that the Caldwell County Fiscal Court strengthen their internal controls over purchase orders and ensure that purchase orders are obtained prior to all purchases being made, as well as ensure that purchase requests are not approved in an amount that exceeds the available line item appropriation without the appropriate transfers being made.

County Judge/Executive's Response: As of November 2021, the Finance Officer is adding each month PO's for utilities and travel.

The Caldwell County Fiscal Court's financial statement omitted the ending cash balance for the ambulance fund: The Caldwell County Fiscal Court's fourth quarter financial statement reports a zero ending cash balance for the ambulance fund. However, the ambulance fund checking account has an ending cash balance of \$30,943 as of June 30, 2021. The treasurer booked a cash transfer from the ambulance fund to the general fund in the amount of the ambulance fund ending balance, but the cash transfer was not actually made from ambulance fund checking account. Additionally, a corresponding cash transfer in was not recorded in the general fund. This error caused cash balances to be misstated on the fourth quarter financial statement. Additionally, there was no documentation that the fiscal court approved combining the ambulance fund into the general fund nor was there approval of the fund balance cash transfer.

According to the county treasurer, the fiscal court decided that the ambulance fund be should be combined into the general fund since the general fund provided so much support to the ambulance fund. Due to an oversight, the balance of the ambulance fund bank account was not reported on the fourth quarter financial statement or combined with the general fund cash balance.

The ending cash balance on the fourth quarter financial statement was understated by \$30,943. Since these funds were not properly reported, there is an increased risk of misappropriation or theft.

Strong internal controls dictate that the ending cash balances of all funds reported on the fourth quarter financial statement include all bank accounts. Furthermore, strong internal controls dictate that fiscal court document its approval of combining funds and making transfers. Also, per the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* "all reports should be tested for accuracy before electronic submission to the state local finance officer."

We recommend the Caldwell County Fiscal Court strengthen internal controls over financial reporting to ensure that the ending cash balances of all funds are accurately reported on the fourth quarter financial statement. We further recommend the fiscal court adequately document its approval to combine funds and make transfers from one fund to another.

County Judge/Executive's Response: This account will be closed once the court votes on it in Fiscal Court on October 26, 2021.

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

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