



Auditor of Public Accounts  
Mike Harmon

**FOR IMMEDIATE RELEASE**

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### **Harmon Releases Audit of Butler County Fiscal Court**

**FRANKFORT, Ky.** – State Auditor Mike Harmon has released the audit of the financial statement of the Butler 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 Butler 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 Butler County Jail Commissary lacks segregation of duties over receipts, disbursements and reconciliations:** The Butler County Jail Commissary lacks adequate segregation of duties over receipts, disbursements, and reconciliations. The bookkeeper deposits receipts, prepares the jail receipts and disbursements ledger, and reconciles the bank statements as well as prepares the monthly financial reports, with no documented oversight.

The Butler County Jail has a small number of staff and the bookkeeper was not aware that they should be documenting any compensating controls that had been implemented. The lack of segregation of duties could result in undetected misappropriation of assets and inaccurate

financial report to the fiscal court. In addition, too much control by one individual without oversight can lead to undetected irregularities.

Good internal controls dictate that the collection of receipts, recording of transactions, reconciling bank statements, and financial reporting functions be segregated in order to reduce the opportunity for the misappropriation of assets and inaccurate financial reporting to occur. We recommend the jail commissary bookkeeper's duties be segregated or document the implemented compensating controls over these areas.

*County Judge Executive's Response: Butler County Jail has implemented the following standards to insure that the Butler County Jail Canteen account maintains segregation of duties over receipts, disbursements, and reconciliations.*

*The accounting office of the Butler County Jail has a limited staff size, but they have implemented compensating controls. In the future the accounting office of the Butler County Jail will make sure and document the compensating controls.*

*They have since this audit, trained additional staff to be used in the accounting office. For receipts this means that the daily checkout sheets will be prepared one staff member and reviewed and approved by the Chief Administrative Deputy. All money is now received by the Booking Officer and approved by the Chief Administrative Deputy. Bank reconciliations are completed by the Chief Administrative Deputy and then reviewed by additional trained staff.*

*Although the Butler County Jail accounting office has been limited in size, we are implementing compensating controls to insure that all money is properly accounted for.*

*Jailer's Response: Will document compensating controls.*

**The Butler County Fiscal Court did not maintain an accurate capital asset schedule:** The Butler County Fiscal Court's capital asset schedule was overstated by \$149,216 due to the following errors:

- \$18,549 of ferry house maintenance was erroneously recorded as capital assets;
- \$12,281 for heating and cooling maintenance was erroneously recorded as capital assets;
- \$100,000 was included erroneously for infrastructure that was donated from the state to the county;
- \$5,029 for a printer that was not purchased with county funds was erroneously recorded as a capital asset; and
- \$13,357 for vehicles that were erroneously recorded at their insured value rather than cost.

The county treasurer prepared the schedule of capital assets from inventory received from the departments; however, the schedule was not reviewed by another employee to ensure accuracy. The fiscal court lacks adequate controls over the reporting of capital assets, such as requiring the schedule of capital assets be reviewed by another employee for accuracy. The county treasurer stated she was not aware she should revise her schedule for items no longer meeting the

capitalization threshold and that this was her first year as a county treasurer. The fiscal court's capital asset schedule was materially inaccurate due to these overstatement errors.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Per the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual*, capital asset records are necessary for proper asset valuation, adequate and accurate insurance coverage, internal control, and long range planning for property placement. Strong internal controls over capital assets are necessary to ensure accurate financial reporting, to protect assets from misappropriation, and to ensure accurate insurance coverage.

We recommend the fiscal court maintain a complete and accurate capital asset schedule to comply with the Department for Local Government requirements. Procedures should be implemented that will identify and track additions and deletions for the purpose of the capital asset schedule with adequate supporting documentation and any additions or deletions should be reconciled to the department inventory records annually for insurance coverage. The schedule prepared by the county treasurer should be reviewed by another employee to ensure accuracy. Also, whenever the fiscal court chooses to revise the capitalization policy, we recommend the schedule of capital assets be reviewed to remove any items that no longer meet the capitalization threshold.

*County Judge Executive's Response: The Capital Asset Schedule for Butler County Fiscal Court contained items that were under the threshold according to the Capitalization Policy adopted by Butler County Fiscal Court. However, there were no capital assets that were overlooked. In the future, when this schedule is prepared we will be more careful to watch the thresholds, and not to include items that fall below the thresholds. Also the treasurer will have someone else compare the schedule of Capital Assets to the schedule of insured values as a compensating control. Butler County Fiscal Court is working on updating its Capitalization Policy, and after doing so will remove items that fall below the new threshold amounts.*

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

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