

**REPORT OF THE AUDIT OF THE
BUTLER COUNTY
FISCAL COURT**

**For The Year Ended
June 30, 2018**



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MIKE HARMON
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To the People of Kentucky

The Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

The Honorable David Fields, Former Butler County Judge/Executive

The Honorable Tim Flener, Butler County Judge/Executive

Members of the Butler County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Butler County Fiscal Court, for the year ended June 30, 2018, and the related notes to the financial statement which collectively comprise the Butler County Fiscal Court's financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. This includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Audit Guide for Fiscal Court Audits* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the Butler County Fiscal Court on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Butler County Fiscal Court as of June 30, 2018, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of the Butler 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 described in Note 1.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of the Butler County Fiscal Court. The Budgetary Comparison Schedules and Capital Asset Schedule are presented for purposes of additional analysis and are not a required part of the financial statement; however, they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws.

The accompanying Budgetary Comparison Schedules and Capital Asset Schedule are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Budgetary Comparison Schedules and Capital Asset Schedule are fairly stated in all material respects in relation to the financial statement as a whole.

To the People of Kentucky

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 7, 2019, on our consideration of the Butler County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Butler County Fiscal Court's internal control over financial reporting and compliance.

Based on the results of our audit, we present the accompanying Schedule of Findings and Responses included herein, which discusses the following report findings:

- 2018-001 The Butler County Jail Commissary Lacks Segregation Of Duties Over Receipts, Disbursements, And Reconciliations
- 2018-002 The Butler County Fiscal Court Did Not Maintain An Accurate Capital Asset Schedule

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

June 7, 2019

BUTLER COUNTY OFFICIALS**For The Year Ended June 30, 2018****Fiscal Court Members:**

David Fields	County Judge/Executive
Stevie Givens	Magistrate
John Tuck	Magistrate
Chad Tyree	Magistrate
David Whittinghill	Magistrate
Bobby Moore	Magistrate

Other Elected Officials:

Richard Deye	County Attorney
Rocky Tyree	Jailer
Sherry Johnson	County Clerk
Melissa Cardwell	Circuit Court Clerk
Scottie Ward	Sheriff
Suzanne Brosnan	Property Valuation Administrator
Marty Jones	Coroner

Appointed Personnel:

Susan L. Johnson (Ending October 16, 2017)	County Treasurer
Rebecca Johnson (Beginning October 16, 2017)	County Treasurer
Sharon Woods (Ending February 13, 2018)	Financial Officer
LaDonna Nave (Beginning February 14, 2018)	Financial Officer

BUTLER COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS

For The Year Ended June 30, 2018

BUTLER COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS

For The Year Ended June 30, 2018

	Budgeted Funds			
	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
RECEIPTS				
Taxes	\$ 1,778,997	\$	\$	\$
In Lieu Tax Payments	103,690			
Excess Fees	228,831			
Licenses and Permits	4,183			
Intergovernmental	322,885	1,854,570	341,885	32,272
Charges for Services	20,464		158,134	
Miscellaneous	79,330	996	20,887	
Interest	7,151	1,949		
Total Receipts	2,545,531	1,857,515	520,906	32,272
DISBURSEMENTS				
General Government	1,294,836			
Protection to Persons and Property	144,958		681,179	24,780
General Health and Sanitation	272,951			
Social Services	45,641			
Recreation and Culture	32,915			
Roads		1,265,249		
Other Transportation Facilities and Services				
Road Facilities		19,827		
Debt Service	28,638			
Capital Projects		23,658		
Administration	313,865	221,421	210,548	
Total Disbursements	2,133,804	1,530,155	891,727	24,780
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	411,727	327,360	(370,821)	7,492
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	133,868		350,000	
Transfers To Other Funds	(350,000)	(133,116)		
Total Other Adjustments to Cash (Uses)	(216,132)	(133,116)	350,000	
Net Change in Fund Balance	195,595	194,244	(20,821)	7,492
Fund Balance - Beginning	2,034,871	482,004	23,710	8,187
Fund Balance - Ending	\$ 2,230,466	\$ 676,248	\$ 2,889	\$ 15,679
Composition of Fund Balance				
Bank Balance	\$ 1,913,257	\$ 687,116	\$ 6,575	\$ 15,679
Plus: Deposits In Transit	1,500			
Less: Outstanding Checks	(84,291)	(10,868)	(3,686)	
Certificates of Deposit	400,000			
Fund Balance - Ending	\$ 2,230,466	\$ 676,248	\$ 2,889	\$ 15,679

The accompanying notes are an integral part of the financial statement.

BUTLER COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2018
(Continued)

Budgeted Funds			Unbudgeted Funds			
Community Development Block Grant Fund	Rochester Ferry Fund	Reeds Ferry Fund	Public Properties Corporation Fund	Debt Service Fund	Jail Commissary Fund	Total Funds
\$	\$	\$	\$	\$	\$	\$ 1,778,997
						103,690
						228,831
						4,183
16,000	216,720	146,910				2,931,242
	111	90			101,131	279,729
				217		101,414
						9,317
<u>16,000</u>	<u>216,831</u>	<u>147,000</u>		<u>217</u>	<u>101,131</u>	<u>5,437,403</u>
						1,294,836
						850,917
						272,951
						45,641
						32,915
						1,265,249
	189,854	72,687				262,541
						19,827
						28,638
16,000						39,658
	40,268	40,752		6,926	93,996	927,776
<u>16,000</u>	<u>230,122</u>	<u>113,439</u>		<u>6,926</u>	<u>93,996</u>	<u>5,040,949</u>
	(13,291)	33,561		(6,709)	7,135	396,454
						483,868
				(752)		(483,868)
				(752)		
	(13,291)	33,561		(7,461)	7,135	396,454
100	267,318	185,434	4,309	7,467	6,345	3,019,745
<u>\$ 100</u>	<u>\$ 254,027</u>	<u>\$ 218,995</u>	<u>\$ 4,309</u>	<u>\$ 6</u>	<u>\$ 13,480</u>	<u>\$ 3,416,199</u>
\$ 100	\$ 255,435	\$ 220,401	\$ 4,309	\$ 6	\$ 13,480	\$ 3,116,358
						1,500
	(1,408)	(1,406)				(101,659)
						400,000
<u>\$ 100</u>	<u>\$ 254,027</u>	<u>\$ 218,995</u>	<u>\$ 4,309</u>	<u>\$ 6</u>	<u>\$ 13,480</u>	<u>\$ 3,416,199</u>

The accompanying notes are an integral part of the financial statement.

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**BUTLER COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2018

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statement of Butler County includes all budgeted and unbudgeted funds under the control of the Butler County Fiscal Court. Budgeted funds included within the reporting entity are those funds presented in the county's approved annual budget and reported on the quarterly reports submitted to the Department for Local Government. Unbudgeted funds may include non-fiduciary financial activities, private purpose trust funds, and internal service funds that are within the county's control. Unbudgeted funds may also include any corporation to act as the fiscal court in the acquisition and financing of any public project which may be undertaken by the fiscal court pursuant to the provisions of Kentucky law and thus accomplish a public purpose of the fiscal court. The unbudgeted funds are not presented in the annual approved budget or in the quarterly reports submitted to the Department for Local Government.

B. Basis of Accounting

The financial statement is presented on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. This basis of accounting involves the reporting of fund balances and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) to meet the financial reporting requirements of the Department for Local Government and the laws of the Commonwealth of Kentucky.

This regulatory basis of accounting differs from GAAP primarily because the financial statement format does not include the GAAP presentations of government-wide and fund financial statements, cash receipts are recognized when received in cash rather than when earned and susceptible to accrual, and cash disbursements are recognized when paid rather than when incurred or subject to accrual.

Generally, except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary sources of receipts for this fund are state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of receipts for this fund are reimbursements from the state and federal governments, payments from other counties for housing prisoners, and transfers from the general fund. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (Continued)

Local Government Economic Assistance Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary sources of receipts for this fund are grants from the state and federal governments.

Community Development Block Grant (CDBG) Fund - The primary purpose of this fund is to account for the grants received and the related disbursements.

Rochester Ferry Fund - The primary purpose of this fund is to account for the expenses of Rochester Ferry. The primary source of receipts is state payments received from the Transportation Cabinet.

Reeds Ferry Fund - The primary purpose of this fund is to account for the expenses of Reeds Ferry. The primary source of receipts is state payments received from the Transportation Cabinet

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

Public Properties Corporation Fund - The primary purpose of this fund is to account for the debt service requirements of debt issued for the purchase of land. The Department for Local Government does not require the fiscal court to budget this fund.

Debt Service Fund - The primary purpose of this fund is to account for debt service requirements for debt issued for courthouse renovations. The fiscal court did not budget this fund.

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135. The profits generated from the sale of items are to be used for the benefit and to enhance the well-being of the inmates, or to enhance safety and security within the jail. The jailer is required to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the jail commissary fund. This fund also accounts for monies held for inmates.

D. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board and according to the laws of Kentucky as required by the state local finance officer.

The county judge/executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the state local finance officer. Disbursements may not exceed budgeted appropriations at the activity level.

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information (Continued)

The state local finance officer does not require the Jail Commissary fund to be budgeted because the fiscal court does not approve the expenses of this fund.

The state local finance officer does not require the Public Properties Corporation Fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

E. Butler County Elected Officials

Kentucky law provides for election of the officials listed below from the geographic area constituting Butler County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statement of the Butler County Fiscal Court.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

F. Deposits and Investments

The government's fund balance is considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition. The government's fund balance includes cash and cash equivalents and investments.

KRS 66.480 authorizes the county to invest in obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

G. Long-term Obligations

The fund financial statement recognizes bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as disbursements. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as disbursements. Debt proceeds are reported as other adjustments to cash.

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 2. Deposits

The fiscal court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the fiscal court and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of June 30, 2018, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2018.

	General Fund	Road Fund	Debt Service Fund	Total Transfers In
General Fund	\$	\$133,116	\$ 752	\$ 133,868
Jail Fund	350,000			350,000
Total Transfers Out	<u>\$ 350,000</u>	<u>\$133,116</u>	<u>\$ 752</u>	<u>\$ 483,868</u>

Reason for transfers:

To move resources from and to the general fund and other funds, for budgetary purposes, to the funds that will expend them.

Note 4. Health Reimbursement Account

The Butler County Fiscal Court established a health reimbursement account (HRA) on April 22, 2009, to provide employees an additional health benefit. The county has contracted with a third-party administrator to administer the plan. The plan provides a debit card to each eligible employee providing an amount based upon health insurance selected by the employee each year to pay for qualified medical expenses. Employees may also contribute additional pre-tax funds through payroll deduction. The balance of the plan is \$89,573.

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 5. Long-term Debt

A. Land

On December 22, 2011, the Butler County Fiscal Court and City of Morgantown entered into a joint agreement with individuals for the purchase of land for \$500,000. The agreement was for the development of industrial property. The Butler County Fiscal Court paid \$25,000 as a down payment, and agreed to pay the individuals \$225,000 at a rate of 5 percent interest for a period of ten years, with interest and principal paid monthly. Principal outstanding at June 30, 2018, was \$91,777. Future payment requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 24,608	\$ 4,030
2020	25,867	2,771
2021	27,190	1,448
2022	14,112	206
Totals	<u>\$ 91,777</u>	<u>\$ 8,455</u>

B. Vehicle

On November 2, 2016, the Butler County Fiscal Court entered into an agreement with Magnolia Bank. The agreement was for the purchase of a truck for the sheriff's department. The principal was \$29,523 at a rate of 3.90 percent interest for a period of 36 months, with interest and principal due in four annual installments of \$7,817. Principal outstanding at June 30, 2018, was \$14,750.

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 7,231	\$ 586
2020	7,519	298
Totals	<u>\$ 14,750</u>	<u>\$ 884</u>

C. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2018, was as follows:

	Beginning Balance (*Restated)	Additions	Reductions	Ending Balance	Due Within One Year
Financing Obligations*	\$ 156,687	\$	\$ 50,160	\$ 106,527	\$ 31,839
Total Long-term Debt	<u>\$ 156,687</u>	<u>\$</u>	<u>\$ 50,160</u>	<u>\$ 106,527</u>	<u>\$ 31,839</u>

* The long-term debt financing obligations beginning balance was restated for \$1,746 of interest that was erroneously included in the prior year ending principal balance.

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 6. Contingencies

The county is involved in multiple lawsuits that arose from the normal course of doing business. While individually they may not be significant, in the aggregate they could negatively impact the county's financial position. Due to the uncertainty of the litigation, a reasonable estimate of the financial impact on the county cannot be made at this time.

Note 7. Employee Retirement System

The fiscal court has elected to participate, pursuant to KRS 78.530, in the County Employees Retirement System (CERS), which is administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). This is a cost-sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute.

The county's contribution for FY 2016 was \$293,146, FY 2017 was \$342,021, and FY 2018 was \$369,256.

Nonhazardous

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute 6 percent of their salary to be allocated as follows: 5 percent will go to the member's account and 1 percent will go to the KRS insurance fund.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on or after January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own accounts. Nonhazardous covered employees contribute 5 percent of their annual creditable compensation. Nonhazardous members also contribute 1 percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the KRS Board of Directors based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a 4 percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008, must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

The county's contribution rate for nonhazardous employees was 19.18 percent.

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 7. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% Paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Benefits are covered under KRS 161.714 with exception of COLA and retiree health benefits after July 2003.

Other Post-Employment Benefits (OPEB)

Once members reach a minimum vesting period of 15 years, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually by 1.5%. This was established for Tier 2 members during the 2008 Special Legislative Session by House Bill 1. During the 2013 Legislative Session, Senate Bill 2 was enacted, creating Tier 3 benefits for members.

The monthly insurance benefit has been increased annually as a 1.5% cost of living adjustment (COLA) since July 2003 when the law changed. The annual increase is cumulative and continues to accrue after the member's retirement.

B. Health Insurance Coverage - Tier 2 and Tier 3 - Nonhazardous

Tier 2 member benefits are covered by KRS 161.714 with exception of COLA and retiree health benefits after July 2003. Tier 3 members are not covered by the same provisions.

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 7. Employee Retirement System (Continued)

C. Cost of Living Adjustments - Tier 1

The 1996 General Assembly enacted an automatic cost of living adjustment (COLA) provision for all recipients of KRS benefits. During the 2008 Special Session, the General Assembly determined that each July beginning in 2009, retirees who have been receiving a retirement allowance for at least 12 months will receive an automatic COLA of 1.5%. The COLA is not a guaranteed benefit. If a retiree has been receiving a benefit for less than 12 months, and a COLA is provided, it will be prorated based on the number of months the recipient has been receiving a benefit.

D. Cost of Living Adjustments - Tier 2 and Tier 3

No COLA is given unless authorized by the legislature with specific criteria. To this point, no COLA has been authorized by the legislature for Tier 2 or Tier 3 members.

E. Death Benefit

If a retired member is receiving a monthly benefit based on at least 48 months of service credit, KRS will pay a \$5,000 death benefit payment to the beneficiary designated by the member specifically for this benefit. Members with multiple accounts are entitled to only one death benefit.

KRS Annual Financial Report and Proportionate Share Audit Report

KRS issues a publicly available annual financial report that includes financial statements and required supplementary information on CERS. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

KRS also issues proportionate share audit reports for both total pension liability and other post-employment benefits for CERS determined by actuarial valuation as well as each participating county's proportionate share. Both the Schedules of Employer Allocations and Pension Amounts by Employer and the Schedules of Employer Allocations and OPEB Amounts by Employer reports and the related actuarial tables are available online at <https://kyret.ky.gov>. The complete actuarial valuation report, including all actuarial assumptions and methods, is also available on the website or can be obtained as described in the paragraph above.

Note 8. Deferred Compensation

The Butler County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees, and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 9. Insurance

For the fiscal year ended June 30, 2018, the Butler County Fiscal Court was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 10. Related Party Transactions

The Butler County Fiscal Court paid \$7,633 to auto parts store A for various items and paid \$8,056 to auto parts store B for various items. Magistrate Bobby Moore was an employee of auto parts store A until December 2017. Magistrate Moore became an employee of auto parts store B in December 2017 and currently is employed there.

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BUTLER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

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BUTLER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,431,600	\$ 1,431,600	\$ 1,778,997	\$ 347,397
In Lieu Tax Payments	100,000	100,000	103,690	3,690
Excess Fees	89,341	89,341	228,831	139,490
Licenses and Permits	3,850	3,850	4,183	333
Intergovernmental	195,454	195,454	322,885	127,431
Charges for Services	5,500	5,500	20,464	14,964
Miscellaneous	27,240	27,240	79,330	52,090
Interest	4,500	4,500	7,151	2,651
Total Receipts	<u>1,857,485</u>	<u>1,857,485</u>	<u>2,545,531</u>	<u>688,046</u>
DISBURSEMENTS				
General Government	1,261,907	1,445,820	1,294,836	150,984
Protection to Persons and Property	121,058	179,480	144,958	34,522
General Health and Sanitation	316,038	312,317	272,951	39,366
Social Services	58,473	63,073	45,641	17,432
Recreation and Culture	35,750	40,365	32,915	7,450
Debt Service	28,638	28,638	28,638	
Administration	349,773	347,277	313,865	33,412
Total Disbursements	<u>2,171,637</u>	<u>2,416,970</u>	<u>2,133,804</u>	<u>283,166</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(314,152)</u>	<u>(559,485)</u>	<u>411,727</u>	<u>971,212</u>
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds				
Transfers From Other Funds	133,116	133,116	133,868	752
Transfers To Other Funds	(499,389)	(499,389)	(350,000)	149,389
Total Other Adjustments to Cash (Uses)	<u>(366,273)</u>	<u>(366,273)</u>	<u>(216,132)</u>	<u>150,141</u>
Net Change in Fund Balance	(680,425)	(925,758)	195,595	1,121,353
Fund Balance - Beginning	<u>680,425</u>	<u>913,258</u>	<u>2,034,871</u>	<u>1,121,613</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (12,500)</u>	<u>\$ 2,230,466</u>	<u>\$ 2,242,966</u>

BUTLER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,586,214	\$ 1,586,214	\$ 1,854,570	\$ 268,356
Miscellaneous			996	996
Interest	1,000	1,000	1,949	949
Total Receipts	<u>1,587,214</u>	<u>1,587,214</u>	<u>1,857,515</u>	<u>270,301</u>
DISBURSEMENTS				
Roads	1,352,232	1,387,796	1,265,249	122,547
Road Facilities	19,826	19,827	19,827	
Capital Projects		23,658	23,658	
Administration	280,500	248,777	221,421	27,356
Total Disbursements	<u>1,652,558</u>	<u>1,680,058</u>	<u>1,530,155</u>	<u>149,903</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(65,344)</u>	<u>(92,844)</u>	<u>327,360</u>	<u>420,204</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	35,600	35,600		(35,600)
Transfers To Other Funds	<u>(133,116)</u>	<u>(133,116)</u>	<u>(133,116)</u>	
Total Other Adjustments to Cash (Uses)	<u>(97,516)</u>	<u>(97,516)</u>	<u>(133,116)</u>	<u>(35,600)</u>
Net Change in Fund Balance	(162,860)	(190,360)	194,244	384,604
Fund Balance - Beginning	<u>162,860</u>	<u>202,860</u>	<u>482,004</u>	<u>279,144</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 12,500</u>	<u>\$ 676,248</u>	<u>\$ 663,748</u>

BUTLER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 389,090	\$ 389,090	\$ 341,885	\$ (47,205)
Charges for Services	87,572	87,572	158,134	70,562
Miscellaneous	19,500	19,500	20,887	1,387
Total Receipts	<u>496,162</u>	<u>496,162</u>	<u>520,906</u>	<u>24,744</u>
DISBURSEMENTS				
Protection to Persons and Property	713,901	714,045	681,179	32,866
Administration	210,450	230,306	210,548	19,758
Total Disbursements	<u>924,351</u>	<u>944,351</u>	<u>891,727</u>	<u>52,624</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(428,189)</u>	<u>(448,189)</u>	<u>(370,821)</u>	<u>77,368</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>428,189</u>	<u>428,189</u>	<u>350,000</u>	<u>(78,189)</u>
Total Other Adjustments to Cash (Uses)	<u>428,189</u>	<u>428,189</u>	<u>350,000</u>	<u>(78,189)</u>
Net Change in Fund Balance		(20,000)	(20,821)	(821)
Fund Balance - Beginning		<u>20,000</u>	<u>23,710</u>	<u>3,710</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,889</u>	<u>\$ 2,889</u>

BUTLER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 25,000	\$ 25,000	\$ 32,272	\$ 7,272
Total Receipts	25,000	25,000	32,272	7,272
DISBURSEMENTS				
Protection to Persons and Property	26,242	26,242	24,780	1,462
Total Disbursements	26,242	26,242	24,780	1,462
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(1,242)	(1,242)	7,492	8,734
Net Change in Fund Balance	(1,242)	(1,242)	7,492	8,734
Fund Balance - Beginning	1,242	1,242	8,187	6,945
Fund Balance - Ending	\$ 0	\$ 0	\$ 15,679	\$ 15,679

BUTLER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

COMMUNITY DEVELOPMENT BLOCK GRANT FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 535,600	\$ 535,600	\$ 16,000	\$ (519,600)
Total Receipts	535,600	535,600	16,000	(519,600)
DISBURSEMENTS				
Capital Projects	571,200	571,200	16,000	555,200
Total Disbursements	571,200	571,200	16,000	555,200
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(35,600)	(35,600)		35,600
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds				
Transfers From Other Funds	71,200	71,200		(71,200)
Transfers To Other Funds	(35,600)	(35,600)		35,600
Total Other Adjustments to Cash (Uses)	35,600	35,600		(35,600)
Net Change in Fund Balance				
Fund Balance - Beginning			100	100
Fund Balance - Ending	\$ 0	\$ 0	\$ 100	\$ 100

BUTLER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

	ROCHESTER FERRY FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 157,000	\$ 157,000	\$ 216,720	\$ 59,720
Miscellaneous			111	111
Total Receipts	<u>157,000</u>	<u>157,000</u>	<u>216,831</u>	<u>59,831</u>
DISBURSEMENTS				
Other Transportation Facilities and Services	234,600	235,458	189,854	45,604
Administration	47,550	47,092	40,268	6,824
Total Disbursements	<u>282,150</u>	<u>282,550</u>	<u>230,122</u>	<u>52,428</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(125,150)</u>	<u>(125,550)</u>	<u>(13,291)</u>	<u>112,259</u>
Net Change in Fund Balance	(125,150)	(125,550)	(13,291)	112,259
Fund Balance - Beginning	125,150	125,150	267,318	142,168
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (400)</u>	<u>\$ 254,027</u>	<u>\$ 254,427</u>

BUTLER COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

	REEDS FERRY FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 157,000	\$ 157,000	\$ 146,910	\$ (10,090)
Miscellaneous			90	90
Total Receipts	<u>157,000</u>	<u>157,000</u>	<u>147,000</u>	<u>(10,000)</u>
DISBURSEMENTS				
Other Transportation Facilities and Services	78,950	87,766	72,687	15,079
Administration	78,050	68,834	40,752	28,082
Total Disbursements	<u>157,000</u>	<u>156,600</u>	<u>113,439</u>	<u>43,161</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		<u>400</u>	<u>33,561</u>	<u>33,161</u>
Net Change in Fund Balance		400	33,561	33,161
Fund Balance - Beginning			<u>185,434</u>	<u>185,434</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 400</u>	<u>\$ 218,995</u>	<u>\$ 218,595</u>

BUTLER COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2018

Note 1. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board and according to the laws of Kentucky as required by the state local finance officer.

The county judge/executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the state local finance officer. Disbursements may not exceed budgeted appropriations at the activity level.

BUTLER COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

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BUTLER COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 521,283	\$	\$	\$ 521,283
Buildings and Land Improvements	1,834,808	171,534		2,006,342
Vehicles and Equipment	772,389	40,643	29,200	783,832
Other Equipment	2,009,976	233,752		2,243,728
Infrastructure	6,010,762	644,062		6,654,824
 Total Capital Assets	 <u>\$ 11,149,218</u>	 <u>\$ 1,089,991</u>	 <u>\$ 29,200</u>	 <u>\$ 12,210,009</u>

**BUTLER COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - SCHEDULE OF CAPITAL ASSETS**

June 30, 2018

Note 1. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported as other information. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

	Capitalization Threshold	Useful Life (Years)
Land and Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	3-25
Infrastructure	\$ 10,000	10-50

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable David Fields, Former Butler County Judge/Executive
The Honorable Tim Flener, Butler County Judge/Executive
Members of the Butler County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards*

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Butler County Fiscal Court for the fiscal year ended June 30, 2018, and the related notes to the financial statement which collectively comprise the Butler County Fiscal Court's financial statement and have issued our report thereon dated June 7, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Butler County Fiscal Court's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Butler County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Butler County Fiscal Court's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2018-001 and 2018-002 to be material weaknesses.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards*
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Butler County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2017-002.

Views of Responsible Official and Planned Corrective Action

Butler County's views and planned corrective action for the findings identified in our audit are included in the accompanying Schedule of Findings and Responses. The county's responses were not subjected to the auditing procedures applied in the audit of the financial statement, and accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

June 7, 2019

**BUTLER COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2018

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**BUTLER COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2018

FINANCIAL STATEMENT FINDINGS:

2018-001 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.

Views of Responsible Official and Planned Corrective Action:

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.

2018-002 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
- \$13,357 for vehicles that were erroneously recorded at their insured value rather than cost

BUTLER COUNTY
SCHEDULE OF FINDING AND RESPONSES
For The Year Ended June 30, 2018
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-002 The Butler County Fiscal Court Did Not Maintain An Accurate Capital Asset Schedule (Continued)

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.

Views of Responsible Official and Planned Corrective Action:

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.

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

BUTLER COUNTY FISCAL COURT

For The Year Ended June 30, 2018

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CERTIFICATION OF COMPLIANCE

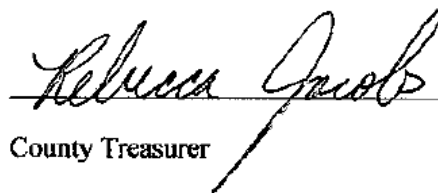
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
BUTLER COUNTY FISCAL COURT

For The Year Ended June 30, 2018

The Butler County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



County Judge/Executive



County Treasurer