



Auditor of Public Accounts
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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, 2021. 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 116 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 Fiscal Court did not prepare purchase orders on many expenditures in accordance with KRS 68.210 and the Department for Local Government's (DLG) *County Budget Preparation And State Local Finance Officer Policy Manual*: This is a repeat finding and was included in the prior year audit report as Finding 2020-001. Many purchase orders were not issued by the Butler County Fiscal Court, and others were issued after the invoice date. Out of 79 expenditure transactions tested, 38 did not have a purchase order attached or created for the transaction. The Butler County Fiscal Court does not have controls in place to ensure purchase orders are required for every disbursement. Failure to maintain appropriate records for purchase orders could result in incorrect amounts or not having adequate funds or sufficient budget appropriations available.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The uniform system of accounts is set forth in the DLG's *County Budget Preparation and State Local Finance Officer Policy Manual* which requires a purchase order system for all counties and each county is responsible for ensuring their purchase order system is executed and working properly. KRS 68.275 requires claims within budget line items and authorized by the fiscal court be paid by the county judge/executive and co-signed by the county treasurer.

In addition, according to a memorandum from DLG dated August 4, 2016, "[t]he main purpose of this system is to ensure that purchases can be made if there are sufficient appropriations available within the amount of line items in the county's budget. Because of this, it is a requirement by the State Local Finance Officer that all counties have a purchase order system and follow the guidelines prescribed on Page 54 of the County Budget Preparation and State Local Finance Officer Policy Manual." Furthermore, DLG highly recommends that counties accept the practice of issuing purchase orders for payroll and utility claims.

Proper internal controls over disbursements are important to ensure invoices are properly approved before the purchase is made, not after the purchase. It is also important to review the budget before the purchase to verify that there are funds available.

We recommend the fiscal court strengthen the purchasing procedures by requiring disbursements to have purchase orders submitted prior to approval in accordance with KRS 68.210 and KRS 68.275. All purchase orders should be completed properly with dates, amounts, account codes, and department head approvals to ensure purchases can be made if there are sufficient appropriations available within the amount of line items in the fiscal court's budget.

County Judge Executive's Response: The fiscal court accounting software that is currently being used, [software name redacted], is due to update prior to the start of FY23. In this update, there are additional features that will allow for enhanced features with purchase orders. Purchase orders will be issued by the Finance Officer and required for all purchases.

The Butler County Fiscal Court submitted ineligible expenses for reimbursement from the coronavirus relief fund:

Federal Program: 21.109 COVID-19 Coronavirus Relief Fund

Award Number and Year: 2100000496, 2020 Reimbursement #2

Name of Federal Agency: U.S. Department of the Treasury

Pass-Through Agency: Commonwealth of Kentucky, Department for Local Government

Compliance Requirements: Activities Allowed/Unallowed

Type of Finding: Material Weakness

Amount of Questioned Costs: \$47,100

The Butler County Fiscal Court submitted payroll expenses that were already reimbursed for reimbursement from the coronavirus relief fund (The Fund) administered by the Department of Local Government (DLG). The ineligible expense was for the county sheriff department's school resource officer payroll that was paid between March 1, 2020, through October 9, 2020.

Questioned costs were computed based on the cost of the county sheriff department's payroll for the periods between March 1, 2020, through June 30, 2020, and July 1, 2020, through October 9, 2020. The amount of the county sheriff's school resource officer salaries gross payroll for the first period is \$27,219. The amount of the second period is \$19,881. The total sheriff school resource officer payroll reimbursed was \$47,100.

According to the county treasurer the county was unaware that the school resource officers' salaries were fully reimbursed by the school, and therefore this was an oversight. As a result, the county submitted payroll for reimbursement that was ineligible for reimbursement. This resulted in \$47,100 of questioned costs.

The Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") established the coronavirus relief fund (the "Fund") and appropriated \$150 billion for payments by treasury to states, tribal governments, and certain local governments. The CARES Act provides that payments from the Fund may only be used to cover costs that—

1. are necessary expenditures incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19);
2. were not accounted for in the budget most recently approved as of March 27, 2020 (the date of enactment of the CARES Act) for the State or government; and
3. were incurred during the period that begins on March 1, 2020, and ends on December 31, 2021.

Ineligible expenses include those reimbursed by other federal funds. Frequently Asked Questions incorporated in the Code of Federal Regulations state "Recipients may not use payments from the Fund to cover expenditures for which they will receive reimbursement".

Additionally, CFR 200.303 states: "The non-Federal entity must: (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award."

We recommend the Butler County Fiscal Court contact DLG for guidance on how to resolve this issue. We also recommend the Butlers County Fiscal Court strengthen controls over federal awards by implementing review processes to catch and resolve these matters going forward.

County Judge Executive's Response: In the county's reimbursement request for CARES Funding, Butler County included School Resource Officer (SRO) payroll expense with the Sheriff Office payroll expense, as an allowable expense for CARES Funding. The SRO payroll expense is reimbursed by the local school district making it ineligible. However, Butler County had excess CARES Funding reimbursement expenses from other sources, so overall the county submitted enough allowable expenses to meet CARES Funding received. The county will contact Department for Local Government (DLG) for further guidance.

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

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