



Auditor of Public Accounts
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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, 2015. 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 non-compliance with laws, regulations, contracts and grants. The auditor must also comment on material weaknesses involving the internal control over financial operations and reporting.

The audit contains the following comment:

The Butler County Fiscal Court did not have adequate controls over sale of scrap materials. The former road foreman was indicted for the inappropriate selling of Butler County scrap materials. The scrap materials were taken to a local recycling facility and sold for cash. It was the fiscal court's policy that only a check be issued to the Butler County Fiscal Court for the sale of scrap materials, but during the period from April 2013 through May 2015 cash was being given for the sale of scrap materials and these monies were not turned over to the county treasurer to be deposited into the county treasury. This was allowed to occur because of the fiscal court's lack of internal controls and oversight. By failing to implement sufficient internal controls and oversight more than \$9,000 of scrap materials were sold, and the proceeds were not turned over to the county treasurer. Good internal controls dictate that policies and procedures

should be implemented to ensure that proceeds from the sale of scrap materials are being properly turned over to the county treasurer and deposited into the county treasury. We recommend the fiscal court implement sufficient internal controls and oversight to ensure that all proceeds from the sale of scrap materials are turned over to the county treasurer. The fiscal court has since implemented procedures in order to prevent this from reoccurring.

Judge/Executive's response: The official did not respond.

The Butler County Fiscal Court and jail have a lack of segregation of duties. The Butler County Fiscal Court has a lack of segregation of duties over receipts. The county treasurer deposits the receipts and posts transactions into the accounting system, as well as prepares the reports for submission to the Department for Local Government and other necessary financial documentation. The Butler County Jail has a lack of segregation of duties over the jail commissary and inmate accounts. The jail bookkeeper prepares deposits, prepares daily checkout sheets, and posts to the receipts ledger. The bookkeeper also prepares monthly collection and disbursement reports, writes and signs checks, posts to the disbursements ledger, and prepares the monthly bank reconciliation. The jailer or other individual did not document oversight of any of these activities. Due to the small size and limited resources, Butler County has limited options for establishing segregation of duties. Lack of segregation of duties could result in the undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the Department for Local Government. 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, and financial reporting functions be segregated in order to reduce the opportunity for the misappropriation of assets and inaccurate financial reporting. We recommend that the county divide the responsibilities for receipts among the county treasurer, finance officer, and other employees of the county and that the jailer divide the responsibilities for receipts and disbursements among the bookkeeper and other employees of the jail in order to achieve an appropriate level of segregation of duties or implement compensating controls over these areas.

Judge/Executive's and/or Jailer's response: The official did not respond.

The payroll revolving account was not properly reconciled to zero after considering all payroll liabilities. The county treasurer performs monthly reconciliations of the payroll account; however, she is unable to reconcile the June 30, 2015 balance to zero after considering all payroll liabilities. At this time there are no procedures in place to determine what funds make up the payroll account balance. Since the payroll revolving account has not been properly reconciled there could be monies in the payroll account which belong to other funds of the fiscal court. This could cause a misappropriation of county assets. Payroll revolving accounts are established in order to process individual payroll transactions and should zero out or reconcile to a minimal carrying balance. We recommend the Butler County Fiscal Court properly reconcile the payroll account and establish internal controls to determine that the account is being properly handled.

Judge/Executive's response: The official did not respond.

Ferry operators did not maintain timesheets. The ferry operators at the Reeds and Rochester Ferries are not maintaining timesheets. It is fiscal court's belief that these individuals are considered "exempt" employees who should not be required to complete timesheets. By not having these employees maintain timesheets, Butler County Fiscal Court is creating the opportunity for employees to be paid incorrectly for hours they actually worked or paid for hours that they have not worked. Also, the fiscal court cannot adequately track leave accrued and used under their current system. Good internal controls dictate that all employees maintain time sheets and a supervisor sign-off and approve the hours worked by an employee in order to prevent an employee from being paid incorrectly for hours they actually worked or paid for hours that they have not worked. We recommend that the fiscal court ensure all employees maintain timesheets, which are approved by a supervisor. We also recommend that the fiscal court address in their administrative code a policy regarding ferry operator's accrual/use of leave time, that they should be maintaining timesheets, and that they will be paid on a 40 hour week even though their timesheet could reflect more or less than 40 hours.

Judge/Executive's response: The official did not respond.

The Butler County Fiscal Court did not have adequate controls over disbursements and credit card transactions. The Butler County Fiscal Court does not have adequate controls over disbursements and credit card transactions. Auditors noted the following control deficiencies:

- Unable to find pre-approval by fiscal court for 12 items.
- One item was approved by fiscal court after the payment had already been made.
- Three items were not paid within 30 working days.
- Five items did not have the appropriate supporting documentation.
- One credit card transaction to a restaurant did not have an itemized invoice.
- One credit card transaction for a gasoline purchase did not have an invoice.
- Did not receive the appropriate documentation in order to determine that they were being billed the correct amount per the bid for asphalt.

These deficiencies over disbursements and credit card transactions occurred because of the fiscal court's lack of internal controls and oversight. By failing to maintain adequate documentation, the fiscal court is increasing their risk of paying invoices for goods or services that were not provided to the county, paying the incorrect amount for the goods purchased, or paying for unallowable items. Also, by not paying invoices within 30 days the fiscal court could be assessed penalties.

KRS 68.275(2) requires, "The county judge/executive shall present all claims to the fiscal court for review prior to payment and the court, for good cause shown, may order that a claim not be paid." Also KRS 65.140(2) states, in part, "all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor's subcontractor." In addition good internal controls dictate that adequate supporting documentation be maintained for all disbursements and credit card transactions. All vendor invoices and receipts should be maintained, including any

additional supporting documentation, and agree to the corresponding purchase order, reports, and bids if applicable.

We recommend that the county further develop internal control procedures to ensure that disbursements and credit card transactions are properly supported and paid within 30 working days.

Judge/Executive's response: The official did not respond.

The Butler County Fiscal Court did not properly utilize the purchase order system. The Butler County Fiscal Court is not properly utilizing the purchase order system in accordance with Department for Local Government (DLG) guidelines. Employees notify the finance officer when a purchase needs to be made; however, only certain purchases are being recorded in the purchase order log. The purchases recorded are only purchases for goods. Purchase orders are not obtained for any disbursement to pay for services performed. Even when purchase orders are recorded they do not contain all information required by DLG. The finance officer did not record the amount of the item purchased or the appropriation code to which the payment will be posted. Although the fiscal court had a purchase order system in place, there was no one enforcing or monitoring to ensure that it was being used correctly.

Failure to maintain appropriate records for purchase orders could result in incorrect amounts being paid 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 Department for Local Government (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* states, "1. Purchases shall not be made prior to approval by the judge/executive (or designee) and/or a department head. 2. Purchase requests shall indicate the proper appropriation account number to which the claim will be posted. 3. Purchase requests shall not be approved in an amount that exceeds the available line item appropriation unless the necessary and appropriate transfers have been made." In addition, a purchase order journal should contain a "daily, chronological listing of all purchase orders issued. The listing is the book of original entry for all county purchases. The journal should indicate the [purchase order] number, issue approved by appropriation code to where the payment will be posted, vendor name, date invoice received, amount of invoice, date claim was reviewed by fiscal court, date paid, and amount paid."

We recommend that the fiscal court require purchase orders be obtained prior to items being ordered or services received to determine if adequate funds and budget appropriation are available for the purchase and to comply with DLG's *County Budget Preparation and State Local Finance Officer Policy Manual*. Purchase orders should be completely filled out at the time of issuance.

Judge/Executive's response: The official did not respond.

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

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