

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

**For The Fiscal Year Ended
June 30, 2014**

CONTENTS

PAGE

INDEPENDENT AUDITORS' REPORT.....	1
LEE COUNTY OFFICIALS	4
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - REGULATORY BASIS	5
NOTES TO FINANCIAL STATEMENT	8
BUDGETARY COMPARISON SCHEDULES	19
NOTES TO REGULATORY SUPPLEMENTARY INFORMATION – BUDGETARY COMPARISON SCHEDULES	26
SCHEDULE OF CAPITAL ASSETS	27
NOTES TO REGULATORY SUPPLEMENTARY INFORMATION – SCHEDULE OF CAPITAL ASSETS	29
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	30
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	32
INDEPENDENT AUDITORS' 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 <i>GOVERNMENT AUDITING STANDARDS</i>	33
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133	36
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	39
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	48

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To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Steve Mays, Lee County Judge/Executive
Members of the Lee County Fiscal Court

Independent Auditors' Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances – Regulatory Basis of Lee County, Kentucky, for the year ended June 30, 2014, and the related notes to the financial statement.

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. 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.

Auditors' 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 auditors' 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 auditors consider 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 more fully in Note 1, the financial statement is prepared by Lee County, Kentucky 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 Lee County, Kentucky as of June 30, 2014, 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 Lee County, Kentucky as of June 30, 2014, and its cash receipts and disbursements, 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

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of Lee County, Kentucky. The budgetary comparison schedules and schedule of capital assets 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 schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The budgetary comparison schedules, the schedule of capital assets, and the schedule of expenditures of federal awards have 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, the schedule of capital assets, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statement.

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2015 on our consideration of Lee County, Kentucky'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* and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying schedule of findings and questioned costs included herein, which discusses the following report comments:

- 2014-001 The Fiscal Court Should Provide More Oversight Over The Graveling Of County Roads
- 2014-002 The Fiscal Court Lacks Adequate Internal Controls Over Disbursements, Credit Cards And Purchase Orders
- 2014-003 The County Lacks Adequate Internal Controls Over Payroll
- 2014-004 The Fiscal Court Lacks Adequate Internal Controls Over Solid Waste Fee Receipts

Morgan - Franklin, LLC

Morgan-Franklin, LLC
West Liberty, Kentucky

April 28, 2015

LEE COUNTY OFFICIALS

For The Year Ended June 30, 2014

Fiscal Court Members:

Steve Mays	County Judge/Executive
Tim Brandenburg	Magistrate
Dean Noe	Magistrate
Leonard Carl Ross	Magistrate
Everett Lee Marshall	Magistrate

Other Elected Officials:

Thomas Hollon	County Attorney
Corbett Dunaway	Jailer
Kimberly Noe	County Clerk
Emma Adams	Circuit Court Clerk
Wendell Childers, Jr.	Sheriff
Elizabeth Roach	Property Valuation Administrator
Ray Shuler	Coroner

Appointed Personnel:

Jodi Coldiron	County Treasurer
Pearl Spencer	Finance Officer

**LEE COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES – REGULATORY BASIS**

For The Year Ended June 30, 2014

LEE COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES – REGULATORY BASIS

For The Year Ended June 30, 2014

	Budgeted Funds		
	General Fund	Road Fund	Jail Fund
RECEIPTS			
Taxes	\$ 1,742,572	\$	\$
In Lieu Tax Payments	20,236	26,327	
Excess Fees	17,405		
Licenses and Permits	20,209		
Intergovernmental	794,076	1,518,603	81,904
Charges for Services	8,712		
Miscellaneous	110,876	258,814	7,685
Interest	247	211	16
Total Receipts	2,714,333	1,803,955	89,605
DISBURSEMENTS			
Current:			
General Government	924,146		
Protection to Persons and Property	216,890		262,223
General Health and Sanitation	1,116,204		
Social Services	59,833		
Recreation and Culture	92,194		
Roads		1,784,136	
Debt Service	1,272	314,910	
Capital Projects	18,500		
Administration	349,065	166,220	18,293
Total Disbursements	2,778,104	2,265,266	280,516
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(63,771)	(461,311)	(190,911)
Other Adjustments to Cash (Uses)			
Health Department Loan Receipts	199,140		
Solid Waste Truck Lease			
Mack Trucks/Backhoe Leasing Receipts		352,351	
Transfers From Other Funds			200,000
Transfers To Other Funds	(230,000)		
Total Other Adjustments to Cash (Uses)	(30,860)	352,351	200,000
Net Change in Fund Balance	(94,631)	(108,960)	9,089
Fund Balance - Beginning (Restated)	555,059	204,120	21,996
Fund Balance - Ending	\$ 460,428	\$ 95,160	\$ 31,085
Composition of Fund Balance			
Bank Balance	\$ 470,551	\$ 98,616	\$ 36,893
Less: Outstanding Checks	10,123	3,456	5,808
Fund Balance - Ending	\$ 460,428	\$ 95,160	\$ 31,085

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

LEE COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES – REGULATORY BASIS
For The Year Ended June 30, 2014
(Continued)

	Budgeted Funds			
	Local Government Economic Assistance Fund	Ambulance Fund	Solid Waste Fund	Total Funds
RECEIPTS				
Taxes	\$	\$	\$	\$ 1,742,572
In Lieu Tax Payments				46,563
Excess Fees				17,405
Licenses and Permits				20,209
Intergovernmental	497,316	23,000	200,168	3,115,067
Charges for Services		860,541	442,113	1,311,366
Miscellaneous		4,485	9,609	391,469
Interest	45	27	66	612
Total Receipts	<u>497,361</u>	<u>888,053</u>	<u>651,956</u>	<u>6,645,263</u>
DISBURSEMENTS				
Current:				
General Government				924,146
Protection to Persons and Property		925,718		1,404,831
General Health and Sanitation	60,179		724,431	1,900,814
Social Services				59,833
Recreation and Culture	12,240			104,434
Roads	17,483			1,801,619
Debt Service		6,012	32,233	354,427
Capital Projects				18,500
Administration	10,604	267,853	71,581	883,616
Total Disbursements	<u>100,506</u>	<u>1,199,583</u>	<u>828,245</u>	<u>7,452,220</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	396,855	(311,530)	(176,289)	(806,957)
Other Adjustments to Cash (Uses)				
Health Department Loan Receipts				199,140
Solid Waste Truck Lease			171,848	171,848
Mack Trucks/Backhoe Leasing Receipts				352,351
Transfers From Other Funds		309,000	46,000	555,000
Transfers To Other Funds	(325,000)			(555,000)
Total Other Adjustments to Cash (Uses)	<u>(325,000)</u>	<u>309,000</u>	<u>217,848</u>	<u>723,339</u>
Net Change in Fund Balance	71,855	(2,530)	41,559	(83,618)
Fund Balance - Beginning (Restated)	77,989	78,896	117,127	1,055,187
Fund Balance - Ending	<u>\$ 149,844</u>	<u>\$ 76,366</u>	<u>\$ 158,686</u>	<u>\$ 971,569</u>
Composition of Fund Balance				
Bank Balance	\$ 150,228	\$ 83,155	\$ 159,241	\$ 998,684
Less: Outstanding Checks	384	6,789	555	27,115
Fund Balance - Ending	<u>\$ 149,844</u>	<u>\$ 76,366</u>	<u>\$ 158,686</u>	<u>\$ 971,569</u>

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

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENT**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	9
NOTE 2.	DEPOSITS.....	12
NOTE 3.	SHORT-TERM DEBT	13
NOTE 4.	LONG -TERM DEBT.....	13
NOTE 5.	RETIREMENT	16
NOTE 6.	INSURANCE	17
NOTE 7.	SUBSEQUENT EVENTS	17
NOTE 8.	RELATED PARTY TRANSACTIONS	17
NOTE 9.	TRANSFERS	18
NOTE 10.	GOING CONCERN ISSUE - THREE FORKS RIVER JAIL AUTHORITY	18
NOTE 11.	PRIOR PERIOD ADJUSTMENTS.....	18

**LEE COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2014

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statement of Lee County includes all budgeted and unbudgeted funds under the control of the Lee 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 include non-fiduciary financial activities that are within the county's control. Unbudgeted funds may also include any corporation created 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, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the *Government 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 and 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 source of receipts for this fund is state payments for truck licenses 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.

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (Continued)

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 government, 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.

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.

Ambulance Fund – The primary purpose of this fund is to account for the ambulance service expenses of the county. The primary source of receipts for this fund is the ambulance service billings.

Solid Waste Fund – The primary purpose of this fund is to account for garbage collections expenses of the county. The primary source of receipts for this fund is from monthly billing of solid waste collections to users.

Unbudgeted Fund

Public Service Corporation Fund- The fund is a legally separate entity established to provide debt service for the purchase of real estate property from the Kentucky Mountains Farm Cooperative. The Public Service Corporation's governing body consists entirely of Fiscal Court members. Therefore, management should include the Public Service Corporation as a component unit, and its financial activity should be blended with that of the fiscal court. However, the Public Service Corporation had no financial activity during the year to blend with the fiscal court.

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 *Government 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.

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Lee County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Lee 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 Lee County, Kentucky.

- 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 the following, including but not limited to, 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.

H. Joint Venture

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following is considered a joint venture of the Lee County Fiscal Court: Three Forks Regional Jail.

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Joint Venture (Continued)

Three Forks Regional Jail

On October 6, 2000, the Counties of Lee, Owsley and Wolfe (the participating counties) entered into an Interlocal Cooperation Agreement in order to provide for joint and cooperative action in the acquisition, construction, installation, maintenance and financing of the Three Forks Regional Jail. Pursuant to this interlocal agreement, Lee County (the lead county) established the Three Forks Public Properties Corporation, a legally separate organization, to act as an agency and instrumentality of the participating counties in financing the acquisition and construction of the Three Forks Regional Jail. On December 1, 2000, the corporation issued \$6,295,000 of first mortgage revenue bonds.

The only source of funds expected by the Three Forks Public Properties Corporation to meet the debt service requirements on the bonds are the rental payments from the participating counties, as stipulated in the lease and sublease agreements dated October 1, 2000. Pursuant to the lease and sublease, each participating county covenants to meet its proportionate share of the debt service requirements on the bond as follows (the “proportionate share” or “use allowance”): 40% for Lee County, 22% for Owsley County and 38% for Wolfe County.

On December 1, 2000, the three participating counties established the Three Forks Regional Jail Authority pursuant to the provisions of KRS 441.800 and KRS 441.810 to act as the constituted authority of the participating counties in the acquisition, construction, equipping, and operation of the Three Forks Regional Jail.

The Three Forks Regional Jail Authority and the Three Forks Public Property Corporation are comprised of an eight-member board of directors. Lee County appoints three of the eight members. Wolfe and Owsley counties appoint two members each. In addition, the Lee County Jailer is a required member of the board.

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(4), 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 county 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 41.240(4). As of June 30, 2014, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 3. Short-term Debt

A. Mack Trucks

In March 2013, Lee County Fiscal Court entered into a financing obligation agreement for \$252,628 with People's Exchange Bank to purchase Mack trucks. The county purchased heavy trucks to use for one year; then the trucks are to be sold at auction. The terms of the agreement stipulate a one-year repayment schedule, with principal and interest due on March 13, 2014 with an interest rate of 3.0 percent. As of June 30, 2014, this debt was paid in full.

B. Mack Trucks

In March 2014, Lee County Fiscal Court entered into a financing obligation agreement for \$259,490 with People's Exchange Bank to purchase Mack trucks. The county purchased heavy trucks to use for one year; then the trucks are to be sold at auction. The terms of the agreement stipulate a one-year repayment schedule, with principal and interest due on March 25, 2015 with an interest rate of 2.5 percent. The outstanding principal as of June 30, 2014 was \$259,490.

C. Health Department Building

In March 2014, Lee County Fiscal Court entered into a financing obligation agreement for \$199,140 with People's Exchange Bank to purchase the Health Department Building. The terms of the agreement stipulate a one-year repayment schedule, with principal and interest due on March 28, 2015 with an interest rate of 2.5 percent. The outstanding principal as of June 30, 2014 was \$199,140.

D. Changes in Short-term Debt

Short-term debt activity for the year ended June 30, 2014, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Financing Obligations	\$ 252,628	\$ 458,630	\$ 252,628	\$ 458,630	\$ 458,630
Total Short-term Debt	<u>\$ 252,628</u>	<u>\$ 458,630</u>	<u>\$ 252,628</u>	<u>\$ 458,630</u>	<u>\$ 458,630</u>

Note 4. Long-term Debt

A. Rear Loader

In February 2008, Lee County Fiscal Court entered into a financing obligation agreement for \$111,800 with the Kentucky Association of Counties Leasing Trust Program to purchase a rear loader. The terms of the agreement stipulate an eight-year repayment schedule, with variable monthly payments and variable monthly principal payments to end on March 20, 2016. The outstanding principal as of June 30, 2014 was \$27,802. Future lease principal and interest requirements are:

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 4. Long-term Debt (Continued)

A. Rear Loader (Continued)

Fiscal Year Ended June 30	Principal	Interest
2015	\$ 16,340	\$ 1,094
2016	11,462	339
Totals	<u>\$ 27,802</u>	<u>\$ 1,433</u>

B. Blacktop Project

In August 2009, Lee County Fiscal Court entered into a financing obligation agreement for \$300,000 with the Kentucky Association of Counties Leasing Trust Program to pave county roads. The terms of the agreement stipulate an eight-year repayment schedule with variable monthly payments and variable monthly principal payments to end on August 20, 2017. The outstanding principal as of June 30, 2014 was \$130,313. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2015	\$ 39,386	\$ 5,071
2016	40,990	3,372
2017	42,660	1,600
2018	7,277	89
Totals	<u>\$ 130,313</u>	<u>\$ 10,132</u>

C. Heart Start Monitor

In April 2013, Lee County Fiscal Court entered into a financing obligation agreement for \$21,808 with Phillips Medical Capital to purchase a heart monitor. The terms of the agreement stipulate a forty-eight month repayment schedule with variable monthly payments and variable monthly principal payments to end on April 15, 2017. The outstanding principal as of June 30, 2014 was \$15,896. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2015	\$ 5,366	\$ 646
2016	5,629	383
2017	4,901	109
Totals	<u>\$ 15,896</u>	<u>\$ 1,138</u>

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 4. Long-term Debt (Continued)

D. Dodge Garbage Trucks

In January 2014, Lee County Fiscal Court entered into a financing obligation agreement for \$171,847 with Branch Banking and Trust Company – Governmental Finance (BB&T) to purchase two new Dodge garbage trucks. The terms of the agreement stipulate a sixty month repayment schedule with an interest rate of 2.11 percent and variable monthly principal payments to end on January 10, 2019. The outstanding principal as of June 30, 2014 was \$158,208. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2015	\$ 33,226	\$ 3,018
2016	33,934	2,310
2017	34,657	1,587
2018	35,396	849
2019	20,995	148
Totals	<u>\$ 158,208</u>	<u>\$ 7,912</u>

E. Case Tractor Loader Backhoe

On February 10, 2014, Lee County Fiscal Court entered into a lease agreement for \$92,861 with CNH Capital to lease a Case tractor loader backhoe. The terms of the agreement stipulate a fifty-eight month repayment schedule with an interest rate of 6.77 percent fixed rate and variable monthly payments to end on December 10, 2019. The outstanding principal as of June 30, 2014 was \$83,887 future lease principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2015	\$ 15,187	\$ 4,705
2016	17,676	4,025
2017	18,910	2,791
2018	20,231	1,470
2019	11,883	210
Totals	<u>\$ 83,887</u>	<u>\$ 13,201</u>

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 4. Long-term Debt (Continued)

F. Long-term Debt Maturity in the Aggregate

Fiscal Year Ended June 30	Principal	Scheduled Interest
2015	109,505	14,534
2016	109,691	10,429
2017	101,128	6,087
2018	62,904	2,408
2019	32,878	358
Totals	<u>\$ 416,106</u>	<u>\$ 33,816</u>

G. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Financing Obligations	\$ 232,337	\$ 264,708	\$ 80,939	\$ 416,106	\$ 109,505
Total Long-term Debt	<u>\$ 232,337</u>	<u>\$ 264,708</u>	<u>\$ 80,939</u>	<u>\$ 416,106</u>	<u>\$ 109,505</u>

Note 5. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. 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.

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 the plan. The county's contribution rate for nonhazardous employees was 18.89 percent.

The county's contribution for FY 2012 was \$385,251, FY 2013 was \$385,953, and FY 2014 was \$307,256.

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 (members 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.

CERS also provides post-retirement health care coverage as follows:

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 5. Employee Retirement System (Continued)

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.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. 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.

Note 6. Insurance

For the fiscal year ended June 30, 2014, Lee County 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 a 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 7. Subsequent Events

Subsequent events have been evaluated through April 28, 2015, which is the date the financial statements were available to be issued.

Note 8. Related Party Transactions

The county paid \$1,920 to Marshall's Catering to cater the county employees' Christmas dinner. Marshall's Catering is owned by Everett Marshall, a magistrate.

The county paid David Noe \$550 to provide the sound system for county functions. David is the son of Dean Noe, a magistrate.

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 9. Transfers

The table below shows the interfund operating transfers for fiscal year 2014.

	General Fund	LGEA Fund	Total Transfers In
Jail Fund	\$	\$ 200,000	\$ 200,000
Ambulance Fund	230,000	79,000	309,000
Solid Waste Fund		46,000	46,000
Total Transfers Out	<u>\$ 230,000</u>	<u>\$ 325,000</u>	<u>\$ 555,000</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 10. Going Concern Issue – Three Forks Regional Jail Authority, Inc.

Lee County is one of three counties served by the Three Forks Regional Jail Authority, Inc. (a Joint Venture described at Note 1 H). On July 22, 2013, the Three Forks Regional Jail Authority issued their audit report for the fiscal year 2013 that contained the following going concern disclosure:

Management has evaluated the Authority’s ability to continue as a going concern and serious doubts have been raised. The Authority’s operations have shown an operating loss over the past two years, the inmate population is decreasing and costs are increasing. These factors have caused a serious concern about the Authority’s ability to continue as a going concern over the next twelve months. Management is investigating options for increasing revenues and decreasing costs.

The Three Forks Regional Jail Authority has not issued their audit report for the fiscal year June 30, 2014 as of April 28, 2015, the date this report has been issued; therefore, the going concern issue could not be further evaluated at this time.

Note 11. Prior Period Adjustments

The beginning balance of the General Fund was increased \$499 to void a prior year cancelled check. This has resulted in a restated beginning balance of \$555,059. The beginning balance of the Road Fund was increased \$306 to correct a prior period error. This has resulted in a restated beginning balance of \$204,120. The beginning balance of the Solid Waste Fund was increased \$1,062 to correct a prior year bank error. This has resulted in a restated beginning balance of \$117,127

**LEE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information – Regulatory Basis**

For The Year Ended June 30, 2014

LEE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information – Regulatory Basis

For The Year Ended June 30, 2014

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,896,100	\$ 1,896,100	\$ 1,742,572	\$ (153,528)
In Lieu Tax Payments	10,800	10,800	20,236	9,436
Excess Fees	29,383	29,383	17,405	(11,978)
Licenses and Permits	18,000	18,000	20,209	2,209
Intergovernmental	957,430	772,430	794,076	21,646
Charges for Services	8,000	8,000	8,712	712
Miscellaneous	84,531	84,531	110,876	26,345
Interest	100	100	247	147
Total Receipts	<u>3,004,344</u>	<u>2,819,344</u>	<u>2,714,333</u>	<u>(105,011)</u>
DISBURSEMENTS				
General Government	1,011,910	1,041,321	924,146	117,175
Protection to Persons and Property	243,168	236,333	216,890	19,443
General Health and Sanitation	1,130,000	1,132,000	1,116,204	15,796
Social Services	56,800	66,424	59,833	6,591
Recreation and Culture	51,633	100,550	92,194	8,356
Debt Service	187,775	2,775	1,272	1,503
Capital Projects	181,250	88,430	18,500	69,930
Administration	354,793	364,496	349,065	15,431
Total Disbursements	<u>3,217,329</u>	<u>3,032,329</u>	<u>2,778,104</u>	<u>254,225</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(212,985)	(212,985)	(63,771)	149,214
Other Adjustments to Cash (Uses)				
Health Department Loan Receipts	185,000	185,000	199,140	14,140
Transfers To Other Funds	(372,015)	(391,012)	(230,000)	161,012
Total Other Adjustments to Cash (Uses)	<u>(187,015)</u>	<u>(206,012)</u>	<u>(30,860)</u>	<u>175,152</u>
Net Change in Fund Balance	(400,000)	(418,997)	(94,631)	324,366
Fund Balance - Beginning (Restated)	<u>400,000</u>	<u>418,997</u>	<u>555,059</u>	<u>136,062</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 460,428</u>	<u>\$ 460,428</u>

LEE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information – Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
In Lieu Tax Payments	\$ 6,942	\$ 6,942	\$ 26,327	\$ 19,385
Intergovernmental	1,157,451	1,470,451	1,518,603	48,152
Miscellaneous	193,824	237,824	258,814	20,990
Interest	200	200	211	11
Total Receipts	<u>1,358,417</u>	<u>1,715,417</u>	<u>1,803,955</u>	<u>88,538</u>
DISBURSEMENTS				
Roads	1,037,598	1,695,300	1,784,136	(88,836)
Debt Service	304,248	316,131	314,910	1,221
Administration	185,571	167,476	166,220	1,256
Total Disbursements	<u>1,527,417</u>	<u>2,178,907</u>	<u>2,265,266</u>	<u>(86,359)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(169,000)	(463,490)	(461,311)	2,179
Other Adjustments to Cash (Uses)				
Leasing Receipts		259,490	352,351	92,861
Total Other Adjustments to Cash (Uses)		<u>259,490</u>	<u>352,351</u>	<u>92,861</u>
Net Change in Fund Balance	(169,000)	(204,000)	(108,960)	95,040
Fund Balance - Beginning (Restated)	169,000	204,000	204,120	120
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 95,160</u>	<u>\$ 95,160</u>

LEE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information – Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 55,828	\$ 55,828	\$ 81,904	\$ 26,076
Miscellaneous	100	100	7,685	7,585
Interest	50	50	16	(34)
Total Receipts	<u>55,978</u>	<u>55,978</u>	<u>89,605</u>	<u>33,627</u>
DISBURSEMENTS				
Protection to Persons and Property	406,659	405,121	262,223	142,898
Administration	18,421	19,959	18,293	1,666
Total Disbursements	<u>425,080</u>	<u>425,080</u>	<u>280,516</u>	<u>144,564</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(369,102)	(369,102)	(190,911)	178,191
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>339,102</u>	<u>339,102</u>	<u>200,000</u>	<u>(139,102)</u>
Total Other Adjustments to Cash (Uses)	<u>339,102</u>	<u>339,102</u>	<u>200,000</u>	<u>(139,102)</u>
Net Change in Fund Balance	(30,000)	(30,000)	9,089	39,089
Fund Balance - Beginning	<u>30,000</u>	<u>30,000</u>	<u>21,996</u>	<u>(8,004)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 31,085</u>	<u>\$ 31,085</u>

LEE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information – Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 426,000	\$ 426,000	\$ 497,316	\$ 71,316
Interest	50	50	45	(5)
Total Receipts	426,050	426,050	497,361	71,311
DISBURSEMENTS				
General Health and Sanitation	44,391	62,587	60,179	2,408
Recreation and Culture	12,240	12,240	12,240	0
Roads	40,000	21,804	17,483	4,321
Administration	12,006	12,006	10,604	1,402
Total Disbursements	108,637	108,637	100,506	8,131
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	317,413	317,413	396,855	79,442
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	(385,102)	(385,102)	(325,000)	60,102
Total Other Adjustments to Cash (Uses)	(385,102)	(385,102)	(325,000)	60,102
Net Change in Fund Balance	(67,689)	(67,689)	71,855	139,544
Fund Balance - Beginning	67,689	67,689	77,989	10,300
Fund Balance - Ending	\$ 0	\$ 0	\$ 149,844	\$ 149,844

LEE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information – Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

AMBULANCE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 11,000	\$ 23,000	\$ 23,000	\$ 0
Charges For Services	708,000	745,000	860,541	115,541
Miscellaneous	2,000	2,000	4,485	2,485
Interest	100	100	27	(73)
Total Receipts	<u>721,100</u>	<u>770,100</u>	<u>888,053</u>	<u>117,953</u>
DISBURSEMENTS				
Protection to Persons and Property	868,527	932,475	925,718	6,757
Debt Service	6,013	6,020	6,012	8
Administration	284,525	269,570	267,853	1,717
Total Disbursements	<u>1,159,065</u>	<u>1,208,065</u>	<u>1,199,583</u>	<u>8,482</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(437,965)	(437,965)	(311,530)	126,435
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	372,015	372,015	309,000	(63,015)
Total Other Adjustments to Cash (Uses)	<u>372,015</u>	<u>372,015</u>	<u>309,000</u>	<u>(63,015)</u>
Net Change in Fund Balance	(65,950)	(65,950)	(2,530)	63,420
Fund Balance - Beginning	65,950	65,950	78,896	12,946
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 76,366</u>	<u>\$ 76,366</u>

LEE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information – Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

	SOLID WASTE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$		\$	\$
Charges for Services		197,919	200,168	2,249
Miscellaneous	420,000	420,000	442,113	22,113
Interest	3,100	3,100	9,609	6,509
Total Receipts	500	500	66	(434)
	423,600	621,519	651,956	30,437
DISBURSEMENTS				
General Health and Sanitation	385,309	835,426	724,431	110,995
Debt Service	17,131	36,128	32,233	3,895
Administration	106,160	102,310	71,581	30,729
Total Disbursements	508,600	973,864	828,245	145,619
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(85,000)	(352,345)	(176,289)	176,056
Other Adjustments to Cash (Uses)				
Solid Waste Truck Lease		171,848	171,848	0
Transfers From Other Funds	46,000	64,997	46,000	(18,997)
Total Other Adjustments to Cash (Uses)	46,000	236,845	217,848	(18,997)
Net Change in Fund Balance	(39,000)	(115,500)	41,559	157,059
Fund Balance - Beginning (Restated)	39,000	115,500	117,127	1,627
Fund Balance - Ending	\$ 0	\$ 0	\$ 158,686	\$ 158,686

**LEE COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION – BUDGETARY COMPARISON SCHEDULES**

June 30, 2014

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 *Government 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.

Note 2. Excess of Disbursements Over Appropriations

The following disbursements exceeded budgeted appropriations in the listed fund and line item:

- Road Fund Roads exceeded budgeted appropriations by \$88,836.

LEE COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information – Regulatory Basis
For The Year Ended June 30, 2014

LEE COUNTY
SCHEDULE OF CAPITAL ASSETS
Other Information – Regulatory Basis

For The Year Ended June 30, 2014

The fiscal court reports the following schedule of capital assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 319,083	\$ 18,128	\$	\$ 337,211
Construction In Progress	82,489	20,004	68,047	34,446
Land Improvements	294,664	49,919		344,583
Buildings and Building Improvements	3,203,903	16,137		3,220,040
Vehicles	2,215,748	365,478	134,718	2,446,508
Equipment	803,491	49,635		853,126
Infrastructure	4,725,514	428,775		5,154,289
Total Capital Assets	\$ 11,644,892	\$ 948,076	\$ 202,765	\$ 12,390,203

**LEE COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION – SCHEDULE OF CAPITAL ASSETS**

June 30, 2014

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 Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-25
Infrastructure	\$ 20,000	10-50

Note 2. Construction in Progress

Construction in progress consisted of \$34,446 for an emergency services building.

**LEE COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**LEE COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Fiscal Year Ended June 30, 2014

<u>Program Title</u>	<u>Pass- Through Grantor's Number</u>	<u>Federal CFDA No.</u>	<u>Expenditures</u>
U.S. Department of Homeland Security			
Emergency Food And Shelter National Board Program	N/A	97.024	\$ 2,263
<i>Passed through Kentucky Office of Homeland Security</i> Homeland Security Grant Program	Unknown	97.067	23,000
Disaster Grants - Public Assistance	N/A	97.036	<u>12,126</u>
Total U.S. Department of Homeland Security:			37,389
U.S. Department of Agriculture			
Emergency Watershed Protection Program	N/A	10.923	18,900
U.S. Department of Housing and Urban Development			
<i>Passed through Kentucky Department for Local Governement</i> Community Development Block Grant/State's Program (State-Administered Small Cities Program)	Unknown	14.228	<u>490,000</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 546,289</u></u>

LEE COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2014

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Lee County, Kentucky and is presented on the 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 *Government Accounting Standards Board*. The information in this schedule is presented in accordance with the requirement of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**INDEPENDENT AUDITORS' 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***

Morgan-Franklin, LLC

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The Honorable Steve Mays, Lee County Judge/Executive
Members of Lee County Fiscal Court

Independent Auditors' 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*

We have audited, in accordance with the 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 Lee County Fiscal Court for the fiscal year ended June 30, 2014, and the related notes to the financial statement, and have issued our report thereon dated April 28, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered Lee County Fiscal Court's internal control over financial reporting to determine 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 Lee County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of Lee 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 questioned costs, 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 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 questioned costs as items 2014-002, 2014-003, 2014-004, and 2014-005, to be material weaknesses.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lee 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 questioned costs as item 2014-001.

Lee County Judge/Executive's Responses to Findings

Lee County Judge/Executive's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Lee County Judge/Executive'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.

Morgan - Franklin, LLC

Morgan-Franklin, LLC
West Liberty, Kentucky

April 28, 2015

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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The Honorable Steve Mays, Lee County Judge/Executive
Members of Lee County Fiscal Court

Independent Auditors' Report On Compliance For Each Major Federal Program And Report On Internal Control Over Compliance In Accordance With OMB Circular A-133

Report on Compliance for Each Major Federal Program

We have audited Lee County Fiscal Court's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of Lee County Fiscal Court's major federal programs for the year ended June 30, 2014. Lee County Fiscal Court's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Lee County Fiscal Court's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lee County Fiscal Court's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Lee County Fiscal Court's compliance.

Opinion on Each Major Federal Program

In our opinion, Lee County Fiscal Court complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Independent Auditors' Report On Compliance For Each Major Federal Program And Report On Internal Control Over Compliance In Accordance With OMB Circular A-133

Report on Internal Control over Compliance

Management of Lee County Fiscal Court is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Lee County Fiscal Court's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Lee County Fiscal Court's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Morgan - Franklin, LLC

Morgan-Franklin, LLC

April 28, 2015

LEE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2014

**LEE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended June 30, 2014

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unmodified opinion on the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Lee County, Kentucky.
2. Four material weaknesses disclosed during the audit of the financial statement are reported in the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. No significant deficiencies were reported.
3. One instance of noncompliance material to the financial statement of Lee County, Kentucky, which would be required to be reported in accordance with *Government Auditing Standards*, was disclosed during the audit.
4. No significant deficiencies or material weaknesses in internal control over major federal award programs are reported in the Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for Lee County, Kentucky expresses an unmodified opinion on all major federal programs.
6. There are no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The program tested as a major program was: U.S. Department of Housing and Urban Development Community Development Block Grant/State's Program (State-Administered Small Cities Program) (CFDA 14.228).
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. Lee County, Kentucky was not determined to be low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

STATE LAW AND REGULATION

2014-001 The Fiscal Court Should Provide More Oversight Over The Graveling Of County Roads

Condition: It appears that there are two different graveling processes in Lee County. One is conducted by the road foreman and one conducted by the Judge/Executive.

The process used by the road foreman is as follows:

All gravel is purchased from the Hinkle plant at Slade, Kentucky. He purchases gravel as needed and stockpiles the gravel at the Landfill. The road foreman then documents the road location of any load of gravel that the road department takes from the stockpile. The road foreman only uses one contract hauler that provides his own dump truck. The contract with this individual was signed by the contractor, the Judge/Executive and the road foremen. The road foreman requests purchase orders for stone purchased and contract haul expenses.

The process used by the Judge/Executive is as follows:

There are three contracts for hauling stone that are signed by three different contractors and the Judge/Executive. The road foreman's name is not on these contracts. These contractors take all of the gravel they deliver from the stockpile maintained at the landfill and deliver to various locations throughout Lee County. These contractors receive their instructions directly from the Judge/Executive. Per the road foreman, he does not work with these contractors. We could find no evidence that purchase orders were issued for any of the contract haul invoices remitted by these three contractors as required by the administrative code.

**LEE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**Fiscal Year Ended June 30, 2014
(Continued)**

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

STATE LAW AND REGULATION (Continued)

**2014-001 The Fiscal Court Should Provide More Oversight Over The Graveling Of County Roads
(Continued)**

Condition (Continued):

We noted the following relating to the contractors used by the Judge/Executive:

- One contractor was also an employee of the County. We tested one payroll period for this employee and cross-referenced it with the invoices for contract haul work performed for the same days. We noted two days during this pay period in which the employee worked 8 hours in his regular job for the county and hauled gravel for 10 hours these same days. We also noted one day in which this employee worked 8 hours in his regular job for the county and hauled gravel 6 hours that same day.
- We received all invoices for this contractor and attempted to trace the roads graveled to the Lee County Road list provided by the Lee County road foreman. We were only able to trace nine of the roads graveled to the road list. Beginning sometime in October 2013, this contractor's invoices began consistently indicating that the work was performed on "cemetery road on [road name or number]". Although it appears the particular road the cemetery road was intersecting was a county road, in many instances, the cemetery road itself does not appear to be included in the Lee County Road System.
- Per the reading of the minutes, we noted that there was fiscal court approval for one of the contractors to receive payments bi-weekly on the same dates county employees are paid.

We also noted the following:

- Contracted hauling expenses increased from \$79,131 for the fiscal year ended June 30, 2013 to \$133,810 for the fiscal year ended June 30, 2014.
- Gravel purchased increased from \$112,696 for the fiscal year ended June 30, 2013 to \$170,731 for the fiscal year ended June 30, 2014.
- Payments for contract haul exceeded \$20,000 for the fiscal year ended June 30, 2014. We noted no evidence of the advertisement for bids for these services.

Criteria:

- Per Section 421.7 and 421.8 of the County's Administrative code, the Judge/Executive shall sign the contract, if one is used, and shall issue a purchase order to vendors and retain two copies. When items are delivered, the invoice shall be placed in the file by the vendor's name; when payment is made, one copy of the purchase order shall be placed in the vendor's file and one filed in numerical order with other paid purchase orders.
- Gravel should only be delivered to roads legally adopted into the county road system.
- The County should establish standards for the adoption of roads into the county road system pursuant to KRS 178.010 (3).
- Per the State Local Finance Officer, only payments related to utilities, debt service and county payroll items can be approved by the fiscal court alone. All others require the additional approval of the State Local Finance Officer. Payment to contractors cannot be paid prior to fiscal court approving the payment of the actual claim.
- Pursuant to KRS 424.260, except where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district, or board or commission of a city or

**LEE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**Fiscal Year Ended June 30, 2014
(Continued)**

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

STATE LAW AND REGULATION (Continued)

**2014-001 The Fiscal Court Should Provide More Oversight Over The Graveling Of County Roads
(Continued)**

Criteria (Continued):

county, or sheriff or county clerk, may make a contract, lease, or other agreement for materials, supplies except perishable meat, fish, and vegetables, equipment, or for contractual services other than professional, involving an expenditure of more than twenty thousand dollars (\$20,000) without first making newspaper advertisement for bids.

- Per the County's Administrative Code, Sections 421.3 and 421.5, the Judge/Executive shall place an advertisement in the newspaper of largest circulation in the county at least once not less than seven nor more than twenty-one days before bid opening. The advertisement shall include the time and place the bids will be opened, and the time and place where the specifications may be obtained. Judge/Executive shall open all bids publicly at the time and place stated in the advertisement; and shall select the lowest and best bid by the qualified bidder. If the lowest bid is not selected, the reasons for the selection shall be stated in writing.

Effect:

- Roads not included on the official County road list may have been graveled.
- Roads may have been adopted into the county road system without meeting minimum standards.
- Contract haul invoices were paid without proper approval.
- Bids were not obtained for contract haul services.

Cause: The Judge/Executive's circumvention of established procedures.

Recommendation: We recommend the fiscal court begin providing more oversight regarding the graveling of county roads and that consistent procedures are developed. We recommend the fiscal court only gravel roads included on the county road list and that the fiscal court develop procedures for monitoring any gravel stockpiles. We also recommend the fiscal court investigate the status of the employee who is also paid as a contractor to determine if there is an employee/employer relationship regarding the services provided. We recommend the fiscal court consult with the County Attorney regarding these issues.

County Judge/Executive's Response: we will correct, employee no longer used as a contractor

MATERIAL WEAKNESSES

2014-002 The Fiscal Court Lacks Adequate Internal Controls Over Disbursements, Credit Cards And Purchase Orders

Condition: While performing our disbursement testing, we noted the following:

- An official claims list is not included in the official minutes book. The County Clerk does maintain a separate folder in her office of the claims presented; however, this copy bears no signatures of fiscal court members authenticating it or date. Additionally, it does not include a value for the total expenditures approved. In one instance we found that the claims list provided to us by the County Clerk for the months of April and May of 2014 were identical apart from the heading on the top of the

**LEE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**Fiscal Year Ended June 30, 2014
(Continued)**

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

MATERIAL WEAKNESSES (Continued)

2014-002 The Fiscal Court Lacks Adequate Internal Controls Over Disbursements, Credit Cards And Purchase Orders (Continued)

Condition (Continued):

page. No check numbers or check totals for multiple invoices paid to the same vendor are detailed on the claims list making it difficult to verify disbursements for specific invoices are on this list.

- The County has three (3) credit accounts but only utilizes one (1) on a regular basis by multiple cardholders, The other two (2) cards did not have activity requiring payment in April 2014, therefore we haphazardly selected a different month for each where there was a payment made.
- During the course of our audit we inquired about the disbursement process and were informed of the following operating process for issuing purchase orders. A Purchase Order book is maintained; each half page is a purchase order record and the book is not in triplicate form. No account code is recorded on the majority of purchase orders viewed. Per Treasurer at the start of each fiscal year, they begin with purchase order number one (1) and continue in sequence until June 30th. Those who need a purchase order number call into the office and provide details of vendor and cost and this is recorded in the book and the next sequential PO# is issued.

Of the twenty five disbursements haphazardly tested, we noted:

- Sixteen (16) disbursements where a written purchase order was not found in purchase order book.
- Five (5) disbursements where no approval was found in minutes of fiscal court.
- Two (2) disbursements that did not agree to supporting documentation.

While performing our credit card testing, we noted the following:

- One (1) instance where sales tax (\$1.20) was included in amount paid.
- Two (2) instances in which there was no supporting documentation for the disbursement.
- Two (2) credit card statements with multiple purchases for food and gas where insufficient documentation was included to support expenses as official business.
- One (1) credit card statement where we noted a personal check was written to cover part of the expense but no invoice was present to verify the amount of expense covered by this check.
- Two (2) credit cards where all expenses were for payment of goods purchased for County special events but had no supporting documentation to indicate prior approval by the fiscal court.

Criteria:

- Pursuant to KRS 67.100, (1) The fiscal court is a court of record. Minutes of the proceedings of each meeting shall be prepared and submitted for approval at the next succeeding meeting. (2) Every official action of the fiscal court shall be made a part of the permanent records of the county. (3) The county budget ordinance shall be indexed so that each index list covers one (1) fiscal year and shall be listed in such index no later than thirty (30) days after passage and any required approval. (4) County ordinances other than the county budget ordinance shall be indexed in a composite index of all county ordinances in force, and shall be listed in the index no later than thirty (30) days after passage and any required approval. (5) A copy of all records required by this section shall be kept in the office of the county clerk.

**LEE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**Fiscal Year Ended June 30, 2014
(Continued)**

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

MATERIAL WEAKNESSES (Continued)

2014-002 The Fiscal Court Lacks Adequate Internal Controls Over Disbursements, Credit Cards And Purchase Orders (Continued)

Criteria (Continued):

- Article 421.7 on page 36 of the Lee County Fiscal Court Administrative Code states; “Judge/Executive...shall issue a purchase order to vendors and retain two copies.”

Effect:

- The vendor claims approved by the fiscal court could not be verified as part of the official records of the fiscal court.
- A vendor was underpaid by \$1,000 in August 2013 and this underpayment was corrected in the following month.
- Lack of Purchase Order could suggest approval for expenditure was not received.

Cause: Lack of adequate internal controls over disbursements.

Recommendation:

- If the County continues to use an excel spreadsheet to present vendor claims rather than the accounting software, we recommend the list be updated with check numbers once they have been printed, that totals by vendor and overall are included where necessary and the fiscal court officers sign and date these claims lists at each monthly meeting prior to presenting to the County Clerk as the official record of approval. If the County chooses to discontinue the use of the excel spreadsheet, we recommend that the finance officer begin using the vendor claim function of the accounting software. The accounting software is capable of generating a more detailed vendor claims report with totals by vendor and a grand total for all claims presented.
- We recommend the County obtain a Duplicate pre-numbered Purchase Order book, that each purchase order is signed by the appropriate department supervisor and/or Judge Executive, and that a copy of each order is attached to the paid invoices as support for and approval of expenditures.
- The County has a tax exempt ID and should utilize for all credit card purchases. We also recommend purchases only be made on the credit card if they are a reasonable and allowable expense of the County. We further recommend that sufficient documentation is obtained to support all expenditures.

County Judge/Executive's Response: will correct

2014-003 The County Lacks Adequate Internal Controls Over Payroll

Condition: During our testing of payroll, we tested nineteen (19) employees and we noted the following:

- Time taken for lunch was not indicated on any employee timesheets.
- One (1) hourly employee who did not receive retirement benefits in 2013 whose total hours worked per their 2013 payroll summary averaged 101.45 hours per month.

**LEE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**Fiscal Year Ended June 30, 2014
(Continued)**

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

MATERIAL WEAKNESSES (Continued)

2014-003 The County Lacks Adequate Internal Controls Over Payroll (Continued)

Condition: (Continued)

- One (1) salaried employee whose timesheet indicates they work a forty (40) hour week but paystub shows no accrual for vacation or sick time yet showed a balance of 448 hours of sick leave on their 2013 payroll summary report.
- One (1) hourly employee whose timesheet showed 80 regular hours used but whose paystub for the same period indicated payment for 40 regular hours and 40 hours of vacation time.
- One (1) salaried employee paid monthly contrary to the County's current administrative code.
- Six (6) employees, by the last calendar day of 2013, who have accrued vacation hours in excess of their allowable maximum, per the County's administrative code, and four (4) employees who expended more than their allowable maximum in the 2013 calendar year.
- One (1) hourly road department employee had overtime, but there was not a signature on the time sheet noting authorization.

Criteria:

- Time taken for lunch should be indicated on timesheets and time-in and time-out should also be indicated on timesheets.
- KRS 78.510(21) states "'Regular full-time positions'... shall mean all positions that average one hundred (100) or more hours per month, determined by using the number of hours actually worked in a calendar year or fiscal year..."
- Leave balance reports should be maintained by the payroll administrator and include the total of sick and vacation leave accrued and used for each employee. .
- Hours worked and the allocation of hours worked (i.e. sick, vacation, holiday) per the employee time sheets should agree to the hours worked on the check stubs.
- Per the County's current administrative code, "No employee, full-time, part-time, temporary or seasonal be paid other than semi-monthly."
- Per the County's current administrative code, "Vacation time shall not be accumulated in excess of two (2) regular full-time workweeks based on a forty (40) hour workweek beginning the second calendar year of full-time employment. After ten (10) years of continuous employment an employee shall accumulate three (3) regular full-time workweeks based on a forty (40) hour workweek..."

Effect:

- Without time taken for lunch or breaks indicated on timesheets they cannot be properly recalculated and therefore could lead to employees being paid for hours they didn't work.
- Worker misclassification can result in substantial liability for unpaid wages, and taxes, penalties and fines, among other consequences.
- Misappropriation of sick and vacation leave balances or misappropriation of employee wages could occur and not be detected and corrected on a timely basis.
- Misappropriation of public funds could occur.

**LEE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**Fiscal Year Ended June 30, 2014
(Continued)**

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

MATERIAL WEAKNESSES (Continued)

2014-003 The County Lacks Adequate Internal Controls Over Payroll (Continued)

Cause: Lack of internal controls over payroll processing.

Recommendation: We recommend the Fiscal Court reevaluate their controls over payroll to determine the controls that would best address the findings listed under the condition section above. The fiscal court may determine the controls listed above under the criteria section are adequate or may decide to implement other controls to eliminate such internal control weaknesses in the future.

County Treasurer's Response: will check better to insure supervisors have signed off on overtime and will work on software issues of accrued time as well as the Admin Code

2014-004 The Fiscal Court Lacks Adequate Internal Controls Over Solid Waste Fee Receipts

Condition: While performing our solid waste fee receipt testing, we noted Lee County completed a wastewater merge with the City of Beattyville in July 2012. Currently the City of Beattyville directly bills ninety-five percent of solid waste customers on the monthly water bills. The Solid Waste Coordinator bills approximately 180 customers who are city water customers. The Solid Waste Coordinator receives payments, generally via mail, with most customers paying by check or money order. Individual receipts are not written for each payment received.

When ready to make a deposit, the Solid Waste Coordinator prints a report, from Lee County's reporting system, of payments collected and prepares a deposit slip, then has a member of the Fiscal Court staff review the deposit prior to taking to the bank. A copy of the deposit is given to the Treasurer. Either the Solid Waste Coordinator or a member of the Judge's Office takes the deposit to the bank.

Of the three (3) deposits haphazardly tested, we noted:

- Fifteen (15) entries on the Lee County Deposit reports that did not match the Bank's deposit detail.
- Twelve (12) checks/money orders on the Bank deposit detail that did not match the Lee County Deposit reports
- One (1) payment recorded, on a Lee County Deposit Report, against a customer's account as \$1.50 when the Bank's deposit detail showed the check amount to be \$31.50.
- One (1) deposit slip prepared with the date of 10/11/13 which showed recorded as deposited to bank on 10/17/13 per monthly bank statement.

Criteria:

- The person reviewing the deposit prior to it being taken to bank should match individual check amounts to the accompanying deposit reports and not just reconcile the total of the deposit against the report totals.
- Deposits in the appropriate bank account should be made timely once prepared.
- Receipts should be documented and deposited daily.

**LEE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**Fiscal Year Ended June 30, 2014
(Continued)**

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

MATERIAL WEAKNESSES (Continued)

**2014-004 The Fiscal Court Lacks Adequate Internal Controls Over Solid Waste Fee Receipts
(Continued)**

Effect:

- Lack of internal control.
- Misappropriation of assets could occur and not be detected in a timely manner.
- Receipts and revenues not recorded promptly. Amounts recorded to customer accounts incorrectly.

Cause: Lack of adequate internal controls over Solid Waste receipts.

Recommendation:

- We recommend the use of a pre-numbered receipt book to record individual customer payments as they are received.
- We recommend the employee of the County reviewing the prepared deposit; verify each individual customer check and money order against the Solid Waste Coordinator's Deposit Report prior to taking deposit to the bank.

County Treasurer's Response: Receipt printer has been ordered and changes made in daily check off as well as making daily deposits

2014-005 The Fiscal Court Should Provide More Oversight Over The Graveling Of County Roads

See 2014-001 for details.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

NONE

D. SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

NONE

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

LEE COUNTY FISCAL COURT

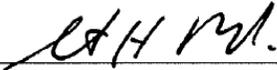
**For The Fiscal Year Ended
June 30, 2014**

Appendix A

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
LEE COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2014

Lee 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