

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

**For The Year Ended
June 30, 2017**



**MIKE HARMON
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
The Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
The Honorable Steve Mays, Former Lee County Judge/Executive
The Honorable Chuck Caudill, Jr., Lee County Judge/Executive
Members of the Lee County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Lee County Fiscal Court, for the year ended June 30, 2017, and the related notes to the financial statement which collectively comprise the Lee County Fiscal Court's financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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

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



To the People of Kentucky

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

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Lee County Fiscal Court as of June 30, 2017, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of the Lee County Fiscal Court as of June 30, 2017, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Supplementary Information

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

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

To the People of Kentucky

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2018, on our consideration of the Lee County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Lee County Fiscal Court's internal control over financial reporting and compliance.

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

- 2017-001 The Fiscal Court Lacks Adequate Internal Controls Over Disbursements
- 2017-002 The Fiscal Court Lacks Adequate Internal Controls Over Payroll
- 2017-003 The Fiscal Court Lacks Adequate Internal Controls Over Credit Card Purchases
- 2017-004 The Fiscal Court Lacks Adequate Internal Controls Over Fuel Purchases
- 2017-005 The Fiscal Court Did Not Have Adequate Supporting Documentation Related To Bid Proposals And Contract Change Orders For An Illegal Dump Cleanup Project

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

October 22, 2018

LEE COUNTY OFFICIALS
For The Year Ended June 30, 2017

Fiscal Court Members:

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

Other Elected Officials:

Thomas Hollon	County Attorney
Corbett Dunaway	Jailer
Kimberly Noe	County Clerk
Tyler Phillips	Circuit Court Clerk
Wendell Childers, Jr.	Sheriff
Elizabeth Roach	Property Valuation Administrator
Joshua Hagan	Coroner

Appointed Personnel:

Jodi Coldiron	County Treasurer
Pearl Spencer	Chief Financial Officer

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

For The Year Ended June 30, 2017

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

For The Year Ended June 30, 2017

	Budgeted Funds		
	General Fund	Road Fund	Jail Fund
RECEIPTS			
Taxes	\$ 1,385,214	\$	\$
In Lieu Tax Payments	39,822		
Excess Fees	5,786		
Licenses and Permits	20,206		
Intergovernmental	401,239	1,807,043	88,709
Charges for Services	7,330		
Miscellaneous	113,787	292,848	
Interest	47	2,831	3
Total Receipts	<u>1,973,431</u>	<u>2,102,722</u>	<u>88,712</u>
DISBURSEMENTS			
General Government	987,543		
Protection to Persons and Property	365,089		423,319
General Health and Sanitation	28,508		
Social Services	42,120		
Recreation and Culture	55,940		
Roads		1,881,584	
Debt Service	12,834	621,919	
Capital Projects	86,041		
Administration	432,111	150,327	18,292
Total Disbursements	<u>2,010,186</u>	<u>2,653,830</u>	<u>441,611</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(36,755)</u>	<u>(551,108)</u>	<u>(352,899)</u>
Other Adjustments to Cash (Uses)			
Financing Obligation Proceeds	80,000	277,858	
Transfers From Other Funds	300,000	200,000	354,422
Transfers To Other Funds	(395,000)	(300,000)	
Total Other Adjustments to Cash (Uses)	<u>(15,000)</u>	<u>177,858</u>	<u>354,422</u>
Net Change in Fund Balance	(51,755)	(373,250)	1,523
Fund Balance - Beginning (Restated)	<u>276,590</u>	<u>549,095</u>	<u>1,156</u>
Fund Balance - Ending	<u>\$ 224,835</u>	<u>\$ 175,845</u>	<u>\$ 2,679</u>
Composition of Fund Balance			
Bank Balance	\$ 234,123	\$ 179,046	\$ 3,436
Less: Outstanding Checks	(9,288)	(3,201)	(757)
Fund Balance - Ending	<u>\$ 224,835</u>	<u>\$ 175,845</u>	<u>\$ 2,679</u>

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, 2017
(Continued)

<u>Budgeted Funds</u>			
Local Government Economic Assistance Fund	Ambulance Fund	Solid Waste Fund	Total Funds
\$	\$	\$	\$ 1,385,214
			39,822
			5,786
			20,206
159,422	47,730	26,539	2,530,682
	39,952	527,640	574,922
	267	8,119	415,021
1	3	79	2,964
<u>159,423</u>	<u>87,952</u>	<u>562,377</u>	<u>4,974,617</u>
			987,543
	25,843		814,251
		534,573	563,081
			42,120
			55,940
			1,881,584
	39,982	74,789	749,524
			86,041
	2,924	80,995	684,649
	<u>68,749</u>	<u>690,357</u>	<u>5,864,733</u>
<u>159,423</u>	<u>19,203</u>	<u>(127,980)</u>	<u>(890,116)</u>
			357,858
			854,422
<u>(159,422)</u>			<u>(854,422)</u>
<u>(159,422)</u>			<u>357,858</u>
1	19,203	(127,980)	(532,258)
734	5,945	200,348	1,033,868
<u>\$ 735</u>	<u>\$ 25,148</u>	<u>\$ 72,368</u>	<u>\$ 501,610</u>
\$ 735	\$ 25,148	\$ 73,763	\$ 516,251
		(1,395)	(14,641)
<u>\$ 735</u>	<u>\$ 25,148</u>	<u>\$ 72,368</u>	<u>\$ 501,610</u>

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

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TO THE FINANCIAL STATEMENT**

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**LEE COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2017

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

B. Basis of Accounting

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

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

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

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

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

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

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

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

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

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 ambulance service billing.

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.

D. Budgetary Information

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

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

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

E. Lee County Elected Officials

Kentucky law provides for election of the officials listed 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 the Lee County Fiscal Court.

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

F. Deposits and Investments

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

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Deposits and Investments (Continued)

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

G. Long-term Obligations

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

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 Three Forks Regional Jail is considered a joint venture of the Lee County Fiscal Court.

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.

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 2. Deposits

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

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of June 30, 2017, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2017.

	General Fund	Road Fund	LGEA Fund	Total Transfers In
General Fund	\$	\$ 300,000	\$	\$ 300,000
Road Fund	200,000			200,000
Jail Fund	195,000		159,422	354,422
Total Transfers Out	<u>\$ 395,000</u>	<u>\$ 300,000</u>	<u>\$ 159,422</u>	<u>\$ 854,422</u>

Reason for transfers:

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

Note 4. Long-term Debt

A. Blacktop Project

In August 2009, the 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, 2017, was \$7,277. Future lease principal and interest requirements are:

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 4. Long-term Debt (Continued)

A. Blacktop Project (Continued)

Fiscal Year Ending June 30	Principal	Scheduled Interest
2018	7,277	89
Totals	\$ 7,277	\$ 89

B. Heart Start Monitor

In April 2013, the Lee County Fiscal Court entered into a financing obligation agreement for \$21,808 to purchase a heart monitor. The terms of the agreement stipulate a 48-month repayment schedule with variable monthly payments and variable monthly principal payments to end on April 15, 2017. The obligation was paid in full as of June 30, 2017.

C. Garbage Trucks - Financing Obligation

In January 2014, the Lee County Fiscal Court entered into a financing obligation agreement for \$171,847 to purchase two new garbage trucks. The terms of the agreement stipulate a 60-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, 2017, was \$56,391. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2018	35,396	849
2019	20,995	148
Totals	\$ 56,391	\$ 997

D. Rear Loader with Attachments and Accessories - Financing Obligation

In June 2016, the Lee County Fiscal Court entered into a financing obligation agreement for \$145,301 to purchase a rear loader with attachments and accessories. The terms of the agreement stipulate a 48-month repayment schedule with an interest rate of 2.94 percent fixed rate and variable monthly payments to end on May 4, 2020. The outstanding principal as of June 30, 2017, was \$107,615. Future lease principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2018	\$ 35,805	\$ 2,679
2019	36,932	1,612
2020	34,878	513
Totals	\$ 107,615	\$ 4,804

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 4. Long-term Debt (Continued)

E. Bridge Repair - Financing Obligation

In May 2016, the Lee County Fiscal Court entered into a lease agreement for \$490,000 with the Kentucky Association of Counties Leasing Trust Program to repair a bridge. The terms of the agreement stipulate a two-year repayment schedule of yearly principal and interest payments with variable interest rates to end on May 20, 2018. On April 24, 2018, this agreement was extended to May 20, 2019. The outstanding principal as of June 30, 2017, was \$249,366. Future lease principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2018	\$ 150,000	\$ 13,715
2019	99,366	5,823
Totals	<u>\$ 249,366</u>	<u>\$ 19,538</u>

F. Ambulance - Financing Obligation

In August 2015, the Lee County Fiscal Court entered into a financing obligation agreement for \$162,212 to purchase an ambulance. The terms of the agreement stipulate a 60-month repayment schedule with an interest rate of 2.95 percent fixed rate and variable monthly payments to end on August 21, 2020. The outstanding principal as of June 30, 2017, was \$105,534. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2018	\$ 32,255	\$ 2,718
2019	33,233	1,739
2020	34,239	733
2021	5,807	22
Totals	<u>\$ 105,534</u>	<u>\$ 5,212</u>

G. Trucks with Salt Spreading Attachments - Financing Obligation

In January 2016, the Lee County Fiscal Court entered into a financing obligation agreement for \$78,500 to purchase trucks. The terms of the agreement stipulate a 36 month repayment schedule of monthly principal and interest to end on January 28, 2019, with an interest rate of 3.25 percent. The outstanding principal as of June 30, 2017, was \$42,394. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2018	\$ 26,518	\$ 1,000
2019	15,876	176
Totals	<u>\$ 42,394</u>	<u>\$ 1,176</u>

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 4. Long-term Debt (Continued)

H. Courthouse Repairs - Financing Obligation

In October 2016, the Lee County Fiscal Court entered into a lease agreement for \$80,000 with the Kentucky Association of Counties Leasing Trust Program for courthouse repairs. The terms of the agreement stipulate a sixty month repayment schedule of yearly principal and interest payments with variable interest rates to end on October 2021. The outstanding principal as of June 30, 2017, was \$70,167. Future lease principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2018	\$ 15,105	\$ 3,768
2019	15,737	2,852
2020	16,393	1,903
2021	17,081	904
2022	5,851	74
Totals	<u>\$ 70,167</u>	<u>\$ 9,501</u>

I. Trucks - Financing Obligation

In April 2016, the Lee County Fiscal Court entered into a financing obligation agreement for \$274,854 with the Kentucky Association of Counties to purchase trucks. The county purchased heavy trucks to use for 18 months; then the trucks are to be sold at auction. The terms of the agreement stipulate an eighteen month repayment schedule, with monthly interest and principle due on October 20, 2017, with an interest rate of 4.55 percent. The debt was paid in full as of June 30, 2017.

J. Trucks - Financing Obligation

In May 2017, the Lee County Fiscal Court entered into a financing obligation agreement for \$277,858 with Kentucky Association of Counties to purchase 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 an 18-month repayment schedule, with principal and interest due in October 2018 at an interest rate of 3.8 percent. The outstanding principal as of June 30, 2017, was \$277,858.

Fiscal Year Ending June 30	Principal	Scheduled Interest
2018	\$	\$ 10,531
2019	<u>277,858</u>	<u>3,510</u>
Totals	<u>\$ 277,858</u>	<u>\$ 14,041</u>

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 4. Long-term Debt (Continued)

K. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Financing Obligations	\$ 1,258,138	\$ 357,858	\$ 699,394	\$ 916,602	\$ 302,356
Total Long-term Debt	\$ 1,258,138	\$ 357,858	\$ 699,394	\$ 916,602	\$ 302,356

Note 5. Employee Retirement System

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

The county's contribution for FY 2015 was \$286,135, FY 2016 was \$284,633, and FY 2017 was \$216,125.

Nonhazardous

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

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

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

The county's contribution rate for nonhazardous employees was 18.68 percent.

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 5. Employee Retirement System (Continued)

Health Insurance Coverage

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

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

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

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

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

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

Note 6. Insurance

For the fiscal year ended June 30, 2017, the Lee County Fiscal Court was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 7. Commitments and Contingencies

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

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 8. Related Party Transactions

The county paid \$1,750 to a catering company to cater the county employees' Christmas dinner. The catering company is owned by a magistrate.

The county paid an individual \$3,357 for repairs on county vehicles. The individual is the son of a magistrate.

The county paid an individual \$100 for sound and music at a county function. The individual is the son of a magistrate.

Note 9. Prior Period Adjustments

The beginning balance of the general fund was restated and increased by \$122 due to a prior year voided check. The beginning balance of the solid waste fund was restated and decreased by \$16 due to a misstatement in the prior year.

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

For The Year Ended June 30, 2017

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LEE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2017

	GENERAL FUND			
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,419,300	\$ 1,369,282	\$ 1,385,214	\$ 15,932
In Lieu Tax Payments	32,800	32,800	39,822	7,022
Excess Fees	19,772	7,772	5,786	(1,986)
Licenses and Permits	20,000	20,000	20,206	206
Intergovernmental	306,256	381,986	401,239	19,253
Charges for Services	100	100	7,330	7,230
Miscellaneous	51,531	81,555	113,787	32,232
Interest	30	30	47	17
Total Receipts	<u>1,849,789</u>	<u>1,893,525</u>	<u>1,973,431</u>	<u>79,906</u>
DISBURSEMENTS				
General Government	927,455	1,006,682	987,543	19,139
Protection to Persons and Property	287,961	378,003	365,089	12,914
General Health and Sanitation	36,800	29,536	28,508	1,028
Social Services	52,800	49,774	42,120	7,654
Recreation and Culture	37,133	58,903	55,940	2,963
Debt Service		13,100	12,834	266
Capital Projects	18,500	86,041	86,041	
Administration	430,527	452,295	432,111	20,184
Total Disbursements	<u>1,791,176</u>	<u>2,074,334</u>	<u>2,010,186</u>	<u>64,148</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>58,613</u>	<u>(180,809)</u>	<u>(36,755)</u>	<u>144,054</u>
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds		80,000	80,000	
Transfers From Other Funds		100,000	300,000	200,000
Transfers To Other Funds	(255,129)	(225,707)	(395,000)	(169,293)
Total Other Adjustments to Cash (Uses)	<u>(255,129)</u>	<u>(45,707)</u>	<u>(15,000)</u>	<u>30,707</u>
Net Change in Fund Balance	(196,516)	(226,516)	(51,755)	174,761
Fund Balance - Beginning (Restated)	<u>196,516</u>	<u>226,516</u>	<u>276,590</u>	<u>50,074</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 224,835</u>	<u>\$ 224,835</u>

LEE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 20,000	\$ 20,000	\$	\$ (20,000)
Intergovernmental	1,436,755	1,743,708	1,807,043	63,335
Miscellaneous	251,000	251,000	292,848	41,848
Interest	10	10	2,831	2,821
Total Receipts	<u>1,707,765</u>	<u>2,014,718</u>	<u>2,102,722</u>	<u>88,004</u>
DISBURSEMENTS				
Roads	844,605	1,952,948	1,881,584	71,364
Debt Service	858,060	622,794	621,919	875
Administration	155,100	165,834	150,327	15,507
Total Disbursements	<u>1,857,765</u>	<u>2,741,576</u>	<u>2,653,830</u>	<u>87,746</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(150,000)</u>	<u>(726,858)</u>	<u>(551,108)</u>	<u>175,750</u>
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds		277,858	277,858	
Transfers From Other Funds			200,000	200,000
Transfers To Other Funds		(100,000)	(300,000)	(200,000)
Total Other Adjustments to Cash (Uses)		<u>177,858</u>	<u>177,858</u>	<u>200,000</u>
Net Change in Fund Balance	(150,000)	(549,000)	(373,250)	175,750
Fund Balance - Beginning	<u>150,000</u>	<u>549,000</u>	<u>549,095</u>	<u>95</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 175,845</u>	<u>\$ 175,845</u>

LEE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 56,173	\$ 56,173	\$ 88,709	\$ 32,536
Miscellaneous	100	100		(100)
Interest	10	10	3	(7)
Total Receipts	<u>56,283</u>	<u>56,283</u>	<u>88,712</u>	<u>32,429</u>
DISBURSEMENTS				
Protection to Persons and Property	427,912	427,367	423,319	4,048
Administration	18,500	19,045	18,292	753
Total Disbursements	<u>446,412</u>	<u>446,412</u>	<u>441,611</u>	<u>4,801</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(390,129)</u>	<u>(390,129)</u>	<u>(352,899)</u>	<u>37,230</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>385,129</u>	<u>385,129</u>	<u>354,422</u>	<u>(30,707)</u>
Total Other Adjustments to Cash (Uses)	<u>385,129</u>	<u>385,129</u>	<u>354,422</u>	<u>(30,707)</u>
Net Change in Fund Balance	(5,000)	(5,000)	1,523	6,523
Fund Balance - Beginning	<u>5,000</u>	<u>5,000</u>	<u>1,156</u>	<u>(3,844)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,679</u>	<u>\$ 2,679</u>

LEE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 130,000	\$ 159,422	\$ 159,422	\$
Interest			1	1
Total Receipts	<u>130,000</u>	<u>159,422</u>	<u>159,423</u>	<u>1</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>130,000</u>	<u>159,422</u>	<u>159,423</u>	<u>1</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(130,000)</u>	<u>(159,422)</u>	<u>(159,422)</u>	
Total Other Adjustments to Cash (Uses)	<u>(130,000)</u>	<u>(159,422)</u>	<u>(159,422)</u>	
Net Change in Fund Balance			1	1
Fund Balance - Beginning			<u>734</u>	<u>734</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 735</u>	<u>\$ 735</u>

LEE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

	AMBULANCE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 41,160	\$ 41,160	\$ 47,730	\$ 6,570
Charges for Services	30,000	30,000	39,952	9,952
Miscellaneous			267	267
Interest	5	5	3	(2)
Total Receipts	<u>71,165</u>	<u>71,165</u>	<u>87,952</u>	<u>16,787</u>
DISBURSEMENTS				
Protection to Persons and Property	23,200	28,069	25,843	2,226
Debt Service	41,000	40,207	39,982	225
Administration	7,165	3,089	2,924	165
Total Disbursements	<u>71,365</u>	<u>71,365</u>	<u>68,749</u>	<u>2,616</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(200)</u>	<u>(200)</u>	<u>19,203</u>	<u>19,403</u>
Net Change in Fund Balance	(200)	(200)	19,203	19,403
Fund Balance - Beginning	<u>200</u>	<u>200</u>	<u>5,945</u>	<u>5,745</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 25,148</u>	<u>\$ 25,148</u>

LEE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

	SOLID WASTE FUND			
	<u>Budgeted Amounts</u>		Actual	Variance with
	<u>Original</u>	<u>Final</u>	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$	\$	\$ 26,539	\$ 26,539
Charges for Services	518,400	518,400	527,640	9,240
Miscellaneous	200	200	8,119	7,919
Interest	10	10	79	69
Total Receipts	<u>518,610</u>	<u>518,610</u>	<u>562,377</u>	<u>43,767</u>
DISBURSEMENTS				
General Health and Sanitation	547,758	557,426	534,573	22,853
Debt Service	76,085	77,085	74,789	2,296
Administration	98,660	87,992	80,995	6,997
Total Disbursements	<u>722,503</u>	<u>722,503</u>	<u>690,357</u>	<u>32,146</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(203,893)</u>	<u>(203,893)</u>	<u>(127,980)</u>	<u>75,913</u>
Net Change in Fund Balance	(203,893)	(203,893)	(127,980)	75,913
Fund Balance - Beginning (Restated)	<u>203,893</u>	<u>203,893</u>	<u>200,348</u>	<u>(3,545)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 72,368</u>	<u>\$ 72,368</u>

LEE COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2017

Note 1. Budgetary Information

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

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

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

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**LEE COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis**

For The Year Ended June 30, 2017

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LEE COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2017

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 337,211	\$ 10,000	\$	\$ 347,211
Construction in Progress	34,446			34,446
Land Improvements	362,083			362,083
Buildings	3,261,318			3,261,318
Vehicles and Equipment	3,505,937	149,953	2,100	3,653,790
Infrastructure	6,407,789	1,019,019		7,426,808
 Total Capital Assets	 <u>\$ 13,908,784</u>	 <u>\$ 1,178,972</u>	 <u>\$ 2,100</u>	 <u>\$ 15,085,656</u>

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

June 30, 2017

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	\$ 0	
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

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

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Steve Mays, Former Lee County Judge/Executive
The Honorable Chuck Caudill, Jr., Lee County Judge/Executive
Members of the Lee County Fiscal Court

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

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Lee County Fiscal Court for the fiscal year ended June 30, 2017, and the related notes to the financial statement which collectively comprise the Lee County Fiscal Court's financial statement and have issued our report thereon dated October 22, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Lee County Fiscal Court's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Lee County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 Responses we identified a certain deficiency in internal control that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2017-001 to be a material weakness.



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

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2017-002, 2017-003, 2017-004, and 2017-005 to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2017-001, 2017-002, and 2017-003.

Views of Responsible Officials and Planned Corrective Action

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

Purpose of this Report

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

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

October 22, 2018

**LEE COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2017

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**LEE COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2017

FINANCIAL STATEMENT FINDINGS:

2017-001 The Fiscal Court Lacks Adequate Internal Controls Over Disbursements

This is a repeat finding and was included in the prior year audit report as finding 2016-002. The following was noted during disbursements testing:

- Four disbursements did not include the original invoice or sufficient documentation, including a transaction totaling \$407 at Walmart.
- One invoice was not paid within 30 days of the receipt.
- The claims list was not made an official part of the fiscal court minutes and filed in the same manner as the official minutes.

The fiscal court failed to follow established procedures and statutory requirements. As a result

- Claims are being paid without adequate supporting documentation.
- Noncompliance with KRS 65.140 could result in penalties and interest being assessed to the county.
- Claims lists were not available for public inspection.

Good internal controls require that all disbursements be supported by adequate original supporting documentation.

According to KRS 65.140, “(2) [u]nless the purchaser and vendor otherwise contract, 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. (3) An interest penalty of one percent (1%) of any amount approved and unpaid shall be added to the amount approved for each month or fraction thereof after the thirty (30) working days which followed receipt of vendor's invoice by the purchaser.”

Pursuant to KRS 67.100(2), “[e]very official action of the fiscal court shall be made a part of the permanent records of the county.” KRS 67.100(5) states, “[a] copy of all records required by this section shall be kept in the office of the county clerk.”

According to the fiscal court's administrative code, the clerk of the fiscal court shall keep an index of all fiscal court records and make such index and records available for public inspection in accordance with KRS 61.870 to 61.884.

We recommend the fiscal court reevaluate controls over disbursements to determine the controls that would best address the issues discussed. We further recommend the fiscal court implement strong internal controls over disbursements.

Views of Responsible Official and Planned Corrective Action

Former County Judge/Executive's Response: We will correct.

LEE COUNTY
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended June 30, 2017
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-002 The Fiscal Court Lacks Adequate Internal Controls Over Payroll

This is a repeat finding and was included in the prior year audit report as finding 2016-001. Fifteen employees were tested and noted the following:

- One employee's time sheet was not signed by a supervisor.
- One full-time employee did not have a time sheet to reflect 40 hours was worked during the week to participate in the county's retirement and health insurance benefits.
- One employee's overtime was not approved by a supervisor.
- Several employees were not listed on the approved salary schedule.

Weak internal controls have allowed issues with the payroll process to occur without notice by management. As a result

- Employees are receiving benefits when they are not eligible or are not receiving benefits when they are eligible.
- Paychecks are being paid without proper authorization.
- Employees are being paid without presenting a time sheet as required by Kentucky Revised Statutes.
- By not including each individual position on the Salary Schedule, the fiscal court is not in compliance with KRS 64.530(1). Furthermore, employees could be paid an incorrect or unauthorized amount. By not maintaining timesheets, the fiscal court is not in compliance with KRS 337.320. Leave balances could be inaccurate and retirement benefits could be adversely affected.

Good internal controls require timesheets should be kept for payroll verification and as a record of leave time used and to document employees are working at least the minimum number of hours to be eligible for full-time benefits such as retirement and health insurance. Furthermore, a supervisor should sign all employee timesheets to indicate review and approval. According to the county's administrative code, full-time employees should work a minimum of 40 hours to receive benefits.

Pursuant to KRS 337.320(1), "[e]very employer shall keep a record of: (a) The amount paid each pay period to each employee; (b) The hours worked each day and each week by each employee; and (c) Such other information as the commissioner requires."

KRS 64.530(1) states, "[e]xcept as provided in subsections (5) and (6) of this section, the fiscal court of each county shall fix the reasonable compensation of every county officer and employee except the officers named in KRS 64.535 and the county attorney and jailer."

We recommend the fiscal court reevaluate their controls over payroll to determine the controls that would best address the findings discussed. We further recommend the fiscal court implement strong internal controls over payroll.

Views of Responsible Official and Planned Corrective Action

Former County Judge/Executive's Response: We will look into correcting for future.

LEE COUNTY
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended June 30, 2017
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-003 The Fiscal Court Lacks Adequate Internal Controls Over Credit Card Purchases

After noting several credit card charges did not have proper or adequate documentation, testing was expanded and every credit card statement was reviewed for Fiscal Year 2017. The Lee County Fiscal Court had credit card expenditures with no itemized receipts in the amount of \$5,416 for meals, fuel, and postage. Numerous restaurant expenditures, including: Joe's Crab Shack (\$251.54), TGI Fridays (\$219.34), Morton's Steakhouse (\$203.91), and The Chop House (\$263.41) were charged to the credit card without sufficient documentation to determine how many diners there were or what was purchased. The county's administrative code does not address allowances or reasonable spending limits during travel for training conferences. The county judge/executive also used the credit card for personal expenses totaling \$417, which he later reimbursed.

Lack of oversight by the fiscal court over the use of credit cards allowed the officials to make charges that did not meet a public purpose for the county. Credit card statements without proper supporting documentation are being submitted to the fiscal court for payment. The fiscal court is approving payment of the credit card bills without proper supporting documentation. It appears there is not enough oversight by those involved in preparing and approving the claims.

As a result, credit card statement claims tested lacked itemized invoices/receipts, and finance charges were incurred. Without original invoices/receipts detailing the transactions, there is not sufficient documentation to determine if the charge was valid. In addition, without proper documentation, undetected fraudulent charges could occur.

KRS 68.275(2) states, "[t]he 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, 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 agreed to the corresponding purchase order and reports.

Good internal controls dictate the fiscal court create administrative policies and procedures to provide guidance to public employees on the use of credit cards, spending limits during travel and training conferences, and reasonable determination of acceptable purchases.

We recommend the fiscal court have more control of credit card usage and require documentation of the reason the card was used with supporting documentation attached. Furthermore, we recommend the fiscal court not approve payment of any claims that lack sufficient supporting documentation or original invoices. The fiscal court should implement policies and guidelines for employees that address spending while traveling for county business and attending training conferences. The personal use of the county credit card for personal expenses should be prohibited. We remind the fiscal court that use of credit cards is a convenience only, and without adequate oversight, creates greater opportunity for fraud to occur.

Views of Responsible Official and Planned Corrective Action:

Former County Judge/Executive's Response: I agree we can do better with the oversight of credit cards. We had receipts to most of the ones listed but they were not itemized. A lot of them were meal tickets from away stays of fiscal court for trainings. We will pass along auditors requirement of their meal tickets being itemized. All credit card charges were presented as a claim and were approved by court before payment was issued.

LEE COUNTY
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended June 30, 2017
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-004 The Fiscal Court Lacks Adequate Internal Controls Over Fuel Purchases

The fiscal court lacks internal controls over fuel purchases. Receipts are not maintained for fuel purchased. The fiscal court utilizes a third party fuel purchasing system, but does not follow the procedures for fuel purchases the system is designed to monitor. The fiscal court receives a monthly invoice from the vendor used for purchasing fuel. These invoices list each person purchasing fuel along with the vehicle mileage, quantity, and price. We scanned all 12 months of detailed fuel purchasing activities and noted the following issues regarding fuel purchases:

- Fuel card users routinely did not list the accurate vehicle mileage when purchasing fuel.
- An instance of diesel fuel and motor oil purchased by the jailer.
- Numerous instances in which two fuel purchases were made within minutes or less than 12 hours of each other on the same card. For example:
 - On July 2, 2016, the fuel card assigned to the county judge/executive (same vehicle and driver) was used to purchase 18.8 gallons at 11:42am and 18.8 gallons at 12:09pm, a time difference of 27 minutes. The odometer reading recorded was the same for both purchases.
 - On July 30, 2016, the card assigned to the county judge/executive (same vehicle and driver) was used to purchase 17.5 gallons at 11:40am and 17.5 gallons at 11:50am, a time difference of 10 minutes. The odometer reading recorded was the same for both purchases.
 - On March 3, 2017, the fuel card assigned to a sheriff's employee (same vehicle and driver) was used to purchase 18.6 gallons at 2:03pm and 9.5 gallons at 4:46pm. The odometer readings recorded were clearly inaccurate: 1535 for the first purchase and 205,999 for the second.
 - On March 3, 2017, the fuel card assigned to another sheriff's employee (same vehicle and driver) was used to purchase 8.6 gallons at 1:48pm and 12 gallons at 4:05pm. The odometer reading changed by 4,067 miles during that two hour period.

The fiscal court did not have controls in place to adequately monitor fuel purchases. Without proper documentation of these fuel purchases by vehicle unit number and by the assigned employee, the risk of fuel being purchased for personal use or by unauthorized users greatly increases.

Good internal controls over fuel purchases require the fiscal court to ensure that adequate documentation is maintained to support the disbursement, including the odometer readings for all vehicles and the person purchasing the fuel. Strong internal controls over the current fuel card system would require each employee or vehicle be assigned a specific card, would specify that cards not be shared, and would prohibit multiple users from using the same card. This creates accountability for each user of the fuel cards.

We recommend the fiscal court properly use this third party fuel purchasing system and ensure that all fuel purchases are properly supported by proper documentation, including accurate odometer readings and designation of proper vehicle unit numbers. We also recommend the fiscal court review and reconcile the third party fuel reports monthly to note any employees not following proper fuel purchase procedures.

Views of Responsible Official and Planned Corrective Action:

Former County Judge/Executive's Response: We will notify all our employees that they must key in the beginning and ending mileage. Some would only key in their pin number.

LEE COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2017
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-005 The Fiscal Court Did Not Have Adequate Supporting Documentation Related To Bid Proposals And Contract Change Orders For An Illegal Dump Cleanup Project

The fiscal court received a grant from the Kentucky Energy and Environment Cabinet Division of Waste Management to clean up illegal dump sites. A contractor that was awarded a dump cleanup project submitted a bid proposal in which the amount was marked out three times, which was questionable. It is not clear, nor was it documented, who changed the amount on the bid proposal, when it was changed, or why. On December 2, 2016, this contractor received a payment of \$49,995 for the project. The same contractor was paid on December 6, 2016, for \$16,750 for extra work on the same site, which caused the payments to the contractor to exceed the original project amount by \$12,243. The county failed to execute change orders or an amended contract for the additional work as advised by the grantor agency.

The fiscal court did not have controls in place to ensure proper documentation was maintained and followed for the dump cleanup project. As a result, the fiscal court received \$68,976 and spent a total of \$66,745 on the project but had to refund \$12,243 back to the grantor because only \$56,733 was allowed for the dump cleanup.

We recommend the fiscal court follow all grant agreements as required under grant programs, ensure the grant requirements are followed, obtain change orders or contract amendments for additional work, and file and maintain all supporting documentation for bid files.

Views of Responsible Official and Planned Corrective Action:

Former County Judge/Executive's Response:

(1) Dump in question that was awarded to AWI. We advertised prebid conference. At prebid conference bidders were told when to submit sealed bids. All bidders attended bid opening. AWI had low bid and was awarded this particular dump.

(2) Additional monies above bid price. We did correspond with State officials at Division of Waste to see if we could pay additional above original contract. We were told we had money and with proper documentation it would be approved. We failed to do a supplement to the original contract but submitted invoice and pictures to State upon Completion. State approved closeout with the documents we submitted. Both payments were submitted in claims to court before payment was issued. In the future we will make sure a supplement contract is completed.

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

LEE COUNTY FISCAL COURT

For The Year Ended June 30, 2017

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

For The Fiscal Year Ended June 30, 2017

The 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