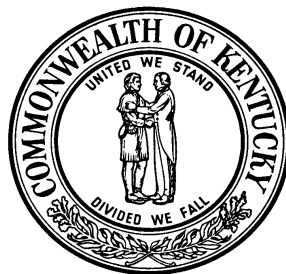


**REPORT OF THE AUDIT OF THE
FAYETTE COUNTY
CLERK**

**For The Period
February 1, 2023 Through December 31, 2023**



**ALLISON BALL
AUDITOR OF PUBLIC ACCOUNTS
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ALLISON BALL
AUDITOR OF PUBLIC ACCOUNTS

Independent Auditor's Report

The Honorable Linda Gorton, Mayor, Lexington-Fayette Urban County Government
The Honorable Susan Lamb, Fayette County Clerk
Members of the Lexington-Fayette Urban County Council

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying Statement of Receipts and Disbursements - Regulatory Basis of the County Clerk of Fayette County, Kentucky and the Statement of Receipts, Disbursements, and Fund Balances of the County Clerk's Operating Fund and County Fund with the State Treasurer - Regulatory Basis for the period February 1, 2023 through December 31, 2023, and the related notes to the financial statements.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the accompanying financial statements present fairly, in all material respects, the receipts and disbursements of the Fayette County Clerk and the receipts, disbursements, and fund balances of the Fayette County Clerk's operating fund and county fund with the state treasurer for the period February 1, 2023 through December 31, 2023, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws as described in Note 1.

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 Opinions on U.S. Generally Accepted Accounting Principles section of our report, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Fayette County Clerk, as of December 31, 2023, or changes in financial position or cash flows thereof for the period then ended.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards* (GAS), issued by the Comptroller General of the United States, and the *Audit Program for County Fee Officials* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statement section of our report. We are required to be independent of the Fayette County Clerk and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



The Honorable Linda Gorton, Mayor, Lexington-Fayette Urban County Government
The Honorable Susan Lamb, Fayette County Clerk
Members of the Lexington-Fayette Urban County Council

Basis for Opinion (Continued)

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

As described in Note 1 of the financial statements, the financial statements are prepared by the Fayette County Clerk on the basis of the accounting practices prescribed or permitted by the laws of Kentucky 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 statements 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 and pervasive.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting practices prescribed or permitted by the laws of Kentucky 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 the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fayette County Clerk's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statement

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and GAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and GAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Fayette County Clerk's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fayette County Clerk's ability to continue as a going concern for a reasonable period of time.

The Honorable Linda Gorton, Mayor, Lexington-Fayette Urban County Government
The Honorable Susan Lamb, Fayette County Clerk
Members of the Lexington-Fayette Urban County Council

Auditor’s Responsibilities for the Audit of the Financial Statement (Continued)

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we have identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2024, on our consideration of the Fayette County Clerk’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely 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 effectiveness of 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 Fayette County Clerk’s internal control over financial reporting and compliance.

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

2023-001 The Fayette County Clerk’s Fourth Quarter Financial Statement Required Material Audit Adjustments

Respectfully submitted,



Allison Ball
Auditor of Public Accounts
Frankfort, KY

December 3, 2024

FAYETTE COUNTY
SUSAN LAMB, COUNTY CLERK
STATEMENT OF RECEIPTS AND DISBURSEMENTS - REGULATORY BASIS

For The Period February 1, 2023 Through December 31, 2023

Receipts

State Fees For Services			
Registration of Voters	\$	1,944	
Voters' Expense Reimbursement		110,739	
Preparation of Tax Bills		<u>18,003</u>	\$ 130,686
Fiscal Court			
Preparation of Tax Bills - Motor Vehicles		43,196	
Preparation of Tax Bills - Real Property		<u>52,244</u>	95,440
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers		7,648,512	
Usage Tax		43,486,660	
Tangible Personal Property Tax		41,609,447	
Miscellaneous Clerk Fees		363,257	
Child Assistance Donation		5,708	
Postage		187,130	
Other-			
Marriage Licenses		63,519	
Postage		140	
Deed Transfer Tax		2,144,861	
Delinquent Tax		2,508,682	
Delinquent Tax Deposits		<u>3,731,006</u>	101,748,922
Fees Collected for Services:			
Recordings-			
Deeds, Easements and Contracts		305,031	
Real Estate Mortgages		498,850	
Chattel Mortgages and Financing Statements		494,370	
Powers of Attorney		37,537	
Liens		74,054	
Leases		836	
Releases		292,836	
Articles of Incorporation		30,309	
Assignments		82,797	
Miscellaneous		24,079	
Lein Holder Penalties		10,990	
Postage		14,835	
Affordable Housing Trust		209,058	
Professional Bonds, License, etc.		24,816	

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

FAYETTE COUNTY
 SUSAN LAMB, COUNTY CLERK
 STATEMENT OF RECEIPTS AND DISBURSEMENTS - REGULATORY BASIS
 For The Period February 1, 2023 Through December 31, 2023
 (Continued)

Receipts (Continued)

Charges for Other Services-			
Copy Work	\$	43,320	
Postage		<u>126,550</u>	\$ 2,270,268
Other:			
Inspection Fees		47,470	
Miscellaneous		<u>10,785</u>	<u>58,255</u>
Total Receipts			104,303,571

Disbursements

Payments to State:			
Motor Vehicle-			
Licenses and Transfers	\$	5,475,453	
Usage Tax		42,178,947	
Tangible Personal Property Tax		20,363,876	
Licenses, Taxes, and Fees-			
Delinquent Tax		176,684	
Legal Process Tax		188,141	
Affordable Housing Trust		<u>209,058</u>	68,592,159
Payments to Fiscal Court:			
Tangible Personal Property Tax		2,239,674	
Delinquent Tax		337,747	
Deed Transfer Tax		<u>2,037,617</u>	4,615,038
Payments to Other Districts:			
Tangible Personal Property Tax		17,341,519	
Delinquent Tax		<u>1,288,676</u>	18,630,195
Payments to Sheriff			187,412
Other Regulatory Payments:			
Delinquent Tax Deposit Refunds			3,731,006

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

FAYETTE COUNTY
 SUSAN LAMB, COUNTY CLERK
 STATEMENT OF RECEIPTS AND DISBURSEMENTS - REGULATORY BASIS
 For The Period February 1, 2023 Through December 31, 2023
 (Continued)

Disbursements (Continued)

Payments to County Attorney		\$	331,520	
Other Disbursements:				
Inspection Fees Paid	\$	47,470		
Other Transmittals and Expense		<u>56,200</u>	<u>103,670</u>	
Total Disbursements				\$ <u>96,191,000</u>
Net Receipts				8,112,571
Payments to State Treasurer:				
75% Operating Fund		6,234,082		
25% County Fund		<u>1,878,489</u>	<u>8,112,571</u>	
Balance Due at Completion of Audit				<u>\$ 0</u>

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

FAYETTE COUNTY
 SUSAN LAMB, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
 FUND BALANCES OF THE COUNTY CLERK'S OPERATING FUND
 AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS

For The Period February 1, 2023 Through December 31, 2023

	75% Operating Fund	25% County Fund	Totals
Fund Balance - February 1, 2023	\$ 39,471	\$	\$ 39,471
<u>Receipts</u>			
Fees Paid to State - Operating Funds (75%)	6,234,082		6,234,082
Fees Paid to State - County Funds (25%)		1,878,489	1,878,489
Total Funds Available	6,273,553	1,878,489	8,152,042
<u>Disbursements</u>			
Lexington Fayette Urban County Government		1,878,489	1,878,489
Personnel Services-			
Official's Statutory Maximum	113,002		113,002
Official's Expense Allowance	3,300		3,300
Official's Training Incentive	1,246		1,246
Deputies' Salaries	3,317,564		3,317,564
Overtime Gross	66,434		66,434
Employee Benefits-			
Employer's Share Social Security	259,442		259,442
Employer's Share Retirement	861,475		861,475
Employer's Share Health Insurance	627,386		627,386
Employer's Share Life Insurance	788		788
Workers' Compensation	6,274		6,274
Unemployment Insurance	23,413		23,413
Supplies and Materials-			
Office Supplies	19,812		19,812
Other Charges-			
Equipment and Software	30,802		30,802
Office Supplies	17,176		17,176
Forms and Printing	37,525		37,525

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

FAYETTE COUNTY
 SUSAN LAMB, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
 FUND BALANCES OF THE COUNTY CLERK'S OPERATING FUND
 AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS
 For The Period February 1, 2023 Through December 31, 2023
 (Continued)

	75% Operating Fund	25% County Fund	Totals
<u>Disbursements (Continued)</u>			
Other Charges (Continued)			
Postage	\$ 50	\$	\$ 50
Telephone	11,243		11,243
Microfilm and Microfiche	6,402		6,402
Maintainance and Repairs	111,874		111,874
Insurance	3,393		3,393
Professional Services	10,175		10,175
Rent	75,670		75,670
Travel	2,546		2,546
Motor Vehicle Expense	920		920
Dues, Subscriptions, and Publications	14,684		14,684
Election Expense	11,137		11,137
Bank Charges	13,675		13,675
Miscellaneous	3,857		3,857
Total Disbursements	<u>5,651,265</u>	<u>1,878,489</u>	<u>7,529,754</u>
Fund Balance - December 31, 2023	<u>\$ 622,288</u>	<u>\$ 0</u>	<u>\$ 622,288</u>

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

FAYETTE COUNTY
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2023

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount due from the county clerk as determined by the audit.

KRS 64.350 establishes that a fee official in counties with a population over 70,000 has two funds with the state treasurer for the deposit of fees collected. Seventy-five percent (75%) of the fees collected are deposited in the county clerk's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected are deposited to the county fiscal court fund and paid to the fiscal courts, urban-county governments, or consolidated local governments of the respective counties quarterly no later than April 15, July 15, October 15, and January 15. These funds are closed at the end of each official term by paying the balances to the respective county government.

Also, fee official office revenues could be considered reimbursed expenses. All reimbursed expenses are treated as revenue in the 75 percent fund.

The financial statements have been prepared on a regulatory basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. This basis demonstrates compliance with the laws of Kentucky and is a special purpose framework. Under this regulatory basis of accounting, receipts and disbursements are generally recognized when cash is received or disbursed, with the exception of accrual of the following items (not all-inclusive), at December 31:

- Interest receivable
- Collection on accounts due from others for 2023 services
- Reimbursements for 2023 activities
- Payments due other governmental entities for December tax and fee collections
- Payroll expenditures incurred but not paid
- Payments due vendors for goods or services provided in 2023

The measurement focus of a fee official's financial statements is upon current financial resources.

C. Cash and Investments

KRS 66.480 authorizes the county clerk's office 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).

FAYETTE COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2023
 (Continued)

Note 2. Employee Retirement System and Other Post-Employment Benefits

The clerk's office has elected to participate, pursuant to KRS 78.530, in the County Employees Retirement System (CERS), which is administered by the Kentucky Public Pensions Authority (KPPA). 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 clerk's contribution for calendar year 2021 was \$965,492, calendar year 2022 was \$957,614, and for the period February 1, 2023 through December 31, 2023 was \$861,475.

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 CERS 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 CERS 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 26.79 percent for the period February 1, 2023 through June 30, 2023 and 23.34 percent for the last six months.

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS provides post-retirement health care coverage as follows:

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

FAYETTE COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2023
 (Continued)

Note 2. Employee Retirement System and Other Post-Employment Benefits (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

A. Health Insurance Coverage - Tier 1 (Continued)

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, they earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Benefits are covered under KRS 78.5536.

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

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

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

Tier 2 member benefits are covered by KRS 78.5536. Tier 3 members are not covered by the same provisions.

C. Cost of Living Adjustments - Tier 1

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

FAYETTE COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2023
 (Continued)

Note 2. Employee Retirement System and Other Post-Employment Benefits (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

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

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

E. Death Benefit

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

Kentucky Retirement Systems Annual Financial Report and Proportionate Share Audit Report

Kentucky Retirement Systems 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.

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

Note 3. Deposits

The Fayette County Clerk maintained deposits of public funds with federally insured banking institutions as required by the Department for Local Government's (DLG's) *County Budget Preparation and State Local Finance Officer Policy Manual*. The DLG manual strongly recommends perfected pledges of securities covering all public funds except direct federal obligations and funds protected by federal insurance. In order to be perfected 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 clerk 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 county clerk's deposits may not be returned. The Fayette County Clerk does not have a deposit policy for custodial credit risk, but rather follows the requirements of the DLG's *County Budget Preparation and State Local Finance Officer Policy Manual*. As of December 31, 2023, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

FAYETTE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2023
(Continued)

Note 4. Lease Agreement

The Fayette County Clerk's Office is currently committed to a 60-month lease agreement for the acquisition and use of mailing system. The lease agreement requires a monthly payment of \$1,984 for 60 months to be completed on April 9, 2026. The total lease liability balance of the agreement was \$17,860 as of December 31, 2023.

Note 5. Discretionary Fund Bank Account

The county clerk has established a discretionary account as provided by KRS 64.345. This fund is used to cover additional expenses including extraordinary office expenses in amounts authorized by the approving authority. The account had a beginning balance of \$4,558 with receipts of \$64 and \$2,820 of disbursements for the period February 1, 2023, through December 31, 2023. The account balance was \$1,802 as of December 31, 2023.

Note 6. Imprest Cash Account

The Finance & Administration – County Fee Systems Branch authorized the Fayette County Clerk to administer an Imprest Cash Fund in the amount of \$10,000. This fund is to be used for expenses, such as postage and other necessary expenses \$1,000 or less that need to be paid in less than a 10-day turn around, except travel and payroll expenses.

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

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ALLISON BALL
AUDITOR OF PUBLIC ACCOUNTS

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

Independent Auditor's Report

The Honorable Linda Gorton, Lexington-Fayette Urban County Government
The Honorable Susan Lamb, Fayette County Clerk
Members of the Lexington-Fayette Urban County Council

We have audited, 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 Program for County Fee Officials* issued by the Auditor of Public Accounts, Commonwealth of Kentucky, the Statement of Receipts and Disbursements - Regulatory Basis of the County Clerk of Fayette County, Kentucky, the Statement of Receipts, Disbursements, and Fund Balances of the County Clerk's Operating Fund and County Fund with the State Treasurer - Regulatory Basis for the period February 1, 2023 through December 31, 2023, and the related notes to the financial statements, and have issued our report thereon dated December 3, 2024. The Fayette County Clerk's financial statements are prepared on a regulatory basis of accounting, which demonstrates 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.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fayette County Clerk's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fayette County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fayette County Clerk'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.

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 statements 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 2023-001 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
Statements Performed In Accordance With *Government Auditing Standards*
(Continued)

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fayette County Clerk's financial statements are free from 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 financial statements. 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 matter that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying Schedule of Findings and Responses as item 2023-001.

Views of Responsible Officials and Planned Corrective Action

Government Auditing Standards requires the auditor to perform limited procedures on the Fayette County Clerk's response to the finding identified in our audit and described in the accompanying Schedule of Findings and Responses. The Fayette County Clerk's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly we express no opinion on the response.

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,



Allison Ball
Auditor of Public Accounts
Frankfort, KY

December 3, 2024

SCHEDULE OF FINDINGS AND RESPONSES

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FAYETTE COUNTY
SUSAN LAMB, COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES

For The Period February 1, 2023 Through December 31, 2023

FINANCIAL STATEMENT FINDING:

2023-001 The Fayette County Clerk's Fourth Quarter Financial Statement Required Material Audit Adjustments

The Fayette County Clerk provided a fourth quarter report for the entire calendar year of 2023, instead of for the period February 1, 2023, through December 31, 2023. The report contained the activity of the former county clerk who was audited separately, resulting in the auditors having to remove \$8,659,824 of receipts and \$8,660,337 of disbursements from the report. In addition, the county clerk appropriately recorded delinquent tax deposits and refunds on their trial balance but did not adjust this amount onto the quarterly report, requiring an audit adjustment to add receipts and disbursements in the amount of \$3,731,006.

The county clerk was not aware that the activity of the former county clerk should have been omitted. As stated above, the delinquent tax sale deposits and refunds were appropriately recorded in the county clerk's trial balance but were not adjusted onto the county clerk's financial statement due to an oversight.

Due to the oversight, the quarterly report did not accurately reflect total receipts and disbursements for the audit period of February 2023 through December 31, 2023.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. This system of accounts requires fee official quarterly financial report to be submitted by the 30th day following the close of each quarter. Pursuant to KRS 68.210, the State Local Finance Officer has prescribed minimum accounting and reporting standards in the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual*. The manual requires the county clerk to prepare a quarterly report, which includes total receipts and total disbursements on a cash basis per line-item category.

We recommend the county clerk implement controls to ensure delinquent tax sale deposits and refunds are properly reported on the quarterly report and the quarterly report accurately reflects receipt and disbursements of when they were received and disbursed.

County Clerk's Response: At the time our accounting system was purchased and programmed, the delinquent tax sale prepaid collections were programmed using GAAP accounting procedures. Since the Delinquent Tax Sale is one-time a year event, we have to post a journal entry to account for the sale under Regulatory accounting. Our Accountant has added the journal entry to our yearly tax sale checklist.