

**REPORT OF THE AUDIT OF THE
FORMER LINCOLN COUNTY
CLERK**

**For The Period
February 28, 2023 Through November 12, 2023**



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CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	1
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS	4
NOTES TO FINANCIAL STATEMENT	7
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	17
SCHEDULE OF FINDINGS AND RESPONSES	21

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ALLISON BALL
AUDITOR OF PUBLIC ACCOUNTS

Independent Auditor's Report

The Honorable J. Woods Adams III, Lincoln County Judge/Executive
The Honorable George Spoonamore V, Former Lincoln County Clerk
The Honorable Nancy Jackson, Lincoln County Clerk
Members of the Lincoln County Fiscal Court

Report on the Audit of the Financial Statement

Opinions

We have audited the accompanying Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the former County Clerk of Lincoln County, Kentucky, for the period February 28, 2023 through November 12, 2023, and the related notes to the financial statement.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the accompanying financial statement presents fairly, in all material respects, the receipts, disbursements, and excess fees of the former Lincoln County Clerk for the period February 28, 2023 through November 12, 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 Opinion on U.S. Generally Accepted Accounting Principles section of our report, the financial statement does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the former Lincoln County Clerk, as of November 12, 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) and 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 former Lincoln 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 J. Woods Adams III, Lincoln County Judge/Executive
The Honorable George Spoonamore V, Former Lincoln County Clerk
The Honorable Nancy Jackson, Lincoln County Clerk
Members of the Lincoln County Fiscal Court

Basis for Opinion (Continued)

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 former Lincoln 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 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 and pervasive.

Responsibilities of Management 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 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 a financial statement that is free from material misstatement, whether due to fraud or error.

In preparing the financial statement, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the former Lincoln 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 statement as a whole is 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 statement.

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 statement, 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 statement.
- 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 former Lincoln 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 statement.

The Honorable J. Woods Adams III, Lincoln County Judge/Executive
The Honorable George Spoonamore V, Former Lincoln County Clerk
The Honorable Nancy Jackson, Lincoln County Clerk
Members of the Lincoln County Fiscal Court

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

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the former Lincoln County Clerk's ability to continue as a going concern for a reasonable period of time.

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 January 2, 2025, on our consideration of the former Lincoln 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 former Lincoln 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 findings:

2023-001 The Former Lincoln County Clerk Has Questioned Costs Of \$52,500 In His 2023 Fee Account
2023-002 The Former Lincoln County Clerk's Office Lacked Adequate Internal Controls Over Payroll
2023-003 The Former Lincoln County Clerk's Office Lacked Adequate Controls Over The Accounting Functions

Respectfully submitted,



Allison Ball
Auditor of Public Accounts
Frankfort, KY

January 2, 2025

LINCOLN COUNTY
 GEORGE SPOONAMORE V, FORMER COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Period February 28, 2023, Through November 12, 2023

Receipts

State Fees For Services		\$ 8,479
Fiscal Court	\$ 158,727	
Document Storage Fee	<u>28,000</u>	186,727
Licenses and Taxes:		
Motor Vehicle-		
Licenses and Transfers	603,097	
Usage Tax	809,694	
Tangible Personal Property Tax	2,118,676	
Notary Fees	24,383	
Other-		
Fish and Game Licenses	2,976	
Marriage Licenses	6,550	
Deed Transfer Tax	75,238	
Delinquent Tax	272,740	
Delinquent Tax Deposits	<u>191,477</u>	4,104,831
Fees Collected for Services:		
Recordings-		
Deeds, Easements, and Contracts	35,707	
Real Estate Mortgages	49,607	
Chattel Mortgages and Financing Statements	47,058	
Powers of Attorney	2,902	
Affordable Housing Trust	16,608	
All Other Recordings	30,668	
Charges for Other Services-		
Candidate Filing Fees	120	
Copy Work	3,169	
Postage	<u>846</u>	186,685
Other:		
Other		8,109
Interest Earned		<u>24</u>
Total Receipts		4,494,855

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

LINCOLN COUNTY
 GEORGE SPOONAMORE V, FORMER COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Period February 28, 2023, Through November 12, 2023
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 445,082

Usage Tax 785,433

Tangible Personal Property Tax 785,974

Licenses, Taxes, and Fees-

Fish and Game Licenses 2,994

Delinquent Tax 21,428

Legal Process Tax 18,434

Affordable Housing Trust 16,608 \$ 2,075,953

Payments to Fiscal Court:

Tangible Personal Property Tax 194,612

Delinquent Tax 18,602

Deed Transfer Tax 69,802

Document Storage Fee 28,000

Miscellaneous(Election Expense) 1,319 312,335

Payments to Other Districts:

Tangible Personal Property Tax 1,061,055

Delinquent Tax 150,700 1,211,755

Payments to Sheriff 22,350

Payments to County Attorney 33,664

Other Regulatory Payments:

Delinquent Tax Deposit Refunds 192,707

Other Refunds 9,006 201,713

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries 249,597

Part-Time Salaries 33,151

Employee Benefits-

Employer's Share Social Security 26,217

Employer's Share Retirement 80,231

Employer's Paid Health Insurance 65,654

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

LINCOLN COUNTY
 GEORGE SPOONAMORE V, FORMER COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Period February 28, 2023, Through November 12, 2023
 (Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay: (Continued)

Contracted Services-		
Advertising	\$ 2,040	
Printing and Binding	2,157	
Other Payroll Disbursements	1,700	
Computer Support	2,838	
Materials and Supplies-		
Office Supplies	5,522	
Telecommunications	4,458	
Other Charges-		
Miscellaneous	40	
Postage	<u>4,536</u>	\$ 478,141
Capital Outlay-		
Office Equipment		<u>941</u>
Total Disbursements		<u>\$ 4,336,852</u>
Net Receipts		158,003
Less: Statutory Maximum		<u>70,603</u>
Excess Fees		87,400
Less: Expense Allowance		<u>2,400</u>
Excess Fees Due County for 2023		85,000
Payment to Fiscal Court - March 11, 2024		<u>85,000</u>
Balance Due Fiscal Court at Completion of Audit		<u>\$ 0</u>

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

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENT

November 12, 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 64.152 requires the county clerk to pay to the governing body of the county any fees, commissions, and other income of his or her office, including income from investments, which exceed the sum of his or her maximum salary as permitted by the Constitution and other reasonable expenses, including compensation of deputies and assistants by March 15 of each year. KRS 64.830 requires an outgoing clerk to make a final settlement with the fiscal court by March 15 immediately following the expiration of his or her term of office.

The financial statement has 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) as of December 31 that may be included in the excess fees calculation:

- 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 and payroll
- Payments due vendors for goods or services provided in 2023

The measurement focus of a fee official's financial statement is upon current financial resources. Per KRS 64.152(2), remittance of excess fees is due to the fiscal court when the county clerk makes their final settlement.

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).

LINCOLN COUNTY
 NOTES TO FINANCIAL STATEMENT
 November 12, 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 has been governed and administered by the CERS nine (9) member board of trustees since April 1, 2021. The Kentucky Public Pensions Authority (KPPA) was created by KRS 61.505, effective April 1, 2021, to provide staffing and daily administrative needs for CERS, Kentucky Employee Retirement System, and the State Police Retirement System. CERS 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 office contribution for period February 28, 2023 through November 12, 2023, was \$80,231.

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 Trustees 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 28, 2023 through June 30, 2023, and 23.34 percent for the period July 1, 2023 through November 12, 2023.

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:

LINCOLN COUNTY
 NOTES TO FINANCIAL STATEMENT
 November 12, 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.

LINCOLN COUNTY
 NOTES TO FINANCIAL STATEMENT
 November 12, 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 Pension Plan Authority's Annual Financial Report and Proportionate Share Audit Report

KPPA issues a publicly available annual financial report that includes financial statements and required supplementary information on CERS. Annual Reports for 2012 and after are available online at <https://kyret.ky.gov>. Archived reports may be obtained by writing the KPPA, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

KPPA 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 former Lincoln 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 former Lincoln County Clerk did not have a deposit policy for custodial credit risk, but rather followed the requirements of the DLG's *County Budget Preparation and State Local Finance Officer Policy Manual*. As of November 12, 2023, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENT
November 12, 2023
(Continued)

Note 4. Lease Agreements

A. Lease Agreement - Postage Meter

The Lincoln County Clerk's Office was committed to a sixty-month lease agreement for the acquisition and use of a postage meter. The lease agreement requires a monthly payment of \$55 for 60 months, billed quarterly at \$165, to be completed on October 29, 2024. The total lease liability balance of the agreement was \$631 as of November 12, 2023. The future principal lease payments as of November 12, 2023, were as follows:

Period Ended November 12	Amount
2023	\$ 137
2024	494
Total Minimum Lease Payments	<u>\$ 631</u>

B. Lease Agreement - Server

The Lincoln County Clerk's Office was committed to a 60-month lease agreement for the acquisition and use of a server. The lease agreement requires a monthly payment of \$550 for 60 months to be completed on May 31, 2028. The total lease liability balance of the agreement was \$29,700 as of November 12, 2023. The future principal lease payments as of November 12, 2023, were as follows:

Period Ended November 12	Amount
2023	\$ 1,100
2024	6,600
2025	6,600
2026	6,600
2027	6,600
2028	2,200
Total Minimum Lease Payments	<u>\$ 29,700</u>

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENT
November 12, 2023
(Continued)

Note 4. Lease Agreements (Continued)

C. Lease Agreement - Computer

The Lincoln County Clerk's Office was committed to a 60-month lease agreement for the acquisition and use of a computer. The lease agreement requires a monthly payment of \$90 for 60 months to be completed on May 31, 2028. The total lease liability balance of the agreement was \$4,860 as of November 12, 2023. The future principal lease payments as of November 12, 2023, were as follows:

Period Ended November 12	Amount
2023	\$ 180
2024	1,080
2025	1,080
2026	1,080
2027	1,080
2028	360
Total Minimum Lease Payments	<u>\$ 4,860</u>

D. Lease Agreement - Scanner and Printer

The Lincoln County Clerk's Office was committed to a 60-month lease agreement for the acquisition and use of a scanner and printer. The lease agreement requires a monthly payment of \$150 for 60 months to be completed on May 31, 2028. The total lease liability balance of the agreement was \$8,100 as of November 12, 2023. The future principal lease payments as of November 12, 2023, were as follows:

Period Ended November 12	Amount
2023	\$ 300
2024	1,800
2025	1,800
2026	1,800
2027	1,800
2028	600
Total Minimum Lease Payments	<u>\$ 8,100</u>

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENT
November 12, 2023
(Continued)

Note 4. Lease Agreements (Continued)

E. Lease Agreement – Computer Workstations

The Lincoln County Clerk's Office was committed to a 60-month lease agreement for the acquisition and use of six computer workstations. The lease agreement requires a monthly payment of \$540 for 60 months to be completed on December 31, 2025. The total lease liability balance of the agreement was \$14,040 as of November 12, 2023. The future principal lease payments as of November 12, 2023, were as follows:

Period Ended November 12	Amount
2023	\$ 1,080
2024	6,480
2025	6,480
Total Minimum Lease Payments	<u>\$ 14,040</u>

F. Lease Agreement – Printer

The Lincoln County Clerk's Office was committed to a 60-month lease agreement for the acquisition and use of a printer. The lease agreement requires a monthly payment of \$125 for 60 months to be completed on May 31, 2028. The total lease liability balance of the agreement was \$6,750 as of November 12, 2023. The future principal lease payments as of November 12, 2023, were as follows:

Period Ended November 12	Amount
2023	\$ 250
2024	1,500
2025	1,500
2026	1,500
2027	1,500
2028	500
Total Minimum Lease Payments	<u>\$ 6,750</u>

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENT
November 12, 2023
(Continued)

Note 5. Subscription-Based Information Technology Arrangements (SBITA)

Accounting Subscription

The Lincoln County Clerk entered into a subscription-based information technology arrangement for accounting software. The subscription terms are five years totaling \$47,640, and the Lincoln County Clerk will receive the right-to-use subscription asset (intangible asset). As of November 12, 2023, the value of the subscription liability was \$42,876. The Lincoln County Clerk is required to make monthly payment of \$794. The future principal and interest lease payments as of November 12, 2023, were as follows:

Period Ended November 23	Amount
2023	\$ 1,588
2024	9,528
2025	9,528
2026	9,528
2027	9,528
2028	3,176
Total Minimum Lease Payments	<u>\$ 42,876</u>

Note 6. Subsequent Events

The former county clerk was appointed on February 28, 2023, by the county judge/executive due to the passing of the official and was in office until the November elections could be held and a new county clerk elected. Newly elected county clerk, Nancy Jackson, became county clerk on November 13, 2023.

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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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
Statement Performed In Accordance With *Government Auditing Standards*

Independent Auditor's Report

The Honorable J. Woods Adams III, Lincoln County Judge/Executive
The Honorable George Spoonamore V, Former Lincoln County Clerk
The Honorable Nancy Jackson, Lincoln County Clerk
Members of the Lincoln County Fiscal Court

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, Disbursements, and Excess Fees - Regulatory Basis of the former Lincoln County Clerk for the period February 28, 2023 through November 12, 2023, and the related notes to the financial statement and have issued our report thereon dated January 2, 2025. The former Lincoln County Clerk's financial statement is 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 statement, we considered the former Lincoln 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 statement, but not for the purpose of expressing an opinion on the effectiveness of the former Lincoln County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Lincoln 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 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 2023-003 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)

Report on 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 2023-001 and 2023-002 to be significant deficiencies.

Report on Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Lincoln County Clerk'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 financial statement. 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 2023-003.

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

January 2, 2025

SCHEDULE OF FINDINGS AND RESPONSES

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LINCOLN COUNTY
GEORGE SPOONAMORE V, FORMER COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES

For The Period February 28, 2023 Through November 12, 2023

FINANCIAL STATEMENT FINDINGS:

2023-001 The Former Lincoln County Clerk Has Questioned Costs Of \$52,500 In His 2023 Fee Account

The former county clerk has questioned costs related to payroll. One employee was allowed to use accumulated sick leave instead of working, even though the county's personnel policies did not allow it. This employee did not work but submitted timesheets for sick leave from April 24, 2023, through November 15, 2023. The timesheets submitted were also not approved by the former county clerk. The employee was paid and received benefits for wages, health insurance, matching retirement, and social security totaling \$52,500.

The former county clerk sought the advice of the county attorney who informed him that the county had a practice of allowing leave to be paid or used in this manner even though it was not in compliance with the county's administration code. Since the paid leave was not permitted by the county's policy, the overpayment resulted in questionable expenditures.

Lincoln County's classification and compensation plans personnel policies and procedures amendment 3(a) states, "Sick leave credit may be utilized by employees when they are unable to perform their duties because of sickness, injury, childbirth, when they are quarantined, initial bonding time required during an adoption, or when their absence from work is required due to sickness in the immediate family." Section 3(b) states, "All foreseeable leave for such purposes shall require specific prior written approval of the department head."

Furthermore, Lincoln County's classification and compensation plans personnel policies and procedures does not allow sick leave to be paid out. It states, "Employees shall be allowed to accrue an unlimited number of sick leave hours. Upon termination of employment with the county, other than retirement, unused sick leave shall be forfeited without pay. Employees that retire under the County Employees Retirement System shall be allowed to utilize sick time consistent with the governing regulations of the Standard Sick Leave program."

We recommend the former county clerk consult with the fiscal court and the county attorney to determine how to resolve the questionable cost and determine if repayment should be made. Also, we recommend they follow the adopted policies and procedures on the use of leave time.

Former County Clerk's Response: The official did not provide a response.

LINCOLN COUNTY
 GEORGE SPOONAMORE V, FORMER COUNTY CLERK
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2023
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2023-002 The Former Lincoln County Clerk's Office Lacked Adequate Internal Controls Over Payroll

The former Lincoln County Clerk's Office did not have proper internal controls over the payroll process. During calendar year 2023, the following issues were noted:

- Five timesheets during the pay period tested were not approved by the supervisor.
- Eight employees were being paid as salary regardless of how many hours they worked.
- Two employees' hours exceeded 80 hours in the two-week period tested but were not paid at time and a half.
- Checks are issued and cashed prior to the end of the pay period.
- Timesheets are not being turned in prior to the end of the pay period (Example: October 30 and October 31 are in a new week ending on November 3)
- One employee applied two days' hours to two different timesheets.
- One employee's sick day was increased without supporting documentation.
- One employee took off three hours but only charged half of an hour as leave used.
- One employee was paid for 96 hours but the time sheet only documented 80 hours worked.
- One employee worked 71 hours but was given 1-hour compensatory time for a day she only worked eight hours.
- One employee was paid for 94 hours at straight time but after 40 hours per week should have received hours at time and a half.
- One employee took sick time for the entire pay period which is not in compliance with the county policy the former county clerk followed.
- One employee received health insurance benefits, but the employees' portion was not withheld from their check. The amount under withheld was \$808.

The employer is treating employees as salary employees therefore employees may not turn in timesheets at the end of the pay period since the pay is the same each week. In addition, the leave time is kept on an excel spreadsheet and it is overwritten each time leave is input, therefore, the clerk keeping up with leave time may not have realized the timesheet had not been turned in or leave was not properly deducted. The former county clerk's office is not in compliance with the county's administrative code. In addition, employees may not be receiving the proper wages.

Good internal controls dictate that hours worked by employees are approved by employees and reviewed by supervisors for accuracy. Additionally, payroll should be reviewed by a supervisor prior to issuing checks to ensure employees are being compensated for the correct amount of time and with the correct wages.

Lincoln County's Personnel Policy and Procedures states, "In order to determine whether an employee will receive overtime pay for hours worked in excess of forty (40) hours per week, each class shall be declared "exempt" or "non-exempt" in accordance with provisions of existing labor laws. Exempt employees shall not be compensated in cash for overtime worked. Non-exempt employees shall receive overtime pay at the rate of one and one-half (1.5) times the hourly wages for actual hours worked in excess of forty (40) hours in any work week. Non-exempt employees who are required to work all seven (7) days in a workweek shall receive overtime pay at the rate of one- and one-half times the hourly wage for all hours worked on the seventh day of the work week if the cumulative weekly total exceeds 40 hours."

LINCOLN COUNTY
 GEORGE SPOONAMORE V, FORMER COUNTY CLERK
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2023
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2023-002 The Former Lincoln County Clerk's Office Lacked Adequate Internal Controls Over Payroll
 (Continued)

Lincoln County's Personnel Policy and Procedures also states, "The Personnel Officer or his/her designee shall keep records of sick leave allowance, sick leave taken and balance of sick leave allowance for individual employees."

803 KAR 1:071 section 10 defines a salaried employee as one being paid on a "salary basis" as that term is defined under 29 C.F.R. 541.602. 29 C.F.R. 541.60 states that an employee is paid on a salary basis when the employee regularly receives a predetermined amount of compensation each pay period on a weekly, or less frequent, basis. The predetermined amount cannot be reduced because of variations in the quality or quantity of the employee's work. Subject to certain exceptions, an exempt employee must receive the full salary for any week in which the employee performs any work, regardless of the number of days or hours worked. In addition, Section 11 incorporates 29 C.F.R. 541.604 by reference. At the time relevant to this audit, that regulation stated that in order to qualify for exemption, employees generally must be paid at not less than \$684 per week on a salary basis. If the employer makes deductions from an employee's predetermined salary, i.e., because of the operating requirements of the business, that employee is not paid on a "salary basis."

We recommend the clerk's office strengthen internal controls over the payroll process to ensure timesheets are accurate, signed by employees, approved by the supervisor, and processed prior to issuing checks. We also recommend leave time be used correctly and overtime be properly paid and calculated to comply with the Lincoln County Personnel Policy. Furthermore, we recommend the Lincoln County Clerk's Office determine if employees qualify to be considered salary employees.

Former County Clerk's Response: The official did not provide a response.

2023-003 The Former Lincoln County Clerk's Office Lacked Adequate Controls Over The Accounting Functions

The former Lincoln County Clerk's Office lacked adequate segregation of duties over the receipt, disbursement, and reconciliation functions at the Lincoln County Clerk's Office. The bookkeeper was responsible for the primary functions of disbursements, reconciliations of the bank accounts, posting receipts to the ledgers, processing payments made for tax collections or other vendors, signing checks, as well as compiling the quarterly reports. Receipts for web renewals and other e-file receipts were posted from a report sent to the bookkeeper and were not reconciled to the actual payments or charges. The new bookkeeper who was put in place did not have previous training and was unaware of best practices. In addition, although the official had some controls in place, the controls did not detect or prevent errors.

Due to the lack of controls or failures of controls, the following was noted:

- Numerous adjustments due to posting errors on both the receipt and disbursement ledgers were required.
- Duplicate payments to the state totaled \$6,295.
- Payment for affordable housing went unpaid for four months totaling an additional amount due of \$6,702.
- Checks not posted to the ledgers totaled \$17,875.
- A check of \$22,163 was not posted correctly to the quarterly report.
- Additional receipts not previously posted totaled \$4,088.

LINCOLN COUNTY
GEORGE SPOONAMORE V, FORMER COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2023
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2023-003 The Former Lincoln County Clerk's Office Lacked Adequate Controls Over The Accounting Functions (Continued)

- Usage tax of \$26,990 was paid out of the wrong bank account.
- Web payments received as direct deposits were not included on daily checkout sheet.

KRS 46.010(2) requires, "each county treasurer, and each county officer who receives or disburses state funds, to keep an accurate account of receipts and disbursements, showing a daily balance of receipts and disbursements." KRS 46.010(3) requires, "all county officers handling state funds, other than taxes, to make an annual report to the Department for Local Government showing receipts and disbursements, and to make other financial statements as the Department for Local Government requires." The lack of segregation of duties is a basic internal control necessary to ensure the accuracy and reliability of financial reports. Segregation of duties over various accounting functions, such as opening mail, collecting receipts, preparing bank deposits, posting receipts and disbursements, preparing reports and reconciliations, or the implementation of compensating controls, when needed because the number of staff is limited, is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the clerk segregate incomparable duties. If segregation of duties is not feasible due to a lack of staff, the county clerk's office could strengthen established compensating controls to help mitigate any weakness.

Former County Clerk's Response: The official did not provide a response.