

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

**For The Period  
November 13, 2023 Through December 31, 2023**



**ALLISON BALL  
AUDITOR OF PUBLIC ACCOUNTS  
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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 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 County Clerk of Lincoln County, Kentucky, for the period November 13, 2023 through December 31, 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 Lincoln County Clerk for the period November 13, 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 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 Lincoln 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) 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 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 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 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 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 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 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 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 17, 2025, on our consideration of the 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 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 Lincoln County Clerk's Office Lacks Adequate Segregation Of Duties  
2023-002    The Lincoln County Clerk's Office Does Not Have Adequate Controls Over The Payroll Process

Respectfully submitted,



Allison Ball  
Auditor of Public Accounts  
Frankfort, KY

January 17, 2025

LINCOLN COUNTY  
NANCY JACKSON, COUNTY CLERK  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Period November 13, 2023 Through December 31, 2023

Receipts

Fiscal Court	\$	27,716
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	73,150
Usage Tax		116,301
Tangible Personal Property Tax		313,367
Notary Fees		3,239

Other-

Fish and Game Licenses	40	
Marriage Licenses	400	
Deed Transfer Tax	10,693	
Delinquent Tax	4,409	521,599

Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts	5,986	
Real Estate Mortgages	6,960	
Chattel Mortgages and Financing Statements	9,130	
Powers of Attorney	639	
Affordable Housing Trust	2,298	
Document Storage	3,903	
All Other Recordings	4,990	

Charges for Other Services-

Candidate Filing Fees	100	
Copy Work	310	
Postage	158	34,474

Other:

Miscellaneous		981
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Interest Earned		1
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Total Receipts		584,771
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The accompanying notes are an integral part of this financial statement.



LINCOLN COUNTY  
 NANCY JACKSON, COUNTY CLERK  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
 For The Period November 13, 2023 Through December 31, 2023  
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	50,412	
Usage Tax		112,812	
Tangible Personal Property Tax		116,265	
Licenses, Taxes, and Fees-			
Delinquent Tax		327	
Legal Process Tax		2,602	
Affordable Housing Trust		<u>2,589</u>	\$ 285,007

Payments to Fiscal Court:

Tangible Personal Property Tax	28,293	
Delinquent Tax	368	
Deed Transfer Tax	10,158	
Document Storage	<u>4,133</u>	42,952

Payments to Other Districts:

Tangible Personal Property Tax	156,029	
Delinquent Tax	<u>2,197</u>	158,226

Payments to Sheriff 273

Payments to County Attorney 595

Other Regulatory Payments:

Other Refunds 465

Operating Disbursements:

Personnel Services-

Deputies' Salaries	35,973
Part-Time Salaries	3,608

Employee Benefits-

Employer's Share Social Security	3,903
Employer's Share Retirement	11,611
Employer's Paid Health Insurance	15,527

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

LINCOLN COUNTY  
 NANCY JACKSON, COUNTY CLERK  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
 For The Period November 13, 2023 Through December 31, 2023  
 (Continued)

Disbursements (Continued)

Operating Disbursements: (Continued)

Contracted Services-		
Payroll Support	\$	300
Materials and Supplies-		
Office Supplies		1,658
Telecommunications		758
Other Charges-		
Conventions and Travel		500
Dues		1,590
Postage		797
		<u>\$ 76,225</u>
Total Disbursements		<u>\$ 563,743</u>
Net Receipts		21,028
Less: Statutory Maximum		<u>13,448</u>
Excess Fees		7,580
Less: Expense Allowance		<u>300</u>
Excess Fees Due County for 2023		7,280
Payment to Fiscal Court - March 11, 2024		<u>4,477</u>
Balance Due Fiscal Court at Completion of Audit		<u>\$ 2,803</u>

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

LINCOLN COUNTY  
NOTES TO FINANCIAL STATEMENT

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 64.152 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  
 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 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 contribution for the period November 13, 2023 through December 31, 2023 was \$11,611.

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 23.34 percent for the period November 13, 2023 through December 31, 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  
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)

<b>Years of Service</b>	<b>% Paid by Insurance Fund</b>	<b>% Paid by Member through Payroll Deduction</b>
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  
 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 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 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 Lincoln 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.

LINCOLN COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2023  
(Continued)

Note 4. Lease Agreements

A. Lease Agreements - Postage Meter

The Lincoln County Clerk's Office was committed to a 60-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 \$494 as of December 31, 2023. The future principal lease payments as of December 31, 2023, were as follows:

Period Ended December 31	Amount
2024	\$ 494
Total Minimum Lease Payments	<u>\$ 494</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 \$28,600 as of December 31, 2023. The future principal lease payments as of December 31, 2023, were as follows:

Period Ended December 31	Amount
2024	\$ 6,600
2025	6,600
2026	6,600
2027	6,600
2028	<u>2,200</u>
Total Minimum Lease Payments	<u>\$ 28,600</u>

LINCOLN COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 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 \$4,680 as of December 31, 2023. The future principal lease payments as of December 31, 2023, were as follows:

Period Ended December 31	Amount
2024	\$ 1,080
2025	1,080
2026	1,080
2027	1,080
2028	<u>360</u>
Total Minimum Lease Payments	<u>\$ 4,680</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 \$7,800 as of December 31, 2023. The future principal lease payments as of December 31, 2023, were as follows:

Period Ended December 31	Amount
2024	\$ 1,800
2025	1,800
2026	1,800
2027	1,800
2028	<u>600</u>
Total Minimum Lease Payments	<u>\$ 7,800</u>



LINCOLN COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 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 \$12,960 as of December 31, 2023. The future principal lease payments as of December 31, 2023, were as follows:

Period Ended December 31	Amount
2024	\$ 6,480
2025	<u>6,480</u>
Total Minimum Lease Payments	<u>\$ 12,960</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 \$6,500 as of December 31, 2023. The future principal lease payments as of December 31, 2023, were as follows:

Period Ended December 31	Amount
2024	\$ 1,500
2025	1,500
2026	1,500
2027	1,500
2028	<u>500</u>
Total Minimum Lease Payments	<u>\$ 6,500</u>

LINCOLN COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2023  
(Continued)

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

SBITA - Accounting Subscription

The Lincoln County Clerk entered into a subscription-based information technology arrangement for delinquent tax 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 December 31, 2023, the value of the subscription liability was \$41,288. The Lincoln County Clerk is required to make monthly payments of \$794. The future principal lease payments as of December 31, 2023, were as follows:

Period Ended December 31	Amount
2024	\$ 8,734
2025	9,528
2026	9,528
2027	9,528
2028	<u>3,970</u>
Total Minimum Lease Payments	<u>\$ 41,288</u>

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 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 Lincoln County Clerk for the period November 13, 2023 through December 31, 2023, and the related notes to the financial statement and have issued our report thereon dated January 17, 2025. The 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 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 Lincoln County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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 deficiencies described in the accompanying Schedule of Findings and Responses as items 2023-001 and 2023-002 to be material weaknesses.



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 Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the 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 2023-002.

**Views of Responsible Official and Planned Corrective Action**

*Government Auditing Standards* requires the auditor to perform limited procedures on the Lincoln County Clerk's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Responses. The Lincoln County Clerk's response was not subjected to the other auditing procedures applied in the audit of the financial statement 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

January 17, 2025

## SCHEDULE OF FINDINGS AND RESPONSES

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LINCOLN COUNTY  
NANCY JACKSON, COUNTY CLERK  
SCHEDULE OF FINDINGS AND RESPONSES

For The Period November 13, 2023 Through December 31, 2023

FINANCIAL STATEMENT FINDINGS:

2023-001 The Lincoln County Clerk's Office Lacks Adequate Segregation Of Duties

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The county clerk's office lacks adequate segregation of duties over receipts, disbursements, and reconciliations. The bookkeeper does not post all receipts daily using source documents but rather posts monthly when bank statements are received. The bookkeeper can issue checks, post to the disbursements ledger, and reconcile the bank account. While it was noted that there are two people who prepare bank reconciliations, this was not documented.

The bookkeeper had been appointed earlier in the year without receiving any formal training and was not aware of the need to perform reconciliations beyond the fee account.

The lack of oversight could result in the undetected misappropriation of assets or inaccurate financial reporting to external agencies, such as the Department for Local Government. The lack of segregation of duties resulted in the following deficiencies:

- Reconciliations were not performed on the payroll revolving account.
- Reconciliations were not performed on web renewal receipts.
- The monthly ad valorem report for November was not properly prorated to reflect the activity of the outgoing and incoming clerks.

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." Adequate segregation of duties is a basic internal control necessary to ensure the accuracy and reliability of financial reports.

We recommend the county clerk segregate the duties of accounting functions. If segregation of duties is not feasible due to lack of staff, we recommend the county clerk implement and document compensating controls to offset this control deficiency.

*County Clerk's Response: The bookkeeper has developed a detailed reconciliation report for the payroll account so that all withholdings and expenses balance with payroll fund transfers. Two other deputies assist the bookkeeper now in daily balance sheets and reconciliation of web renewals and other ACH business in the general account. The clerk and bookkeeper will initial and date monthly bank statements after reconciling.*

2023-002 The Lincoln County Clerk's Office Does Not Have Adequate Controls Over The Payroll Process

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The Lincoln County Clerk's internal controls over the payroll process were not operating effectively. The following deficiencies were noted:

- Timesheets were not available for three out of the eight employees tested.
- Only one timesheet provided to auditors was signed as being approved by a supervisor.
- Leave taken on four of the eight employees' timesheets did not agree to the county clerk's leave schedule and three of the eight employees' leave balances could not be traced because timesheets were not available. The leave schedule maintained by the county clerk is updated each week from the employee's timesheets. However, the schedule is overwritten each pay period; therefore, auditors were unable to view prior leave balances.

LINCOLN COUNTY  
 NANCY JACKSON, COUNTY CLERK  
 SCHEDULE OF FINDINGS AND RESPONSES  
 For The Period November 13, 2023 Through December 31, 2023  
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2023-002 The Lincoln County Clerk's Office Does Not Have Adequate Controls Over The Payroll Process  
 (Continued)

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- One of the missing timesheets tested belonged to an employee who was on leave for the entire audit period of November 13, 2023 through December 31, 2023. Upon further examination, it was found this employee submitted no timesheets for the audit period and received gross wages in the amount of \$6,588.
- Reconciliations were not performed on the payroll revolving account resulting in the comingling of current county clerk and former county clerk payroll expenses.

The above deficiencies occurred as a result of the improper design and implementation of internal controls. A lack of strong internal controls over payroll could allow employees to be underpaid or overpaid. Additionally, there was an unexplained ending balance in the payroll revolving account.

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." Maintaining time records as well as supervisor approval are basic internal controls necessary to ensure the accuracy and reliability of financial reports. Strong internal controls over payroll and timekeeping are vital in ensuring that payroll amounts are calculated and accounted for properly. Additionally, properly designed internal controls over payroll processing require all timesheets to be prepared consistently and accurately and the revolving payroll account to be reconciled monthly.

KRS 337.320(1)(b) states, "[e]very employer shall keep a record of [t]he hours worked each day and each week by each employee[.]"

We recommend the county clerk develop and implement strong internal controls over payroll. All employees should submit a time sheet for each pay period which should be reviewed and approved. The payroll revolving account should be reconciled monthly and a current leave balance for each employee should be maintained for each pay period.

*County Clerk's Response: The audit period of 11/13-12/31 was a short period of transition. Since that time, the Clerk has written a personnel policy for the office, implemented a new timesheet program correcting errors in the previous office program, such as overwrites. All employees are now under a new and enforced leave policy, and timesheets are recorded weekly and initialed by a supervisor. Going forward, the bookkeeper will review balances and records before each pay period.*