

Lexington-Fayette Urban County Government

OFFICE *of* MAYOR
LINDA GORTON

Audit Results for FY2024 Financial Statements

Presentation to the
Budget, Finance and
Economic Development
Committee

January 21, 2025



Agenda

- Engagement Team Members
- Responsibilities
- Independence
- Fraud Risk
- Deliverables
- Audit Methodology and Approach
- Single Audit
- Accounting Pronouncements Adopted
- Additional Required Communications
- Unrecorded Audit Differences
- Upcoming Accounting Developments
- Contacts



Engagement Team Members

GASB Consultant

Bruce Shepard

Overall Principal-In-Charge

John Crosslin

Concurring Reviewer

Curtis Payne

Overall Senior Manager

Hunter Pons

ACFR

John Crosslin, Principal
Curtis Payne, Principal
Hunter Pons, Senior Manager

Central Government

John Crosslin, Principal-In-Charge
Curtis Payne, Principal
Jacob Smith, Supervisor
Garrett Wooten, Senior

Uniform Guidance

John Crosslin, Principal
Curtis Payne, Principal
Jacob Smith, Supervisor



Responsibilities

Crosslin, PLLC

Expressing opinions about whether the financial statements prepared by management under the oversight of the City Commission are fairly presented, in all material respects in conformity with U.S. generally accepted accounting principles

Performing our audits in accordance with professional standards, including *Government Auditing Standards* and the provisions of Title 2 U.S. *Code of Federal Regulations (CFR) Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance)

Maintaining independence and an attitude of professional skepticism throughout the audits

Reporting to the City Commission and management required information, including, but not limited to, significant deficiencies in internal control, instances of noncompliance, and fraud noted during our audits

Management

Fairly presenting financial statements in conformity with U.S. generally accepted accounting principles

Adopting proper accounting policies

Establishing and maintaining effective internal control over financial reporting and compliance

Preventing and detecting fraud

Disclosing to the City Commission and Crosslin, PLLC significant deficiencies in internal control and fraud involving those with significant roles in internal control



Independence

- The AICPA's Code of Professional Conduct, Rule 101, sets forth guidance for assurance services provided by accountants under U.S. generally accepted auditing standards. *Government Auditing Standards*, Chapter 3, provides additional guidance for financial audits performed under generally accepted government auditing standards.
- Both sources direct that independence is required both in fact and appearance. Crosslin, PLLC has established quality control policies and procedures to ensure compliance with professional standards, including those related to independence.
- Crosslin, PLLC is independent with respect to Lexington-Fayette Urban County Government (LFUCG).



Fraud Risk

The AICPA issued SAS No. 99 to specifically address the risk of material misstatement in the financial statements caused by fraud. We use a four-pronged strategy to address this risk.

Gather information

- Engagement team brainstorming
- Inquiries with management, finance and accounting personnel, and other personnel
- Investigate unusual or unexpected relationships identified through analytical procedures

Test for management override

- Review current and prior year significant estimates for inappropriate bias
- Evaluate business rationale for significant unusual transactions
- Analyze propriety of manual adjusting journal entries

Respond to identified risks

- Design of nature, timing, extent of procedures incorporating elements of unpredictability
- Leverage experienced personnel in areas of exposure
- Test items below established scopes

Evaluate audit evidence

- Disseminate results of audit procedures among audit team
- Remain cognizant of fraud risk factors throughout the audit
- Correlate information gathered and tested in all areas and consider discrepancies, conflicting or unusual evidence and responses, and problematic relationships
- Communicate to appropriate levels of management and City Commission

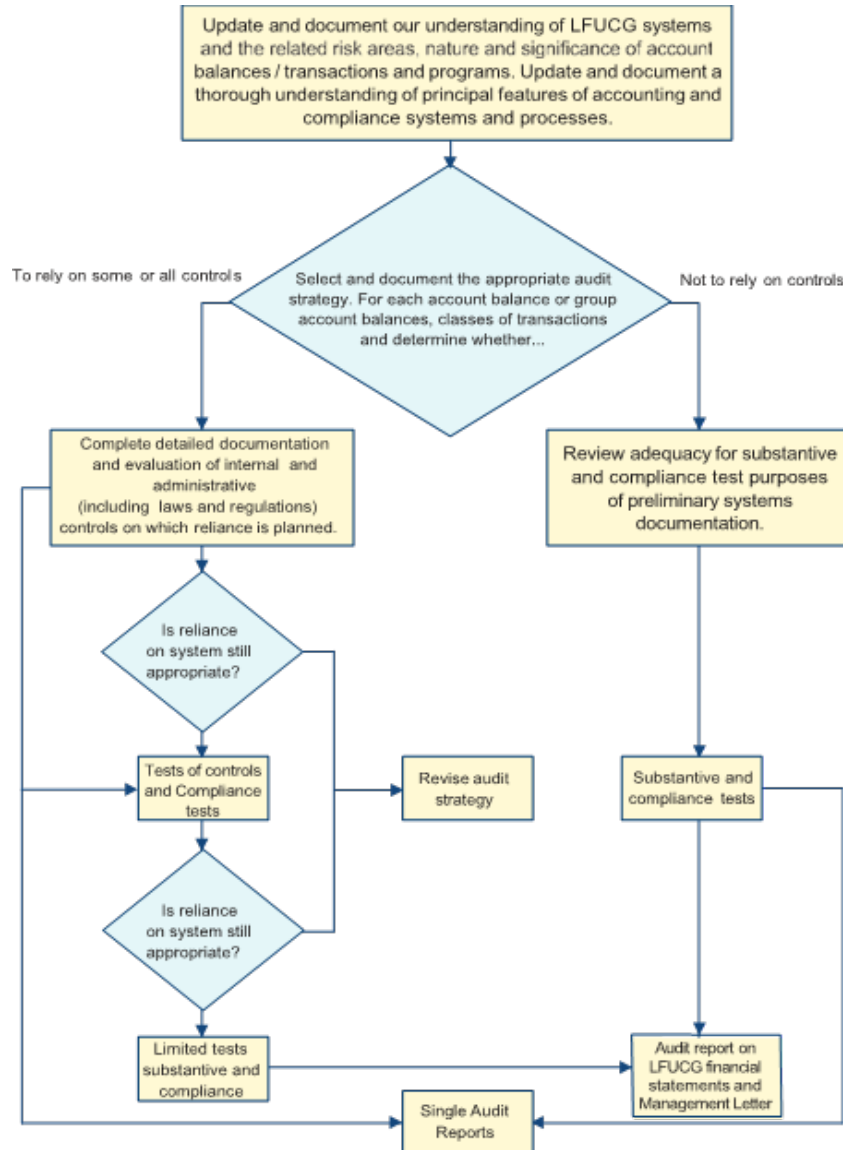


Deliverables

Audit Reports	Notes
Annual Comprehensive Financial Report	Unmodified Opinion
Single Audit and related reports	In process
Other Deliverables	
Required communication with the Audit Committee regarding audit results	Report Issued
Data Collection Form	In process



Audit Methodology and Approach



- Audit Planning and Risk Assessment
- Control Evaluation and Testing
- Substantive Testing
- Completion and Reporting



Audit Methodology and Approach - continued

Audit Planning and Risk Assessment

Rather than following linear processes, risk assessment is performed cyclically as expectations are made and subsequently validated or refuted by audit evidence.

Our preliminary risk assessment indicates the following primary areas in which we plan to evaluate and perform tests of controls and substantive tests to address risk of material misstatement and noncompliance due to error or fraud.

Control Evaluation and Testing

- Cash receipts and revenues
- Property tax billings and receipts
- Purchasing and disbursements
- Employee compensation
- Bank reconciliations
- Journal entries
- IT controls over significant accounting systems
- Compliance

Substantive Testing

- Investments
- Long-lived / capital assets
- Long term liabilities including pension/OPEB
- Self-insurance accruals
- Property and sales taxes and other revenues
- Grant receipts, disbursements, and revenues
- Expenditures/expenses and budget process
- Compliance



Single Audit

LFUCG did qualify as a low-risk auditee for fiscal year 2024. As such, we are testing federal major program expenditures to achieve a minimum of 20% coverage of total federal expenditures of \$56 million.

Major Programs

Department of Homeland Security:

- Staffing for Adequate Fire and Emergency Response (SAFER)

Department of Treasury:

- Coronavirus State and Local Fiscal Recovery Funds



Accounting Pronouncements Adopted

No significant new GASB announcements were adopted in fiscal year 2024.



Additional Required Communications

Accounting Estimates

- The Government's financial statements include several estimates that are significant.
- We evaluated the key factors and assumptions used to develop the estimates and believe that the estimates are reasonable in relation to the financial statements for each affected reporting unit.

Unaudited Information in ACFR

- We read all such information and noted nothing materially inconsistent with that included in the Government's basic financial statements.

Other

- No transactions for which there is a lack of authoritative guidance or consensus.
- All significant transactions have been recognized in the proper period.
- No alternative accounting policies and practices related to material items.
- No difficulties encountered in dealing with management in performing and completing our audit.
- No disagreements with management regarding financial accounting, reporting, or auditing.
- Management provided appropriate representations at the conclusion of our audit.
- We are not aware of any communications by management with other independent accountants.



Unrecorded Audit Differences

Governmental Activities

- Two entries were passed as they were not material overall resulting in accrual differences in receivables and inventory schedules that did not match the trial balance.



Upcoming Accounting Developments

Statements

GASB Statement No. 101 (2025)

GASB Statement No. 102 (2025)

GASB Statement No. 103 (2025)

Description

Compensated Absences

Certain Risk Disclosures

Financial Reporting Model Improvements



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