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CITIZENS SUMMARY

Findings in the audit of City of Lexington

Financial Condition and Monitoring

The City Council (Council) is not adequately monitoring the city's financial condition, is not receiving detailed information showing financial data for each fund, and has poor budgeting procedures that has allowed the cash balance of the General Fund to decline in recent years. Although the General Fund balance increased during fiscal year 2017, this was predominately due to a reimbursement from the Hospital Board, of which a portion was inappropriately reimbursed and needs to be repaid. In addition, amounts are due from the General Fund to the Sewer Fund and Sewer Construction Fund. After repayment of the identified liabilities, the cash balance of the General Fund will be significantly lower and needs to be monitored closely. Another factor in the decline of the General Fund cash balance has been subsidies provided to the Street Fund.

Hospital Funds

Concerns were identified regarding the city's relationship with the Hospital Board and expenses incurred related to a proposed new hospital building. The hospital has been in operation for many years and is operated by a regional health center. City leaders worked with the regional health center, starting in approximately 2009, to pursue building a new hospital. The regional health center accelerated an end of lease payment called for in the prior hospital lease and paid the city \$515,000 in 2011 to pay some of those costs. A Hospital Board was appointed to oversee operations of the hospital and a new lease with the health center was negotiated in February 2016. The city submitted a bill to the Hospital Board seeking reimbursement for costs incurred related to the new hospital totaling over \$1 million. That bill improperly included the \$515,000 paid to the city by the regional health center, which was used to pay some of those costs. As a result, the city owes the Hospital Board \$515,000. In addition, the Hospital Board maintains its bank account outside the city treasury, in violation of state law, and does not prepare a budget.

Utilities

There are significant weaknesses in city operations related to utility services. The city has no documentation of discussions held or a basis for determining the annual franchise fee transfer, totaling \$56,571 during the year ended March 31, 2016, from the Water Fund to the General Fund. A similar amount was transferred during fiscal year 2017. In addition to the franchise fee transfer, the Water and Sewer Funds are both charged a \$20,000 administrative fee to reimburse the General Fund for administrative costs incurred during the year. No documentation exists to support the administrative cost transfer charged to the Water or Sewer Fund. The Council has not properly funded the Sewer Construction Fund to pay for repair and replacement of the municipal sewer system, as required by city ordinance, and the ordinance regarding shut off procedures for non-payment of services does not specify the date services will be shut off. The city's sewer billing method is not consistent with city ordinances. City ordinance 28 requires sewer billings to be in 1,000 gallon increments; however, the city is billing sewer charges in 100 gallon increments.

Accounting Controls	The Council has not adequately segregated accounting duties or ensured documented supervisory or independent reviews of work performed by city office personnel are performed. City personnel do not properly account for all manual receipt slips issued, do not always issue receipt slips, and do not properly document transmittals between departments. Facsimile signature stamps are not adequately controlled and the City Clerk uses signature stamps to circumvent established controls. The city has 17 checking accounts, 3 savings accounts, and 2 certificates of deposits for 16 funds resulting in cumbersome record keeping and the need for numerous transfers between bank accounts. In addition, a Sales Tax Fund is maintained to account for general and road sales tax receipts, and based on the way transfers are made out of the Sales Tax Fund, the General Fund has been providing subsidies to the Street Fund for years, which has contributed to the General Fund's financial condition. Parks and Recreation property tax revenue received by the city is not credited to the Park Board Fund timely.
Parks and Recreation Department Controls and Procedures	Procedures for receipting, recording, transmitting, and depositing monies need improvement. The Park Board has adopted the city's bidding policy but does not always solicit competitive bids or proposals for goods and services in accordance with that policy. The Parks Department maintains 2 bank accounts outside the city treasury and monitoring of financial activity and budgets need improvement.
City Budgets	The Council approved budget did not include all elements required by state law and city officials do not incorporate the Park Board budget into the city's budget. The Council does not adequately monitor budget-to-actual receipts and disbursements and the Water Fund budget amendment was not approved before the fiscal year ended.
Bidding	City personnel do not always solicit competitive bids or proposals for goods and services, and the city's ordinance for procurement needs to be more comprehensive.
Sunshine Law	The Council discussed some items in closed meetings that are not allowed by law. The Hospital Board went into closed meetings 3 times during the year ended March 31, 2016, but minutes were not prepared. City Council meeting minutes are not signed.
Electronic Data Security	The city has not established adequate password controls to reduce the risk of unauthorized access to computer systems and electronic data.

In the areas audited, the overall performance of this entity was **Fair**.*

*The rating(s) cover only audited areas and do not reflect an opinion on the overall operation of the entity. Within that context, the rating scale indicates the following:

- Excellent:** The audit results indicate this entity is very well managed. The report contains no findings. In addition, if applicable, prior recommendations have been implemented.
- Good:** The audit results indicate this entity is well managed. The report contains few findings, and the entity has indicated most or all recommendations have already been, or will be, implemented. In addition, if applicable, many of the prior recommendations have been implemented.
- Fair:** The audit results indicate this entity needs to improve operations in several areas. The report contains several findings, or one or more findings that require management's immediate attention, and/or the entity has indicated several recommendations will not be implemented. In addition, if applicable, several prior recommendations have not been implemented.
- Poor:** The audit results indicate this entity needs to significantly improve operations. The report contains numerous findings that require management's immediate attention, and/or the entity has indicated most recommendations will not be implemented. In addition, if applicable, most prior recommendations have not been implemented.