



AGREED-UPON PROCEDURES (AUP) FOR KENTUCKY CITIES

Issued by the Kentucky Department for Local Government (DLG)

Audit Exemption Under [KRS 91A.040\(4\)](#)

Revision Date: September 5, 2025

1. INTRODUCTION

Pursuant to [KRS 91A.040\(4\)](#), the **Kentucky Department for Local Government (DLG)** has established the following **Agreed-Upon Procedures (AUP)** for cities eligible to complete a financial statement instead of an annual audit.

Cities Eligible for a Financial Statement

A city shall qualify for a financial statement if it meets **both** of the following conditions:

1. The city **receives and expends less than \$500,000** in total from all sources for the fiscal year, and
2. The city **has no long-term debt**, including general obligation or revenue debt.

The Financial Statement **shall** be conducted in accordance with [KRS 424.220](#), and a copy **shall be forwarded to DLG no later than October 1** following the conclusion of the fiscal year.

Additionally, beginning in **Fiscal Year (FY) 2028**, any city exempt from an audit for more than four (4) consecutive fiscal years **shall** complete an attestation engagement covering the fourth fiscal year in which the exemption applied. The first required attestation engagement under this provision must be for **FY 2028**, followed by the next attestation needed for **FY 2032** and every **fourth year thereafter** (i.e., FY 2036, FY 2040, etc.).

This engagement **shall** be conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in Government Auditing Standards issued by the Comptroller General of the United States and any additional procedures established by DLG.

Cities meeting these criteria **shall** contract with an independent Certified Public Accountant (CPA) or the Kentucky Auditor of Public Accounts to complete these procedures no later than March 1 and submit the **Independent Accountant's Report** to DLG no later than **April 1**, immediately following the conclusion of the fiscal year.

2. SCOPE OF AGREED-UPON PROCEDURES

The CPA **shall** perform the following procedures to evaluate the City's financial compliance with applicable Kentucky laws and regulations.

Percentage-Based Sampling Approach for Testing

The CPA shall use the following **percentage-based testing approach** for transactions:

- **Fewer than 100 transactions annually** → Test at least 10%-20%, but no fewer than 5 transactions
- **100–500 transactions annually** → Test 10%-15%, with a minimum of 15 transactions
- **More than 500 transactions annually** → Test 30 or more transactions using random or systematic sampling

If **fraud indicators** are present (e.g., duplicate payments, missing invoices, unauthorized purchases, unexplained variances in tax collections), the CPA **shall** increase testing by an additional 10% to 20% and report findings.

A. Public Funds Management & Bank Reconciliations ([KRS 91A.020](#))

- ✓ Verify that all public funds are deposited in officially designated depositories.
- ✓ Review fiscal year-end bank reconciliations and compare balances to the general ledger to determine if they agree.
- ✓ Examine a sample of outstanding checks and deposits for accuracy.
- ✓ Ensure the City's cash and investments comply with statutory investment policies.

B. Ad Valorem Property Tax Revenue ([KRS 132](#))

- ✓ Verify for selected transactions - compare to tax rate workbook and county assessments to ensure:
 - Correct application of approved tax rates
 - Proper calculation of total property tax revenue
 - ✓ Verify that collected property taxes were deposited daily into city accounts and property tax receipts are correctly recorded in the general ledger.
 - ✓ Confirm that tax collections deposited from the Sheriff match reported revenues in financial statements.
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C. Revenue & Receipts

- ✓ Verify for selected transactions:
 - Proper classification using the City of Chart of Accounts in the general ledger
 - Supporting documentation for deposits
 - Daily deposits into official City accounts
 - ✓ Confirm that all receipts match bank deposits
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D. Disbursement & Expenditure

- ✓ Confirm for selected disbursements:
 - Proper approval and supporting documentation
 - Compliance with budget appropriations ([KRS 91A.030](#))
 - Based on the City Chart of Accounts, ensure that classifications in the general ledger are correct.
 - ✓ Verify that **expenditures were for a public purpose** and were not personal.
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E. Payroll & Employee Compensation

- ✓ Review payroll records to confirm:
 - Authorized salary/wage rates
 - Proper tax withholdings and benefit deductions
 - Supporting time records and payroll approvals
 - ✓ Ensure compliance with federal and state payroll tax laws.
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F. Grants & Restricted Funds Compliance

- ✓ Verified that grant funds were:
 - Used only for their intended purpose
 - Properly recorded in the general ledger
 - ✓ Ensured that grant reports were submitted to funding agencies.
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3. REPORTING REQUIREMENTS & DEADLINES

✦ **March 1** – The attestation engagement shall be completed

✦ **April 1** – The attestation engagement shall be submitted to DLG.

✦ **Within 30 days of completion** – The city shall advertise the attestation completion in a qualified newspaper and distribute copies to the media as required by [KRS 91A.040\(4\)](#).

The final report and all related work papers and documents **shall** be provided to the Auditor of Public Accounts upon request.

4. LIMITATIONS

This engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in Government Auditing Standards issued by the Comptroller General of the United States, any additional procedures established by DLG, and does not constitute an audit, review, or compilation.

The procedures performed are limited in scope and do not provide assurance or express an opinion on the financial statements.
