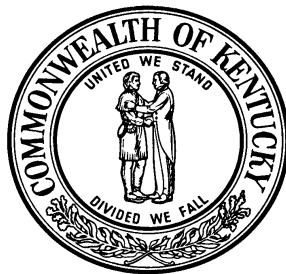


**REPORT OF THE AUDIT OF THE
LINCOLN COUNTY
SHERIFF**

**For The Year Ended
December 31, 2016**



**MIKE HARMON
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jim W. Adams, Jr., Lincoln County Judge/Executive
The Honorable Curt Folger, Lincoln County Sheriff
Members of the Lincoln County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the Sheriff of Lincoln County, Kentucky, for the year ended December 31, 2016, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the 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 the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit 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 Guide for County Fee Officials* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



The Honorable Jim W. Adams, Jr., Lincoln County Judge/Executive
The Honorable Curt Folger, Lincoln County Sheriff
Members of the Lincoln County Fiscal Court

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 Sheriff 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, 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.

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 paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the Lincoln County Sheriff, as of December 31, 2016, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the Lincoln County Sheriff for the year ended December 31, 2016, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.


Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2018, on our consideration of the Lincoln County Sheriff’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 internal control over financial reporting 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 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 comment:

- 2016-001 The Sheriff’s Office Lacks Adequate Segregation Of Duties Over Receipts, Disbursements, And Reconciliations

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

January 22, 2018

LINCOLN COUNTY
CURT FOLGER, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2016

Receipts

State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)	\$	22,685	
State Fees For Services:			
Finance and Administration Cabinet	\$	10,923	
Sheriff Security Service		5,304	
Court Security		52,380	68,607
Circuit Court Clerk:			
Fines and Fees Collected		11,062	
Court Ordered Payments		<u>720</u>	11,782
Fiscal Court			48,809
County Clerk - Delinquent Taxes			17,407
Commission On Taxes Collected			320,220
Fees Collected For Services:			
Auto Inspections		5,396	
Accident and Police Reports		3,411	
Serving Papers		25,840	
Carry Concealed Deadly Weapon Permits		<u>12,955</u>	47,602
Other:			
Add-On Fees		66,151	
Receipts from School		125	
Lincoln County Ordinance		6,160	
Transports		2,530	
Miscellaneous		<u>31,402</u>	106,368
Interest Earned			37
Borrowed Money:			
State Advancement			<u>150,000</u>
Total Receipts			793,517

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

LINCOLN COUNTY
 CURT FOLGER, SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2016
 (Continued)

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Gross Salaries	\$	194,109
Clerks' Gross Salaries		54,153
Court Security Gross Salaries		66,880
KLEFPF		19,026
Overtime Gross Salaries		13,228

Employee Benefits-

KLEFPF Retirement		3,444
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Materials and Supplies-

Office Materials and Supplies		4,567
Uniforms		18,797

Auto Expense-

Gasoline		48,043
Maintenance and Repairs		34,641
Vehicle Equipment		9,157

Other Charges-

Conventions and Travel		300
Postage		1,994
K-9 Supplies and Medical		152
Office Equipment Lease		3,864
Lincoln County Ordinance		6,160
Miscellaneous		8,234

Capital Outlay-

Vehicles		<u>19,612</u>	\$	506,361
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Debt Service:

State Advancement				<u>150,000</u>
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Total Disbursements				<u>\$ 656,361</u>
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The accompanying notes are an integral part of this financial statement.

LINCOLN COUNTY
 CURT FOLGER, SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2016
 (Continued)

Net Receipts	\$ 137,156
Less: Statutory Maximum	<u>89,310</u>
Excess Fees	47,846
Less: Training Incentive Benefit	<u>3,969</u>
Excess Fees Due County for 2016	43,877
Payment to Fiscal Court - March 14, 2017	<u>35,000</u>
Balance Due Fiscal Court at Completion of Audit *	<u>\$ 8,877</u>

* - The sheriff presented a check to the fiscal court for excess fees on December 29, 2017.

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2016

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, including excess fees, due from the sheriff as determined by the audit. KRS 134.192 requires the sheriff to settle excess fees with the fiscal court at the time he files his annual settlement with the fiscal court on or before September 1 of each year. KRS 64.830 requires an outgoing sheriff to settle excess fees with the fiscal court of his county by March 15 immediately following the expiration of his term of office.

The financial statement has been prepared on a regulatory basis of accounting, which 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) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2016 services
- Reimbursements for 2016 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2016

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the county treasurer in the subsequent year.

C. Cash and Investments

KRS 66.480 authorizes the sheriff'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).

Note 2. Employee Retirement System and Other Post-Employment Benefits

The county official and employees have elected to participate, pursuant to KRS 78.530, in the County Employees Retirement System (CERS), which is administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). This 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.

LINCOLN COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2016
 (Continued)

Note 2. Employee Retirement System and Other Post-Employment Benefits (Continued)

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 KRS 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 Board 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.

The sheriff's contributions for Kentucky Law Enforcement Foundation Program Fund (KLEFPF) for calendar year 2014 was \$3,665, calendar year 2015 was \$2,685, and calendar year 2016 was \$3,444.

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 17.06 percent for the first six months and 18.68 percent for the last six months.

Health Insurance Coverage

CERS also 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:

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 earn ten dollars per

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2016
(Continued)

Note 2. Employee Retirement System and Other Post-Employment Benefits (Continued)

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.

KRS issues a publicly available annual financial report that includes financial statements and required supplementary information on CERS. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Lincoln County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC 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 sheriff 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.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the sheriff's deposits may not be returned. The Lincoln County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of December 31, 2016, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Lease Agreement

The Lincoln County Sheriff's office was committed to a lease agreement for computer hardware. The agreement requires a monthly payment of \$322 for 36 months to be completed on September 1, 2017. The total remaining balance of the agreement was \$2,898 as of December 31, 2016.

Note 5. Forfeiture Account

The Lincoln County Sheriff's office maintains an account for the deposit of funds forfeited as a result of court cases. Expenditures from this account are restricted in accordance with court orders related to each individual case. The account had a balance of \$4,200 on January 1, 2016. There were no receipts and disbursements were \$3,201 during the year. The account had a balance of \$999 as of December 31, 2016.

Note 6. Donation Account

The Lincoln County Sheriff's office maintains a donation account, an operating account consisting of profits from fund-raising events and donations. Expenditures from this account are to promote law enforcement programs throughout Lincoln County. The account had a balance of \$70 on January 1, 2016. Receipts were \$20,041 and disbursements were \$18,486 during the year. The account had a balance of \$1,625 as of December 31, 2016.

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2016
(Continued)

Note 7. K-9 Account

The Lincoln County Sheriff's office maintains a K-9 account to deposit funds donated for the purchase of a drug dog. The account had a balance of \$12 on January 1, 2016. Receipts were \$570 and disbursements were \$72 during the year. The account had a balanced of \$510 as of December 31, 2016.

Note 8. Escrow Account

The Lincoln County Sheriff's office maintains an escrow account established to maintain funds considered unclaimed property. The funds in this account are to be held by the sheriff for a period of three years. After the three year period, if the funds remain unclaimed, they are turned over to the Kentucky State Treasurer. The account had a balance of \$23,027 on January 1, 2016. Receipts were \$3 and disbursements were \$23,030 during the year. The account had a \$0 balance as of December 31, 2016.

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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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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jim W. Adams, Jr., Lincoln County Judge/Executive
The Honorable Curt Folger, Lincoln County Sheriff
Members of the Lincoln County Fiscal Court

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the Lincoln County Sheriff for the year ended December 31, 2016, and the related notes to the financial statement and have issued our report thereon dated January 22, 2018. The Lincoln County Sheriff'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.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Lincoln County Sheriff's internal control over financial reporting (internal control) to determine the 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 Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lincoln County Sheriff's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified a certain deficiency in internal control, which is described in the accompanying Schedule of Findings and Responses as item 2016-001 that we consider to be a significant deficiency.



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)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lincoln County Sheriff'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 determination of financial statement amounts. 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Views of Responsible Official and Planned Corrective Action

The Lincoln County Sheriff's views and planned corrective action for the finding identified in our audit are included in the accompanying Schedule of Findings and Responses. The sheriff's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

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,



Mike Harmon
Auditor of Public Accounts

January 22, 2018

SCHEDULE OF FINDINGS AND RESPONSES

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LINCOLN COUNTY
CURT FOLGER, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2016

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY

2016-001 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts, Disbursements, And Reconciliations

This is a repeat finding that was included in the prior year audit report as finding 2015-001. Our review of internal control procedures indicates the sheriff's bookkeeper opens mail, collects payments from customers, prepares deposits, writes and signs checks, posts transactions to the receipts and disbursements ledgers, prepare monthly and quarterly reports, and prepares account reconciliations. The sheriff's review of these activities is not adequately documented. According to the sheriff, the sheriff's office has a limited number of employees that prevents the segregation of duties over most accounting functions of the office. The bookkeeper's work is reviewed by the sheriff, however, the review is not adequately documented.

The lack of adequate segregation of duties or documentation of strong oversight increases the risk of undetected errors. A lack of oversight could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies, such as the Department for Local Government. The segregation of duties over various accounting functions such as opening mail, preparing deposits, recording receipts and disbursements, and preparing monthly reports and reconciliations, or the implementation of compensating controls 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 sheriff separate the duties involved in receiving cash, preparing deposits, writing checks, posting to ledgers, preparing monthly bank reconciliations, and comparing financial reports to ledgers. However, if an adequate segregation of duties is not feasible due to a limited budget, compensating controls should be implemented and documented by the individual performing the procedure. We recommend the sheriff document strong oversight over all aspects on internal control procedures by reviewing and initialing daily deposit records, reviewing and initialing monthly reports and reconciliations, requiring dual signatures on checks (with one being the sheriff's), and reviewing and initialing all invoices upon payment.

Sheriff's Response: We will continue to have compensating controls.

Auditor's Reply: If a proper segregation of duties cannot be implemented, then effective, documented compensating controls should be put in place and enforced.