

**REPORT OF THE AUDIT OF THE
LINCOLN COUNTY
SHERIFF'S SETTLEMENT - 2022 TAXES**

**For The Period
January 1, 2023 Through August 31, 2023**



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ALLISON BALL
AUDITOR OF PUBLIC ACCOUNTS

Independent Auditor's Report

To the People of Kentucky
The Honorable Andy Beshear, Governor
Holly M. Johnson, Secretary
Finance and Administration Cabinet
The Honorable J. Woods Adams III, Lincoln County Judge/Executive
The Honorable Shawn Hines, Lincoln County Sheriff
Members of the Lincoln County Fiscal Court

Report on the Audit of the Financial Statement

Opinions

We have audited the accompanying Lincoln County Sheriff's Settlement - 2022 Taxes for the period January 1, 2023 through August 31, 2023 - Regulatory Basis, 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 taxes charged, credited, and paid for the period January 1, 2023 through August 31, 2023 of the Lincoln County Sheriff, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky 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 taxes charged, credited, and paid of the Lincoln County Sheriff, for the period January 1, 2023 through August 31, 2023.

Basis for Opinions

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*, issued by the Comptroller General of the United States, and the *Audit Program for Sheriffs' Tax Settlements*. 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 Sheriff and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



To the People of Kentucky

The Honorable Andy Beshear, Governor

Holly M. Johnson, Secretary

Finance and Administration Cabinet

The Honorable J. Woods Adams III, Lincoln County Judge/Executive

The Honorable Shawn Hines, Lincoln County Sheriff

Members of the Lincoln County Fiscal Court

Basis for Opinions (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 Sheriff on the basis of 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 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 a financial statement that is free from material misstatement, whether due to fraud or error.

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 an absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS 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 judgement made by a reasonable user based on the financial statement.

In performing an audit in accordance with GAAS, 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 Sheriff'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.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Lincoln County Sheriff's ability to continue as a going concern for a reasonable period of time.

To the People of Kentucky
The Honorable Andy Beshear, Governor
Holly M. Johnson, Secretary
Finance and Administration Cabinet
The Honorable J. Woods Adams III, Lincoln County Judge/Executive
The Honorable Shawn Hines, Lincoln County Sheriff
Members of the Lincoln County Fiscal Court

Auditor's Responsibilities for the Audit of the Financial Statement (Continued)

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant findings, and certain internal control-related matters that we identified during the audit.


Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2024, 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 and grant agreements, and other matters. The purpose of that report is 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 Sheriff'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 finding:

2022-001 The Lincoln County Sheriff's Office Does Not Have Adequate Segregation Of Duties Or Proper Controls Over Record Keeping

Respectfully submitted,



Allison Ball
Auditor of Public Accounts
Frankfort, Ky

May 8, 2024

LINCOLN COUNTY
SHAWN HINES, SHERIFF
SHERIFF'S SETTLEMENT - 2022 TAXES

For The Period January 1, 2023 Through August 31, 2023

	Special Taxing			
	County	Districts	School	State
<u>Charges</u>				
Transferred from Outgoing Sheriff:				
Real Estate	\$ 97,610	\$ 293,041	\$ 519,924	\$ 114,543
Tangible	1,671	4,826	9,290	3,961
Fire Protection	120			
Total Transferred From Outgoing Sheriff	99,401	297,867	529,214	118,504
<u>Other Taxes & Charges</u>				
Franchise Taxes	191,120	615,976	1,047,187	
Additional Billings	336	969	1,834	3,160
Prior Year Additional Billings	1,316	3,953	6,954	
Penalties	4,940	14,754	26,300	5,831
Gross Chargeable to Sheriff	297,113	933,519	1,611,489	127,495
<u>Credits</u>				
Exonerations	512	1,488	2,769	1,212
Discounts	83	265	460	4
Delinquent Real Estate	17,711	53,184	94,275	20,769
Delinquent Tangible	828	2,340	4,603	1,533
Delinquent Prior Year Additional Billings	1,132	3,484	5,960	1,333
Total Credits	20,266	60,761	108,067	24,851
Taxes Collected	276,847	872,758	1,503,422	102,644
Less: Sheriff's Commissions*	11,766	30,983	45,102	4,362
Taxes Due Districts	265,081	841,775	1,458,320	98,282
Taxes Paid	258,860	825,724	1,424,799	90,789
Refunds (Current and Prior Year)	6,221	16,051	33,521	7,493
Taxes Due Districts	\$ 0	\$ 0	\$ 0	\$ 0

* Commissions:

4.25% on	\$ 834,883
4% on	\$ 248,500
3% on	\$ 1,503,422
1% on	\$ 168,865

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

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENT

August 31, 2023

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. 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.

B. Basis of Accounting

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. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

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).

D. Preparation of State Settlement

The Kentucky Department of Revenue prepares the settlement relating to taxes collected for the state under the provision of KRS 134.192(2)(a). This is reported as the "State Taxes" column on the financial statement.

Note 2. Deposits

The Lincoln County Sheriff maintained deposits of public funds with federally insured banking institutions as required by the Department for Local Government's (DLG) *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 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. These requirements were met.

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

Note 2. Deposits (Continued)

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 the *DLG County Budget Preparation and State Local Finance Officer Policy Manual*. As of August 31, 2023, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2022. Property taxes were billed to finance governmental services for the fiscal year ending June 30, 2023. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 4, 2023 through April 17, 2023.

B. Franchise Taxes

The franchise tax assessments were levied by the Department of Revenue for various tax years. Franchise taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 1, 2023 through April 30, 2023.

Note 4. Interest Income

The Lincoln County Sheriff earned \$8 as interest income on 2022 taxes. The sheriff was in substantial compliance with his statutory responsibilities.

Note 5. Sheriff's 10% Add-On Fee

The Lincoln County Sheriff collected \$39,696 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the sheriff's office.

Note 6. Escrow Account

The sheriff deposited nonrefundable payments from the former sheriff's tax account in an interest-bearing account. The sheriff's escrowed beginning balance was \$0. On January 29, 2023, the former sheriff transferred the \$15,577 escrow account balance to the incoming sheriff and had no disbursements resulting in a total ending balance of \$15,577 as of August 31, 2023. The ending balance consists of escrowed funds of:

2020	\$15,575
Interest	\$2

When statutorily required, the sheriff will turn over the escrowed funds to the Kentucky State Treasurer as unclaimed property.

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 Shawn Hines, Lincoln County Sheriff
Members of the Lincoln County Fiscal Court

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 Lincoln County Sheriff's Settlement - 2022 Taxes for the period January 1, 2023 through August 31, 2023 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated May 8, 2024. 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.

Report on 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) 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 Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lincoln County Sheriff'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 a certain deficiency in internal control that we consider to be a material weakness.

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 deficiency described in the accompanying Schedule of Findings and Responses as item 2022-001 to be a material weakness.



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 Sheriff's financial statement is free from 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

May 8, 2024

SCHEDULE OF FINDINGS AND RESPONSES

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LINCOLN COUNTY
SHAWN HINES, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Period January 1, 2023 Through August 31, 2023

INTERNAL CONTROL - MATERIAL WEAKNESS:

2023-001 The Lincoln County Sheriff's Office Does Not Have Adequate Segregation Of Duties Or Proper Controls Over Record Keeping

The sheriff's office does not have adequate segregation of duties over receipts, disbursements, and reconciliations. This condition primarily exists because the sheriff's bookkeeper opens mail, collects payments from customers, prepares deposits, writes and signs checks, prepares monthly reports, and prepares bank reconciliations. In addition, the sheriff did not prepare either a receipts or disbursements ledger for comparison of deposits, disbursements, reports, and reconciliations. The sheriff had implemented some compensating controls; however, these controls were not always documented. According to the sheriff, his office has a limited number of employees that prevents the segregation of duties over most accounting functions of the office. The lack of adequate segregation of duties increases the risk that errors could occur and not be detected. Failure to maintain proper accounting records such as receipts and disbursement ledgers is noncompliance with regulations and statutes. The lack of oversight could result in misappropriation of assets and/or inaccurate financial reporting to external agencies, such as the Department for Local Government and the fiscal court.

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/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

KRS 68.210 gives the Department for Local Government the authority to require a uniform system of accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual* states, "The uniform system of accounts for Kentucky counties shall consist of the following books of accounts..." to include a cash receipts journal, cash receipts ledger, check distribution ledger, and subsidiary ledgers and journals as needed.

We recommend the Lincoln County Sheriff's Office separate duties involving collection of receipts, preparing deposits, preparing checks, and preparation of bank reconciliations. If this is not feasible due to a limited budget, additional cross-checking procedures or compensating controls should be implemented and documented by the individual performing the review procedure. In addition, we recommend the sheriff prepare receipt and disbursement ledgers for tax collections as required.

Sheriff's Response: The sheriff did not provide a response.