

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

**For The Period  
September 1, 2022 Through December 31, 2022**



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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 Curt Folger, Former Lincoln County Sheriff

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 former Lincoln County Sheriff's Settlement - 2022 Taxes for the period September 1, 2022 through December 31, 2022 - 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 September 1, 2022 through December 31, 2022 of the former 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 former Lincoln County Sheriff, for the period September 1, 2022 through December 31, 2022.

#### 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 former 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

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

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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 former 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 former 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 former 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 Curt Folger, Former Lincoln County Sheriff  
 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.

### **Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statement as a whole. The Schedule of Excess Liabilities Over Assets – Regulatory Basis (Supplementary Information) is presented for purposes of additional analysis and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statement as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2023, on our consideration of the former 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 former 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 findings:

- 2022-001 The Former Lincoln County Sheriff’s Office Lacked Adequate Segregation Of Duties Over Receipts, Disbursements, And Reconciliations
- 2022-002 The Former Lincoln County Sheriff’s Office Did Not Follow Internal Control Procedures Related To The Safeguarding Of Assets

Respectfully submitted,



Allison Ball  
 Auditor of Public Accounts  
 Frankfort, Ky

November 16, 2023

LINCOLN COUNTY  
CURT FOLGER, FORMER SHERIFF  
SHERIFF'S SETTLEMENT - 2022 TAXES

For The Period September 1, 2022 Through December 31, 2022

	Special Taxing			
	County	Districts	School	State
<u>Charges</u>				
Real Estate	\$ 1,002,699	\$ 2,936,032	\$ 5,335,078	\$ 1,175,352
Tangible	43,607	143,983	242,508	147,621
Total Per Sheriff's Official Receipt	1,046,306	3,080,015	5,577,586	1,322,973
<u>Other Taxes &amp; Charges</u>				
Court Ordered Increases	19	62	103	9
Franchise Taxes	25,091	83,394	138,777	
Additional Billings	3,084	9,478	16,440	3,574
Gross Chargeable to Sheriff	1,074,500	3,172,949	5,732,906	1,326,556
<u>Credits</u>				
Exonerations	6,383	18,073	33,999	7,490
Discounts	16,444	48,398	87,687	21,014
Incoming Sheriff - Real Estate	97,730	293,041	519,924	118,504
Incoming Sheriff - Tangible	1,671	4,826	9,290	
Total Credits	122,228	364,338	650,900	147,008
Taxes Collected	952,272	2,808,611	5,082,006	1,179,548
Less: Sheriff's Commissions*	40,472	102,110	152,460	50,131
Taxes Due Districts	911,800	2,706,501	4,929,546	1,129,417
Taxes Paid	908,878	2,698,384	4,914,196	1,125,978
Refunds (Current and Prior Year)	2,922	8,117	15,349	3,440
Taxes Due Districts (Refund Due Sheriff)	\$ 0	\$ 0	\$ 1	\$ (1)

\* Commissions:

4.25% on	\$ 3,620,932
4% on	\$ 854,273
3% on	\$ 5,082,006
1% on	\$ 465,226

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



LINCOLN COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2022

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 former Lincoln County Sheriff maintained deposits of public funds with federally insured banking institutions as required by 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.

LINCOLN COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2022  
 (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 former sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of the *DLG County Budget Preparation and State Local Finance Officer Policy Manual*. As of December 31, 2022, the former sheriff's bank balance was exposed to custodial credit risk because the bank did not adequately collateralize the sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured                      \$820,934

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 September 21, 2022 through December 31, 2022.

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 April 19, 2022 through December 31, 2022.

Note 4. Interest Income

The former Lincoln County Sheriff earned \$66 as interest income on 2022 taxes. The former sheriff was in substantial compliance with his statutory responsibilities.

Note 5. Escrow Account

The former sheriff deposited nonrefundable payments in an interest-bearing escrow account. When statutorily required, the sheriff's office will turn over the escrowed funds to the Kentucky State Treasurer as unclaimed property as follows:

2019	\$376
2020	\$15,576

Note 6. Deficit Schedule

The former sheriff had a deficit balance of \$6,292, as outlined in the Schedule of Excess Liabilities Over Assets, due to missing funds that were reported by the former sheriff on October 28, 2022.

LINCOLN COUNTY  
CURT FOLGER, FORMER SHERIFF  
SCHEDULED OF EXCESS LIABILITIES OVER ASSETS

For The Period September 1, 2022 Through December 31, 2022

Assets

Reconciled Cash Balance	\$	<u>42</u>
Total Assets		<u>42</u>

Liabilities

Unpaid Obligations -		
Tax Commissions Due Sheriff's Fee Account	\$	<u>6,334</u>
Total Unpaid Obligations		<u>6,334</u>
Total Fund Balance as December 31, 2022	\$	<u>(6,292)</u>

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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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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 Curt Folger, Former Lincoln County Sheriff  
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 former Lincoln County Sheriff's Settlement - 2022 Taxes for the period September 1, 2022 through December 31, 2022 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated November 16, 2023. The former 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 former 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 former Lincoln County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the former 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 over financial reporting 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 certain deficiencies in internal control that we consider to be material weaknesses.

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 deficiencies described in the accompanying Schedule of Findings and Responses as items 2022-001 and 2022-002 to be material weaknesses.



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 former 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

November 16, 2023



## SCHEDULE OF FINDINGS AND RESPONSES

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LINCOLN COUNTY  
CURT FOLGER, FORMER SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES

For The Period September 1, 2022 Through December 31, 2022

INTERNAL CONTROL – MATERIAL WEAKNESSES:

2022-001 The Former Lincoln County Sheriff's Office Lacked Adequate Segregation Of Duties Over Receipts, Disbursements, And Reconciliations

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This is a repeat finding and was included in the prior year's audit report as finding 2021-001. The former Lincoln County Sheriff's office lacked adequate segregation of duties over receipts, disbursements, and reconciliations. This condition primarily exists because the former sheriff's bookkeeper opened mail, collected payments from customers, prepared deposits, wrote and signed checks, prepared monthly reports, and prepared bank reconciliations. The former sheriff had implemented some compensating controls however these controls were not always documented with proper supporting documentation.

According to the sheriff's office, there was a limited number of employees that prevented 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. 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 Lincoln County Sheriff's office separate duties involved 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 should be implemented and documented by the individual performing the review procedure.

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

2022-002 The Former Lincoln County Sheriff's Office Did Not Follow Internal Control Procedures Related To The Safeguarding Of Assets

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The former sheriff did not follow internal control procedures related to the safeguarding of assets with regard to collections on October 28, 2022. Per the former sheriff's procedures, each employee has his or her own drawer and is responsible for closing and balancing his or her own drawer at the end of the day. According to the former sheriff, on October 28, 2022, an employee had a family emergency and left work without balancing and closing out his or her drawer. Another employee was called in to fill that position and took over the first employee's drawer. The drawer was not properly closed out prior to another employee taking over; however, the cash collected by the first employee was removed from the drawer by the second employee and put in an envelope, then placed in the unlocked safe. When the drawer was closed out at the end of the day they discovered that the envelope holding the cash was missing. The close-out report when balanced to the drawer showed it was short \$6,334. The former sheriff contacted the Kentucky State Police (KSP) and the investigation is ongoing.

The former sheriff did not properly follow established internal control procedures. Funds were maintained in an unsecured location, a drawer was not properly closed out, and two employees utilized the same drawer. The former sheriff had funds totaling \$6,334 go missing on October 28, 2022 and was unable to pay all commissions due to the fee account per the October tax collection report. A claim was filed with the bond company by the former sheriff's office to recoup the funds pending the conclusion of the KSP investigation.

LINCOLN COUNTY  
CURT FOLGER, FORMER SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Period September 1, 2022 Through December 31, 2022  
(Continued)

INTERNAL CONTROL – MATERIAL WEAKNESSES: (Continued)

2022-002 The Former Lincoln County Sheriff’s Office Did Not Follow Internal Control Procedures Related  
To The Safeguarding Of Assets (Continued)

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Maintaining functioning internal controls and oversight over tax collections and financial reporting is essential for providing protection from asset misappropriation, theft, and inaccurate financial reporting. Good internal controls further ensure proper laws and regulations are followed.

KRS 134.192(7) states, “[o]n the final settlement, the sheriff shall pay to the county treasurer all money that remains in his or her hands attributable to amounts charged against the sheriff relating to the collection of property taxes, and shall take receipts as provided in KRS 134.160. The sheriff shall pay any additional amounts charged against him or her as a result of the settlements.”

We recommend the former sheriff continue to work with their bonding company to recoup the funds. Additionally, we recommend fully closing out drawers between staff changes and ensuring the safe is always locked to limit access.

*Former Sheriff’s Response: The former sheriff did not provide a response.*