

**REPORT OF THE AUDIT OF THE
FULTON COUNTY
SHERIFF'S SETTLEMENT - 2020 TAXES**

**For The Period
May 16, 2020 Through April 15, 2021**



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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
The Honorable Andy Beshear, Governor
Holly M. Johnson, Secretary
Finance and Administration Cabinet
The Honorable Jim Martin, Fulton County Judge/Executive
The Honorable Derek Goodson, Fulton County Sheriff
Members of the Fulton County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the Fulton County Sheriff's Settlement - 2020 Taxes for the period May 16, 2020 through April 15, 2021 - Regulatory Basis, 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 as described in Note 1. 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 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 Sheriff's Tax Settlements*, 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.



To the People of Kentucky
The Honorable Andy Beshear, Governor
Holly M. Johnson, Secretary
Finance and Administration Cabinet
The Honorable Jim Martin, Fulton County Judge/Executive
The Honorable Derek Goodson, Fulton County Sheriff
Members of the Fulton 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 Fulton 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, 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 taxes charged, credited, and paid of the Fulton County Sheriff, for the period May 16, 2020 through April 15, 2021.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the taxes charged, credited, and paid for the period May 16, 2020 through April 15, 2021 of the Fulton County Sheriff, 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 September 23, 2021, on our consideration of the Fulton 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 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 Fulton County Sheriff's internal control over financial reporting and compliance.

To the People of Kentucky
The Honorable Andy Beshear, Governor
Holly M. Johnson, Secretary
Finance and Administration Cabinet
The Honorable Jim Martin, Fulton County Judge/Executive
The Honorable Derek Goodson, Fulton County Sheriff
Members of the Fulton County Fiscal Court

Other Reporting Required by *Government Auditing Standards* (Continued)

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:

- 2020-001 The Fulton County Sheriff Failed To Distribute All Tax Collections By The Tenth Day Of The Month As Required By Statute
- 2020-002 The Fulton County Sheriff's Office Does Not Have Adequate Segregation Of Duties With Inadequate Compensating Controls

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal line extending to the right.

Mike Harmon
Auditor of Public Accounts

September 23, 2021

FULTON COUNTY
DEREK GOODSON, SHERIFF
SHERIFF'S SETTLEMENT - 2020 TAXES

For The Period May 16, 2020 Through April 15, 2021

	County	Special Taxing Districts	School Taxing Districts	State
<u>Charges</u>				
Real Estate	\$ 276,397	\$ 492,903	\$ 1,248,077	\$ 247,432
Tangible	58,642	91,222	273,770	215,600
Total Per Sheriff's Official Receipt	335,039	584,125	1,521,847	463,032
<u>Other Taxes & Charges</u>				
Court Ordered Increases				193
Franchise Taxes	65,121	102,477	312,564	
Additional Billings				27
Bank Franchises	63,584			
Penalties	1,116	1,923	5,163	1,045
Gross Chargeable to Sheriff	464,860	688,525	1,839,574	464,297
<u>Credits</u>				
Exonerations	354	864	1,365	511
Discounts	6,927	9,757	26,227	7,789
Delinquent Real Estate	5,022	8,472	24,103	4,505
Delinquent Tangible	218	330	1,211	738
Total Credits	12,521	19,423	52,906	13,543
Taxes Collected	452,339	669,102	1,786,668	450,754
Less: Sheriff's Commissions*	19,224	28,437	62,533	19,157
Taxes Due Districts	433,115	640,665	1,724,135	431,597
Taxes Paid	432,947	640,387	1,723,499	431,382
Refunds (Current and Prior Year)	242	403	950	214
Taxes Due Districts (Refund Due Sheriff)	\$ (74)	\$ (125)	\$ (314)	\$ 1
		**	***	

*, **, and *** See next page.

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

FULTON COUNTY
 DEREK GOODSON, SHERIFF
 SHERIFF'S SETTLEMENT - 2020 TAXES
 For The Period May 16, 2020 Through April 15, 2021
 (Continued)

* Commissions:

4.25% on \$ 1,572,195

3.5% on \$ 1,786,668

** Special Taxing Districts:

Library District \$ (46)

Health District (22)

Extension District (32)

Soil District (15)

Mental Health District (10)

(Refunds Due Sheriff) \$ (125)

*** School Taxing Districts

Common School District \$ (271)

Independent School District (43)

(Refunds Due Sheriff) \$ (314)

FULTON COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2021

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 Fulton 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.

FULTON COUNTY
NOTES TO FINANCIAL STATEMENT
April 15, 2021
(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 Fulton 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 April 15, 2021, 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, 2020. Property taxes were billed to finance governmental services for the fiscal year ending June 30, 2021. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 28, 2020 through April 15, 2021.

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 May 16, 2020 through April 15, 2021.

Note 4. Interest Income

The Fulton County Sheriff earned \$828 as interest income on 2020 taxes. The sheriff was in substantial compliance with his statutory responsibilities.

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

The Fulton County Sheriff collected \$7,235 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 unrefundable payments in an account. The sheriff's escrowed beginning balance was \$453. The sheriff received \$0 and disbursed \$0 resulting in a total ending balance as of April 15, 2021 of \$453. The ending balance consists of escrowed of:

2016 \$453

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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 Martin, Fulton County Judge/Executive
The Honorable Derek Goodson, Fulton County Sheriff
Members of the Fulton 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 Fulton County Sheriff's Settlement - 2020 Taxes for the period May 16, 2020 through April 15, 2021 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated September 23, 2021. The Fulton 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 Fulton 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 Fulton County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fulton 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 and another deficiency that we consider to be a significant deficiency.

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 2020-001 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)

Internal Control Over Financial Reporting (Continued)

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. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2020-002 to be a significant deficiency.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Fulton 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 an instance of noncompliance or another matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2020-001.

Views of Responsible Official and Planned Corrective Action

The Fulton County Sheriff's views and planned corrective action for the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Fulton County Sheriff's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

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

September 23, 2021

SCHEDULE OF FINDINGS AND RESPONSES

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FULTON COUNTY
DEREK GOODSON, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Period May 16, 2020 Through April 15, 2021

FINANCIAL STATEMENT FINDINGS:

2020-001 The Fulton County Sheriff Failed To Distribute All Tax Collections By The Tenth Day Of The Month As Required By Statute

The Fulton County Sheriff failed to distribute all tax collections by the tenth day of the month as required by statute. Franchise taxes totaling \$239,054 were collected in July 2020, however these collections were not distributed to the districts until September 2020. Additionally, \$84,603 of property taxes collected in February, March, and April 2021 were not distributed to the districts until July 2021. Because tax collections were not properly distributed to the districts by the tenth day of each month, tax collections were vulnerable to misappropriation and loss. Furthermore, the taxing districts were denied funds that they rely on to provide services to Fulton County. Additionally, the sheriff is not in compliance with KRS 134.191.

Strong internal controls dictate that tax collections be distributed to the taxing districts on a timely basis to help prevent misappropriation and loss. Likewise, KRS 134.191(1) states, “[t]he sheriff shall provide monthly reports by the tenth day of each month to the chief executive of the county, the department, and any other district for which the sheriff collects taxes[.]” KRS 134.191(3) states, “[a]t the time of making the report, the sheriff shall pay to the county treasurer or other office designated by the governing body of a county, to the department, and to any other district for which the sheriff collects taxes, all funds belonging to the county, the state, or the district that were collected during the period covered by the report.”

Furthermore, KRS 134.191(4) states, “[a]ny sheriff failing to pay over taxes collected as required by law shall be subject to a penalty of one percent (1%) for each thirty (30) day period or fraction thereof that the payment is not made, plus interest at the tax interest rate provided in KRS 131.183 on such amounts. The governing body of a county, the department, or the other district for which the sheriff collects taxes, in its settlement with the sheriff, shall charge him or her with such penalties and interest.”

According to staff of the sheriff’s office, the franchise tax collections were not distributed timely because the office was frequently closed due to COVID-19. Also, according to staff of the sheriff’s office, checks for property tax distributions for the months of February, March, and April were printed and locked in the safe. Due to an oversight, these checks were not mailed to the districts until July. We recommend the Fulton County Sheriff strengthen internal controls over tax distributions to ensure all tax collections are properly distributed to the taxing districts by the tenth day of each month. We also recommend the sheriff obtain signed receipts from the taxing districts upon payment.

Sheriff’s Response: This Franchise bill was collected the last of July 2020 but was not disbursed until September 2020. During the month of August, the bookkeeper, due to covid, was working at the courthouse several days. In fact, the Sheriff’s Office was only open 8 days the entire month of August. Due to covid and us not being in the office, this a small over look. Since covid rules and regulations have relaxed, the bookkeeper is able to be in the office therefore this issue should not happen in the future. All tax collected should be distributed by the 10th of the following month.

FULTON COUNTY
DEREK GOODSON, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Period May 16, 2020 Through April 15, 2021
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2020-002 The Fulton County Sheriff's Office Does Not Have Adequate Segregation Of Duties With Inadequate Compensating Controls

The Fulton County Sheriff's office does not have adequate segregation of duties over the accounting and reporting of tax collections. The bookkeeper's primary responsibilities include collecting taxes, preparing daily deposits, processing monthly tax reports, preparing and signing checks, performing monthly bank reconciliations, and preparing the annual tax settlement. To offset this control deficiency, the sheriff has implemented compensating controls such as reviewing deposits, reviewing and signing monthly reports, reviewing monthly bank reconciliations, and requiring dual signatures on checks. However these compensating controls were not sufficient in offsetting the risks caused by the lack of segregation of duties which resulted in the sheriff not distributing tax payments timely as noted in finding 2020-001.

A lack of segregation of incompatible duties or strong oversight could result in the misappropriation of assets and inaccurate financial reporting to external agencies such as the Fulton County Fiscal Court. Without proper segregation of duties or effective compensating controls, such misappropriation or inaccurate financial reporting could go undetected. Proper segregation of duties over the receipts and disbursements functions or implementation of compensating controls, when necessary because of a limited number of staff, 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.

According to the sheriff, he is unable to segregate duties due to a limited staff and performs reviews of the bookkeepers work. We recommend the sheriff segregate duties to the extent possible. If proper segregation of duties is not possible, we recommend the sheriff continue to implement and further document compensating controls.

Sheriff's Response: Segregation of duties is a very hard thing to accomplish in an office as small as our office. We do have several different people that collect money during the day. At the end of the day the bookkeeper creates a deposit. A different person will take this deposit to the bank, then a separate person will approve the deposits. We feel as if this is the best segregation of duties we can do as a small office. There are initials on the bottom of each deposit and we will make sure in the future that is signed by the person creating the deposit, the person taking the deposit to the bank and the person approving the deposit each day.