REPORT OF THE AUDIT OF THE FULTON COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2016



MIKE HARMON AUDITOR OF PUBLIC ACCOUNTS

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EXECUTIVE SUMMARY

AUDIT OF THE FULTON COUNTY FISCAL COURT

June 30, 2016

The Auditor of Public Accounts has completed the audit of the Fulton County Fiscal Court for fiscal year ended June 30, 2016.

We have issued an unmodified opinion, based on our audit, on the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Fulton County Fiscal Court.

Financial Condition:

The Fulton County Fiscal Court had total receipts of \$8,392,952 and disbursements of \$10,885,552 in fiscal year 2016. This resulted in a total ending balance of \$849,646, which is a decrease of \$1,829,548 from the prior year.

Findings:

2016-001	The Fulton County Fiscal Court Lacks Segregation Of Duties Over Accounting Functions And Financial Reporting
2016-002	The Fulton County Fiscal Court Has Material Weaknesses Over Cash And Financial Reporting
2016-003	Material Weaknesses Exist Over The Reporting Of Liabilities And Debt
2016-004	The Fulton County Fiscal Court Has Material Weaknesses And Noncompliances Over Payroll
2016-005	Weak Internal Controls Resulted In A Material Misstatement On The County's Schedule Of Capital
	Assets
2016-006	The Fulton County Fiscal Court Lacks Internal Controls Over The Bid Process
2016-007	The Fulton County Fiscal Court Did Not Have Adequate Controls Over Disbursements, Especially
	In The Jail Fund
2016-008	The Fulton County Detention Center Lacks Adequate Segregation of Duties Over The Jail
	Commissary Fund
2016-009	The Fulton County Detention Center Has Internal Control Weaknesses Over Disbursements Of The
	Jail Commissary Fund
2016-010	Long-term Financial Obligations Were Not In Compliance With KRS 65.117
2016-011	The Fulton County Fiscal Court's Fourth Quarter Financial Report Failed To Meet The
	Requirements Of KRS 68.360
2016-012	The Fulton County Fiscal Court Failed To Budget Transactions Associated With Borrowed Monies
2016-013	The Fulton County Detention Center Failed To Batch Receipts Daily

Deposits:

The fiscal court deposits were insured and collateralized by bank securities.



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MIKE HARMON AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
The Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
The Honorable Jim Martin, Fulton County Judge/Executive
Members of the Fulton County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Fulton County Fiscal Court, for the year ended June 30, 2016, and the related notes to the financial statement which collectively comprise the Fulton County Fiscal Court's financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. This includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. 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 this 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 Fiscal Court Audits* 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.



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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 Fiscal Court on the basis of the accounting practices prescribed or permitted by the Department for Local Government 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.

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 the Fulton County Fiscal Court as of June 30, 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 fund balances of the Fulton County Fiscal Court as of June 30, 2016, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of the Fulton County Fiscal Court. The Budgetary Comparison Schedules and Capital Asset Schedule are presented for purposes of additional analysis and are not a required part of the financial statement; however, they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws.

The accompanying Budgetary Comparison Schedules and Capital Asset Schedule are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statement. Such 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 Budgetary Comparison Schedules and Capital Asset Schedule are fairly stated in all material respects in relation to the financial statement as a whole.

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Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2019, on our consideration of the Fulton County Fiscal Court'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 Fiscal Court's internal control over financial reporting and compliance.

Based on the results of our audit, we present the accompanying Schedule of Findings and Responses included herein, which discusses the following report findings:

2016-001	The Fulton County Fiscal Court Lacks Segregation Of Duties Over Accounting Functions And
	Financial Reporting
2016-002	The Fulton County Fiscal Court Has Material Weaknesses Over Cash And Financial Reporting
2016-003	Material Weaknesses Exist Over The Reporting Of Liabilities And Debt
2016-004	The Fulton County Fiscal Court Has Material Weaknesses And Noncompliances Over Payroll
2016-005	Weak Internal Controls Resulted In A Material Misstatement On The County's Schedule Of Capital
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	Requirements Of KRS 68.360
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2016-013	The Fulton County Detention Center Failed To Batch Receipts Daily

Respectfully submitted,

Mike Harmon

Auditor of Public Accounts

FULTON COUNTY OFFICIALS

For The Year Ended June 30, 2016

Fiscal Court Members:

Jim Martin County Judge/Executive

James Black Magistrate
Henry Callison Magistrate
George Jones Magistrate
Billy Nelms Magistrate

Other Elected Officials:

Richard Major, Jr. County Attorney

Ricky Parnell Jailer

Betty Abernathy County Clerk

Sarah Johnson Circuit Court Clerk

Robert Hopper Sheriff

Pete Morgan Property Valuation Administrator

James Moss Coroner

Appointed Personnel:

Fonda Swain County Treasurer

(July 1, 2015 through May 29, 2016)

Leslie Woods County Treasurer

(May 29, 2016 through June 30, 2016)

Leslie Woods Finance Officer

(July 1, 2015 through May 29, 2016)

Carol Parker Finance Officer

(May 29, 2016 through June 30, 2016)

FULTON COUNTY STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - REGULATORY BASIS

For The Year Ended June 30, 2016

FULTON COUNTY STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - REGULATORY BASIS

For The Year Ended June 30, 2016

	Budgeted Funds							
		General Fund	Road Fund		Jail Fund		Gove Eco Assi	ocal ernment nomic istance und
RECEIPTS								
Taxes	\$	757,135	\$		\$		\$	
In Lieu Tax Payments		31,939						
Excess Fees		1,133						
Licenses and Permits		4,887						
Intergovernmental		453,713		875,482		5,631,361		
Charges for Services		10				205,537		
Miscellaneous		19,195		10,260		260,652		
Interest		14,039		3,020		2,057		
Total Receipts		1,282,051		888,762		6,099,607		
DISBURSEMENTS								
General Government		864,108						
Protection to Persons and Property		3,753				4,412,032		
General Health and Sanitation		3,733		3,600		4,412,032		
Social Services		2,750		3,000				
Recreation and Culture		2,730						
Airports		3,000						
Roads		3,000		944,431				
Other Transportation Facilities and Services				60,303				
Debt Service				15,880		605,026		
Capital Projects		161,713		2,675		2,226,267		
Administration		352,501		102,745		1,012,720		
Total Disbursements		1,387,825		1,129,634		8,256,045		
		1,367,623		1,129,034		8,230,043		
Excess (Deficiency) of Receipts Over								
Disbursements Before Other								
Adjustments to Cash (Uses)		(105,774)		(240,872)		(2,156,438)		
Other Adjustments to Cash (Uses)								
Financing Obligation Proceeds				248,052		415,000		
Transfers From Other Funds		95,210		84,854		15,210		
Transfers To Other Funds		(95,210)		(80,000)		(15,210)		
Total Other Adjustments to Cash (Uses)				252,906		415,000		
Net Change in Fund Balance		(105,774)		12,034		(1,741,438)		
Fund Balance - Beginning (Restated)		573,672		56,345		2,030,494		
Fund Balance - Ending	\$	467,898	\$	68,379	\$	289,056	\$	0
-		•				·		
Composition of Fund Balance								
Bank Balance	\$	469,953	\$	70,424	\$	289,816	\$	
Less: Outstanding Checks		(2,055)		(2,045)		(760)		
Fund Balance - Ending	\$	467,898	\$	68,379	\$	289,056	\$	0

FULTON COUNTY STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - REGULATORY BASIS For The Year Ended June 30, 2016 (Continued)

	Budgete	d Fund	ds	Unbud	lgeted Fund		
G	ederal Frants	Em Se	ergency ervices		Jail nmissary Fund		Total Funds
\$		\$		\$		\$	757,135
							31,939
							1,133
							4,887
	4,854		16,642				6,982,052
							205,547
					101,036		391,143
-	4.05.4		16610		101.006		19,116
	4,854		16,642	-	101,036		8,392,952
							864,108
			13,601				4,429,386
							3,600
							2,750
					98,447		98,447
							3,000
							944,431
							60,303
							620,906
							2,390,655
-			12 (01		00.447		1,467,966
			13,601		98,447		10,885,552
	4,854		3,041		2,589		(2,492,600)
							663,052
							195,274
	(4,854)						(195,274)
-	(4,854)			·			663,052
	(1,034)		2.041		2.500		
	2		3,041		2,589		(1,829,548)
\$	2 2	\$	9,131 12,172	\$	9,550	\$	2,679,194 849,646
Ψ		Ψ	12,1/2	Ψ	12,137	Ψ	077,040
\$	2	\$	12,172	\$	12,339	\$	854,706
Ψ 		Ψ	12,1/2	Ψ	(200)	Ψ	(5,060)
\$	2	\$	12,172	\$	12,139	\$	849,646

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FULTON COUNTY NOTES TO FINANCIAL STATEMENT

June 30, 2016

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statement of Fulton County includes all budgeted and unbudgeted funds under the control of the Fulton County Fiscal Court. Budgeted funds included within the reporting entity are those funds presented in the county's approved annual budget and reported on the quarterly reports submitted to the Department for Local Government. Unbudgeted funds may include non-fiduciary financial activities, private purpose trust funds, and internal service funds that are within the county's control. Unbudgeted funds may also include any corporation to act as the fiscal court in the acquisition and financing of any public project which may be undertaken by the fiscal court pursuant to the provisions of Kentucky law and thus accomplish a public purpose of the fiscal court. The unbudgeted funds are not presented in the annual approved budget or in the quarterly reports submitted to the Department for Local Government.

B. Basis of Accounting

The financial statement is presented on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. This basis of accounting involves the reporting of fund balances and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) to meet the financial reporting requirements of the Department for Local Government and the laws of the Commonwealth of Kentucky.

This regulatory basis of accounting differs from GAAP primarily because the financial statement format does not include the GAAP presentations of government-wide and fund financial statements, cash receipts are recognized when received in cash rather than when earned and susceptible to accrual, and cash disbursements are recognized when paid rather than when incurred or subject to accrual.

Generally, except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary sources of receipts for this fund are state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (Continued)

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of receipts for this fund are reimbursements from the state and federal governments, payments from other counties for housing prisoners, and transfers from the general fund. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

Local Government Economic Assistance Fund - The primary purpose of this fund is to account for grant disbursements. The primary sources of receipts for this fund are grants from the state and federal governments.

Federal Grants Fund - The purpose of the community development block grant (CDBG) program is a flexible program that provides communities with resources to address a wide range of unique community development needs.

Disaster and Emergency Services Fund - The primary purpose of this fund is to account for emergency management expenses of the county. The primary source of receipts for this fund is state government.

Unbudgeted Fund

The fiscal court reports the following unbudgeted fund:

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135. The profits generated from the sale of items are to be used for the benefit and to enhance the well-being of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the jail commissary fund.

D. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board and according to the laws of Kentucky as required by the state local finance officer.

The county judge/executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the state local finance officer. Disbursements may not exceed budgeted appropriations at the activity level.

The state local finance officer does not require the jail commissary fund to be budgeted because the fiscal court does not approve the expenses of this fund.

Note 1. Summary of Significant Accounting Policies (Continued)

E. Fulton County Elected Officials

Kentucky law provides for election of the officials listed below from the geographic area constituting Fulton County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the Board of Education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statement of the Fulton County Fiscal Court.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

F. Deposits and Investments

The government's fund balance is considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition. The government's fund balance includes cash and cash equivalents and investments.

KRS 66.480 authorizes the county 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).

G. Long-term Obligations

The fund financial statement recognizes bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as disbursements. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as disbursements. Debt proceeds are reported as other adjustments to cash.

Note 2. Deposits

The fiscal court 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 fiscal court 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.

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government 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 June 30, 2016, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2016.

	(General	Road	Jail	F	ederal		Total
		Fund	Fund	Fund	Grai	nts Fund	Tra	ınsfers In
General Fund	\$		\$ 80,000	\$ 15,210	\$		\$	95,210
Road Fund		80,000				4,854		84,854
Jail Fund		15,210						15,210
					,			
Total Transfers Out	\$	95,210	\$ 80,000	\$ 15,210	\$	4,854	\$	195,274

Reason for transfers:

To move resources from and to the general fund and other funds, for budgetary purposes, to the funds that will expend them.

Note 4. Agency Trust Funds

Agency trust funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments.

The fiscal court has the following agency trust funds:

Jail Inmate Fund - This fund accounts for funds received from the inmates. The balance in the jail inmate fund as of June 30, 2016, was \$36,170.

Jail Escrow Fund - This fund accounts for funds of former inmates that the jailer is unable to locate. The balance in the jail inmate fund as of June 30, 2016, was \$3,852.

Note 5. Long-term Debt

A. Financing Obligation - John Deere Grader

On October 14, 2011, Fulton County entered into a lease agreement for the use of a grader. The terms of the lease agreement consisted of 48 monthly payments of \$1,552 beginning October 2011 and ending November 2015, at which time the county had the option of returning the grader or making a onetime purchase payment for the asset. At the end of the lease agreement, the county had fulfilled the terms of the agreement and returned the asset.

Note 5. Long-term Debt (Continued)

B. Financing Obligation - Fulton County Detention Facility Annex #3

Fulton County entered into a refinancing agreement with a third party. The purpose of the financing agreement was for the refinancing of the Fulton County Detention Facility Annex #1 and Annex #2 and construction of Annex #3. The financing agreement, entered into on June 24, 2015, was for a total principal amount of \$3,300,000 at a variable rate of the Libor rate plus 2.15 percent. As of June 30, 2016, the county was in compliance with the financing agreements. Total principal outstanding was \$2,979,358. The remaining principal and interest requirements are:

Fiscal Year Ending June 30	Principal		S	Scheduled Interest	
					
2017	\$	165,000	\$	134,290	
2018		165,000		126,352	
2019		165,000		118,740	
2020		165,000		111,428	
2021		165,000		103,516	
2022-2026		825,000		403,618	
2027-2031		825,000		213,237	
2032-2035		504,358		36,604	
Totals	\$	2,979,358	\$	1,247,785	

C. Financing Obligation - Fulton County Detention Facility HVAC Systems

Fulton County entered into a lease agreement with a third party for the purpose of financing HVAC packages for the Fulton County Detention Facility. The financing agreement, entered into on October 2, 2012, was for a total principal of \$102,209 at a fixed rate of 4.15 percent. As of June 30, 2016, the county was in compliance with the financing agreement. Total principal outstanding was \$27,545. The remaining principal and interest requirements are:

Fiscal Year Ending June 30	P	rincipal	Scheduled Interest		
2017 2018	\$	21,917 5,628	\$	756 40	
Totals	\$	27,545	\$	796	

D. Financing Obligation - Fulton County Detention Facility HVAC Systems

Fulton County assumed a lease agreement that was entered into by the Fulton County Jail Commissary with a third party. The purpose of the financing agreement was for the financing of HVAC packages. The financing agreement, entered into on January 2, 2013, was for a total principal of \$109,000 at a fixed rate of 5.67 percent. The amount assumed by the fiscal court was \$102,101. As of June 30, 2016, the county was in compliance with the financing agreement. Total principal outstanding was \$59,724. The remaining principal and interest requirements are:

Note 5. Long-term Debt (Continued)

D. Financing Obligation - Fulton County Detention Facility HVAC Systems (Continued)

Fiscal Year Ending June 30	P	rincipal	Scheduled Interest		
2017 2018 2019 2020	\$	15,845 16,792 17,795 9,292	\$	3,055 2,109 1,106 158	
Totals	\$	59,724	\$	6,428	

E. Financing Obligation - Fulton County Detention Facility HVAC Systems

Fulton County entered into a lease agreement with a third party for the purpose of financing HVAC packages for the Fulton County Detention Facility. The financing agreement, entered into on December 2, 2015, was for a total principal of \$415,000. As of June 30, 2016, the county was in compliance with the financing agreement. Total principal outstanding was \$378,279. The remaining principal and interest requirements are:

Fiscal Year Ending June 30	F	Principal	Scheduled Interest			
2017		76 122	\$	10 270		
2017	\$	76,432	Э	18,278		
2018		80,599		14,111		
2019		84,993		9,717		
2020		89,626		5,084		
2021		46,629		726		
	·					
Totals	\$	378,279	\$	47,916		

F. Financing Obligation - Fulton County Detention Facility Kitchen Equipment

Fulton County entered into a lease agreement with a third party. The purpose of the financing agreement was for the financing of the Fulton County Detention Facility kitchen equipment. The financing agreement, entered into on October 20, 2013, was for a total principal of \$10,245 at a fixed rate of 3.75 percent. As of June 30, 2016, the county was in compliance with the financing agreement. Total principal outstanding was \$2,006. The remaining principal and interest requirements are:

Fiscal Year Ending June 30	P1	rincipal	eduled terest
2017	\$	2,006	\$ 118
Totals	\$	2,006	\$ 118

Note 5. Long-term Debt (Continued)

G. Financing Obligation - Chevrolet Traverse

Fulton County entered into a financing agreement with a third party for the purchase of a 2015 Chevrolet Traverse for the sheriff's office. The financing agreement, entered into on January 14, 2015, was for a total principal of \$26,349 at a fixed rate of 3.75 percent. Both principal and interest are due monthly for five years. As of June 30, 2016, the county was in compliance with the financing agreement. Total principal outstanding was \$19,378. The remaining principal and interest requirements are:

Fiscal Year Ending	D	ata ata at		neduled
June 30	_ <u> </u>	rincipal	II	nterest
2017	\$	5,149	\$	639
2018	Ψ	5,345	Ψ	443
2019		5,550		239
2020		3,334		42
Totals	\$	19,378	\$	1,363

H. Financing Obligation - Ford Expedition

Fulton County entered into a financing agreement with a third party for the purchase of a 2014 Ford Expedition. The financing agreement, entered into on January 8, 2014, was for a total principal of \$52,000 at a fixed rate of 4.9 percent. Both principal and interest are due quarterly for five years. As of June 30, 2016, the county was in compliance with the financing agreement. Total principal outstanding was \$27,607. The remaining principal and interest requirements are:

Fiscal Year Ending June 30	ng Principal			Scheduled Interest		
2017 2018 2019	\$	10,597 11,186 5,824	\$	1,290 701 119		
Totals	\$	27,607	\$	2,110		

I. Financing Obligation - Kubota ATV

Fulton County entered into a financing agreement with a third party for the purchase of an ATV. The financing agreement, entered into on October 21, 2013, was for total payments of \$22,631. Payments are due monthly for five years. As of June 30, 2016, the county was in compliance with the financing agreement. The total of outstanding payments was \$8,865. The remaining payment requirements are:

Note 5. Long-term Debt (Continued)

I. Financing Obligation - Kubota RTV (Continued)

Fiscal Year Ending June 30	Pa	yments
2017 2018 2019	\$	2,721 4,149 1,995
Totals	\$	8,865

J. Financing Obligation - Kubota Zero-Turn Mowers

Fulton County entered into a financing agreement with a third party for the purchase of ten, zero-turn mowers. The financing agreement, entered into on March 27, 2014, was for total payments of \$93,000. Payments are due monthly for four years. As of June 30, 2016, the county was in compliance with the financing agreement. The total of outstanding payments was \$46,080. The remaining payments are:

Fiscal Year Ending						
June 30	Pa	Payments				
2017	\$	24,378				
2018		21,702				
Totals	\$	46,080				

K. Financing Obligation - John Deere Grader

On November 12, 2015, Fulton County entered into a lease agreement for the use of a grader for a total principal of \$248,052. The terms of the agreement consist of 48 monthly payments of \$1,403 beginning November 2015 and ending December 2019, at which time the county has the option of returning the grader or making a onetime purchase payment totaling \$208,000. As of June 30, 2016, the county was in compliance with the lease agreement. Total principal outstanding was \$241,103. Future lease obligations are as follows:

Fiscal Year Ending June 30	_ <u>I</u>	Principal	Scheduled Interest			
2017 2018 2019 2020	\$	9,736 10,032 10,337 210,998	\$	7,100 6,804 6,499 2,616		
Totals	\$	241,103	\$	23,019		

Note 5. Long-term Debt (Continued)

L. Financing Obligation - Latex Printer

Fulton County entered into a financing agreement with a third party for the purchase of an HP Designjet 9000 64" Latex Printer for the jail commissary. The financing agreement, entered into on March 6, 2015, was for a total principal of \$18,995 at a fixed rate of 3.75 percent. Both principal and interest are due monthly for five years. As of June 30, 2016, the Fulton County Jail Commissary was in compliance with the terms of the agreement. Total principal outstanding was \$15,254. The remaining principal and interest requirements are:

Fiscal Year Ending		Scl	heduled	
June 30	P	rincipal	I1	nterest
2017	\$	3,424	\$	1,648
2018		3,859		1,213
2019		4,349		723
2020		3,622		183
Totals	\$	15,254	\$	3,767

M. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2016, was as follows:

	* Restated							
	Beginning					Ending	Dι	ue Within
	Balance	A	dditions	Re	eductions	Balance	O	ne Year
Financing Obligations	\$ 3,769,992	\$	663,052	\$	627,845	\$ 3,805,199	\$	337,205
Total Long-term Debt	\$ 3,769,992	\$	663,052	\$	627,845	\$ 3,805,199	\$	337,205

^{*} Financing Obligations were restated by \$181,116, due to errors in prior years.

Note 6. Employee Retirement System

Plan Description

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). This is a cost sharing, multiple employer defined benefit pension plan that covers all eligible regular full-time members employed in non-hazardous duty positions in the county. The Plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of the plan members under certain circumstances. Benefit contributions and provisions are established by statute.

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 the plan. The county's contribution rate for nonhazardous employees was 17.06 percent.

Note 6. Employee Retirement System (Continued)

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 account. Members contribute five percent (nonhazardous) of their annual creditable compensation and 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 (nonhazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

The county's contribution for FY 2014 was \$404,572, FY 2015 was \$417,926, and FY 2016 was \$406,734.

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.

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:

		% Paid by Member through
Years of Service	% paid by Insurance Fund	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 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 6. Employee Retirement System (Continued)

KRS also issues a proportionate share audit report that includes the total pension liability for CERS determined by actuarial valuation as well as each participating county's proportionate share. The Schedules of Employer Allocations and Pension Amounts by Employer report and the related actuarial tables are available online at https://kyret.ky.gov. The complete actuarial valuation report, including all actuarial assumptions and methods, is also available on the website or can be obtained as described in the paragraph above.

Note 7. Deferred Compensation

For the fiscal year ended June 30, 2016, the Fulton County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees, and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 8. Health Reimbursement Account/Flexible Spending Account

The September 26, 2013, the Fulton County Fiscal Court voted to establish a health reimbursement account to provide employees an additional health benefit. The county has contracted with a third-party administrator to administer the plan. The plan provides a debit card to each eligible employee, providing \$3,000 each year for employees who have single coverage and \$5,400 each year for employees who have a family plan. The balance of the plan is \$200,035.

Note 9. Insurance

For the fiscal year ended June 30, 2016, the Fulton County Fiscal Court was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 10. Subsequent Event

In October 2017, the Fulton County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Finance Corporation in the amount of \$1,720,000. The primary purpose of the lease was for the construction of a new kitchen facility at the Fulton County Detention Center.

Note 11. Prior Period Adjustments

The following adjustments were made to the beginning fund balances:

			Disa	aster and		Jail
	General	Jail	Em	ergency	Co	mmissary
	 Fund	Fund	Serv	ices Fund		Fund
Fund Balances - Beginning	\$ 568,093	\$ 2,030,426	\$	8,906	\$	10,043
Adjustments:						
Prior Year Voided Checks	5,579	68		225		992
Prior Year Deposits In Transit						(1,485)
Fund Balances - Beginning (Restated)	\$ 573,672	\$ 2,030,494	\$	9,131	\$	9,550

FULTON COUNTY BUDGETARY COMPARISON SCHEDULES Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2016



FULTON COUNTY BUDGETARY COMPARISON SCHEDULES Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2016

CE	NFR	ΛT	FUND

	Budgeted Amounts Original Final			Actual Amounts, (Budgetary Basis)		Variance with Final Budget Positive (Negative)		
RECEIPTS								
Taxes	\$	703,450	\$	703,450	\$	757,135	\$	53,685
In Lieu Tax Payments		53,500		53,500		31,939		(21,561)
Excess Fees		2,928		2,928		1,133		(1,795)
Licenses and Permits		5,500		5,500		4,887		(613)
Intergovernmental		252,000		589,223		453,713		(135,510)
Charges for Services		500		500		10		(490)
Miscellaneous		37,500		37,500		19,195		(18,305)
Interest		35,000		35,000		14,039		(20,961)
Total Receipts		1,090,378		1,427,601		1,282,051		(145,550)
DISBURSEMENTS								
General Government		819,736		1,050,857		864,108		186,749
		34,500				ŕ		
Protection to Persons and Property				34,500		3,753		30,747
General Health and Sanitation		63,100		63,100		2.750		63,100
Social Services		4,800		5,000		2,750		2,250
Airports		3,000		3,000		3,000		155 510
Capital Projects				337,223		161,713		175,510
Administration		715,242		483,921		352,501		131,420
Total Disbursements		1,640,378		1,977,601		1,387,825		589,776
Excess (Deficiency) of Receipts Over Disbursements Before Other								
Adjustments to Cash (Uses)		(550,000)		(550,000)		(105,774)		444,226
Other Adjustments to Cash (Uses) Transfers From Other Funds						95,210		95,210
Transfers To Other Funds						(95,210)		(95,210)
Total Other Adjustments to Cash (Uses)						(>0,210)	-	(>0,210)
Total Guier ragustnients to Cash (Gses)								
Net Change in Fund Balance		(550,000)		(550,000)		(105,774)		444,226
Fund Balance Beginning (Restated)		550,000		550,000		573,672		23,672
Fund Balance - Ending	\$	0	\$	0	\$	467,898	\$	467,898

	ROAD FUND								
	Budgeted Amounts Original Final			Actual Amounts, (Budgetary Basis)		Variance with Final Budget Positive (Negative)			
RECEIPTS		311ginui		111141		Dasis		(tegative)	
Intergovernmental	\$	971,801	\$	971,801	\$	875,482	\$	(96,319)	
Miscellaneous	-	23,500	_	23,500	-	10,260	-	(13,240)	
Interest		3,000		3,000		3,020		20	
Total Receipts		998,301		998,301		888,762		(109,539)	
DISBURSEMENTS									
General Health And Sanitation		7,200		7,200		3,600		3,600	
Transportation Facilities And Services		5,000		5,000		·		5,000	
Roads		692,950		795,298		944,431		(149,133)	
Other Transportation Facilities And Services		63,389		74,389		60,303		14,086	
Debt Service		20,000		20,000		15,880		4,120	
Capital Projects		5,000		5,000		2,675		2,325	
Administration		254,762		141,414		102,745		38,669	
Total Disbursements		1,048,301		1,048,301		1,129,634		(81,333)	
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		(50,000)		(50,000)		(240,872)		(190,872)	
Other Adjustments to Cash (Uses)									
Financing Obligation Proceeds						248,052		248,052	
Transfers From Other Funds						84,854		84,854	
Transfers To Other Funds						(80,000)		(80,000)	
Total Other Adjustments to Cash (Uses)						252,906		252,906	
Net Change in Fund Balance		(50,000)		(50,000)		12,034		62,034	
Fund Balance Beginning		50,000		50,000		56,345		6,345	
Fund Balance - Ending	\$	0	\$	0	\$	68,379	\$	68,379	

	JAIL FUND							
	Budgeted	Amounts	Actual Amounts, (Budgetary	Variance with Final Budget Positive				
	Original	Final	Basis)	(Negative)				
RECEIPTS								
Intergovernmental	\$ 5,430,968	\$ 5,430,968	\$ 5,631,361	\$ 200,393				
Charges for Services	258,369	258,369	205,537	(52,832)				
Miscellaneous	173,620	173,620	260,652	87,032				
Interest	4,500	4,500	2,057	(2,443)				
Total Receipts	5,867,457	5,867,457	6,099,607	232,150				
DISBURSEMENTS								
Protection to Persons and Property	4,304,781	4,487,814	4,412,032	75,782				
Debt Service	508,000	604,976	605,026	(50)				
Capital Projects	3,300,000	3,300,000	2,226,267	1,073,733				
Administration	1,304,676	1,024,667	1,012,720	11,947				
Total Disbursements	9,417,457	9,417,457	8,256,045	1,161,412				
Excess (Deficiency) of Receipts Over								
Disbursements Before Other								
Adjustments to Cash (Uses)	(3,550,000)	(3,550,000)	(2,156,438)	1,393,562				
Other Adjustments to Cash (Uses)								
Financing Obligation Proceeds			415,000	415,000				
Transfers From Other Funds			15,210	15,210				
Transfers To Other Funds			(15,210)	(15,210)				
Borrowed Money - Jail Construction	3,300,000	3,300,000		(3,300,000)				
Total Other Adjustments to Cash (Uses)	3,300,000	3,300,000	415,000	(2,885,000)				
Net Change in Fund Balance	(250,000)	(250,000)	(1,741,438)	(1,491,438)				
Fund Balance Beginning (Restated)	250,000	250,000	2,030,494	1,780,494				
Tana Balance Beginning (Restated)	250,000	250,000	2,030,774	1,700,774				
Fund Balance - Ending	\$ 0	\$ 0	\$ 289,056	\$ 289,056				

	LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND								
		Budgeted	l Amour	Actual Amounts, (Budgetary	Fina	Variance with Final Budget Positive			
	Or	iginal	F	inal	Basis)	(Ne	egative)		
RECEIPTS									
Intergovernmental	\$	500	\$	500	\$	_ \$	(500)		
Total Receipts		500		500			(500)		
DISBURSEMENTS									
Roads		500		500			500		
Total Disbursements		500		500			500		
Net Change in Fund Balance									
Fund Balance Beginning									
Fund Balance - Ending	\$	0	\$	0	\$ 0	\$	0_		

	FEDERAL GRANTS FUND								
		Budgeted Amounts Original Final			Actual Amounts, (Budgetary Basis)		Variance with Final Budget Positive (Negative)		
RECEIPTS		8						- · · · · · · · · · · · · · · · · · · ·	
Intergovernmental	\$	174,083	\$	174,083	\$	4,854	\$	(169,229)	
Total Receipts		174,083		174,083		4,854		(169,229)	
DISBURSEMENTS									
General Government		25,000		25,000				25,000	
Protection to Persons and Property		109,000		109,000				109,000	
Capital Projects		40,086		40,086				40,086	
Total Disbursements		174,086		174,086				174,086	
Excess (Deficiency) of Receipts Over									
Disbursements Before Other									
Adjustments to Cash (Uses)		(3)		(3)		4,854		4,857	
Other Adjustments to Cash (Uses)									
Transfers From Other Funds									
Transfers To Other Funds						(4,854)		(4,854)	
Total Other Adjustments to Cash (Uses)						(4,854)		(4,854)	
Net Change in Fund Balance		(3)		(3)				3	
Fund Balance Beginning		3		3		2		(1)	
Fund Balance - Ending	\$	0	\$	0_	\$	2	\$	2	

	DISASTER AND EMERGENCY SERVICES FUND								
	Budgeted Amounts Original Final				Actual Amounts, (Budgetary Basis)		Variance with Final Budget Positive (Negative)		
RECEIPTS									
Intergovernmental	\$	9,753	\$	9,753	\$	16,642	\$	6,889	
Miscellaneous		1,000		1,000				(1,000)	
Total Receipts		10,753		10,753		16,642		5,889	
DISBURSEMENTS									
Protection to Persons and Property		16,458		16,753		13,601		3,152	
Administration		295							
Total Disbursements		16,753		16,753		13,601		3,152	
Net Change in Fund Balance		(6,000)		(6,000)		3,041		9,041	
Fund Balance Beginning (Restated)		6,000		6,000		9,131		3,131	
Fund Balance - Ending	\$	0	\$	0	\$	12,172	\$	12,172	

FULTON COUNTY NOTES TO REGULATORY SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2016

Note 1. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board and according to the laws of Kentucky as required by the state local finance officer.

The county judge/executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the state local finance officer. Disbursements may not exceed budgeted appropriations at the activity level.

Note 2. Excess of Disbursements Over Appropriations

Road fund disbursements for roads exceeded budgeted appropriations by \$149,133 and the overall budget by \$81,333. Jail fund disbursements for debt service exceeded budgeted appropriations by \$50.



FULTON COUNTY SCHEDULE OF CAPITAL ASSETS Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2016



FULTON COUNTY SCHEDULE OF CAPITAL ASSETS Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2016

The fiscal court reports the following Schedule of Capital Assets:

		Beginning					Ending
	Balance		Additions		Deletions Balance		Balance
Land and Land Improvements	\$	83,354	\$		\$		\$ 83,354
Construction In Progress				3,272,026			3,272,026
Buildings		11,329,172		118,706			11,447,878
Vehicles and Equipment		3,443,651		464,577			3,908,228
Infrastructure		28,131,710		254,005			28,385,715
Total Capital Assets	\$	42,987,887	\$	4,109,314	\$	0	\$ 47,097,201

FULTON COUNTY NOTES TO REGULATORY SUPPLEMENTARY INFORMATION - SCHEDULE OF CAPITAL ASSETS

June 30, 2016

Note 1. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported as other information. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

	Capitalization Threshold		Useful Life (Years)	
			(100.5)	
Land Improvements	\$	2,500	15-30	
Buildings	\$	2,500	10-60	
Equipment	\$	2,500	3-25	
Vehicles	\$	2,500	3-15	
Infrastructure	\$	2,500	10-50	

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





MIKE HARMON AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jim Martin, Fulton County Judge/Executive 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 Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Fulton County Fiscal Court for the fiscal year ended June 30, 2016, and the related notes to the financial statement which collectively comprise the Fulton County Fiscal Court's financial statement and have issued our report thereon dated March 19, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Fulton County Fiscal Court'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 Fulton County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fulton County Fiscal Court'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 2016-001, 2016-002, 2016-003, 2016-004, 2016-005, 2016-006, 2016-007, 2016-008, 2016-009, and 2016-013 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)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Fulton County Fiscal Court'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2016-003, 2016-004, 2016-005, 2016-006, 2016-007, 2016-009, 2016-010, 2016-011, 2016-012, and 2016-013.

Views of Responsible Officials and Planned Corrective Action

Fulton County's views and planned corrective action for the findings identified in our audit are included in the accompanying Schedule of Findings and Responses. The county'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

March 19, 2019

FULTON COUNTY SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended June 30, 2016



FULTON COUNTY SCHEDULE OF FINDINGS AND RESPONSES

Fiscal Year Ended June 30, 2016

FINANCIAL STATEMENT FINDINGS:

2016-001 The Fulton County Fiscal Court Lacks Segregation Of Duties Over Accounting Functions And Financial Reporting

The Fulton County Fiscal Court lacks adequate segregation of duties over financial reporting including fund balances, debt and debt service, capital assets, and payroll. The Fulton County Treasurer was responsible for preparing financial reports including bank reconciliations, debt schedules, and capital asset schedules. The county treasurer is also responsible for performing the payroll function. While it may be customary for the county treasurer to perform these functions, the fiscal court failed to establish adequate management oversight to ensure proper recording of receipts, disbursements, debt balances, capital assets, and the completion of accurate bank reconciliations.

The following deficiencies occurred due to the lack of segregation of duties over these areas:

- The fiscal court did not accurately report financial information, including fund balances, as reported in finding 2016-002.
- The fiscal court did not accurately report liabilities and debt service amounts as reported in finding 2016-003.
- The fiscal court did not properly account for payroll as reported in finding 2016-004.
- The fiscal court did not maintain complete and accurate capital asset schedules as reported in finding 2016-005.

The fiscal court failed to adequately segregate the duties involved in recording receipts, disbursements, and capital assets, processing payroll, and preparing monthly bank reconciliations. Management also failed to provide adequate oversight regarding the county treasurer's preparation of financial reports. The lack of adequate segregation of duties, coupled with a lack of adequate management oversight, provides an environment in which an individual could manipulate financial records and misappropriate or misdirect county funds.

The segregation of duties over various accounting functions such as recording receipts and disbursements; preparing bank reconciliations; processing payroll; and preparing monthly, quarterly, and annual financial reports 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. If proper segregation of duties is not attainable due to a small staff size, then appropriate management oversight should be provided to ensure the completion of accurate, timely financial reports.

We recommend the fiscal court segregate the duties involved in recording receipts, disbursements, and capital assets, processing payroll, preparing bank reconciliations, and preparing monthly, quarterly, and annual financial reports where possible. If segregation of duties is not possible, due to the limited number of staff, strong oversight should be implemented. This oversight should include a documented review of financial reports by management.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: This finding is relative to errors made by the previous County Treasurer. This is a typical finding where the administration of county government is provided by a limited number of employees. The fact there are a limited number of employees makes it difficult to involve an ample number of employees with the required experience to provide meaningful segregation of duties. The current County Treasurer has made arrangement to reach outside the Treasurers' office to other county

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-001 The Fulton County Fiscal Court Lacks Segregation Of Duties Over Accounting Functions And Financial Reporting (Continued)

<u>Views of Responsible Official and Planned Corrective Action</u>: (Continued)

employees to provide segregation of duties involving bank deposits, payroll and other fundamental activities. Additionally, the Treasurer will have the Finance Officer co-manage the capital asset account, bank reconciliations, financial reporting, etc.

2016-002 The Fulton County Fiscal Court Has Material Weaknesses Over Cash And Financial Reporting

The Fulton County Fiscal Court's fourth quarter financial report and the annual treasurer's settlement were both materially misstated. According to the fiscal court's fourth quarter financial report and annual treasurer's settlement, the total fund balance of all budgeted operating funds was \$885,583 as of June 30, 2016. The audited financial statement reports an ending fund balance of \$837,507 for budgeted funds, a variance of \$48,076. In addition, the bank balance is reported as \$1,385,089 on the fourth quarter financial report while the audit financial statement reports the bank balance as \$842,367, a variance of \$542,722. Other control deficiencies noted were as follows:

- FEMA reimbursements of \$2,963 were not recorded on the receipts ledger.
- Homeland security grant of \$72,633 was recorded to the wrong account code. These federal grant receipts were recorded as interest - other investments instead of as intergovernmental revenues federal grants.
- Telecommunications tax of \$407 was not recorded on the receipts ledger.
- Federal grant of \$7,500 was not recorded on the receipts ledger or appropriations ledger.
- Employer's share of retirement of \$42,463 was not recorded on the appropriations ledger.
- Employer's share of social security and employer's share of insurance of \$10,395 and \$24,362, respectively, were recorded on the appropriations ledger but never transferred to the payroll revolving account.

The variances and misstatements noted are the result of a weak internal control system over the cash and financial reporting system, including a lack of segregation of duties. Because of this weak internal control system, the transactions posted to the receipts and disbursements ledgers are not always in agreement with the actual transaction amounts, especially with payroll transactions. Additionally, receipts and disbursements were not always posted to the appropriate account code per the Department for Local Government's chart of accounts. When transactions are posted incorrectly, these misstatements occur.

Strong internal controls over cash and financial reporting are vital in ensuring the fiscal court's financial reports accurately reflect the financial activity of the fiscal court. To remedy the misstatements associated with cash and financial reporting, we recommend the fiscal court implement stronger internal controls. Internal controls such as a thorough review of the receipts and disbursements ledgers and bank reconciliations by someone independent of the accounting function can help detect misstatements and errors that have occurred. This review should include tracing transactions posted to the receipts and disbursements ledgers to actual bank statement transactions. It should also include agreeing fund balances between the quarterly financial report and bank reconciliations, checking for mathematical accuracy, and verification of bank reconciliation amounts. Once the ledgers and reconciliations are deemed accurate, the reviewer should document that fact, and submit the review to the fiscal court for approval. By implementing these procedures, the fiscal court can strengthen its internal control system, and help ensure accurate financial reporting.

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-002 The Fulton County Fiscal Court Has Material Weaknesses Over Cash And Financial Reporting (Continued)

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: This finding is relative to various errors made by the previous County Treasurer. It appears several basic accounting functions were in error creating various misstated balances in accounts. The Treasurer at that time did very little to involve others in the performance of accounting duties resulting in this material weakness. Going forward, the current Treasurer has installed practices that will remedy this situation. When the newly retained private auditors begins the following year audit, we will require they make the necessary adjustments in the appropriate accounts to correct these errors so the correct balances will be reflected on future financial statements.

2016-003 Material Weaknesses Exist Over The Reporting Of Liabilities And Debt

This is a repeat finding and was included in prior year report as finding 2015-004. Material weaknesses exist over the reporting of liabilities and debt of the Fulton County Fiscal Court. The June 30, 2016 outstanding debt balances reported on the fourth quarter financial report were misstated when compared to the actual debt balances confirmed with lenders. According to the fourth quarter financial report, total long-term liabilities were \$3,043,564 as of June 30, 2016. Long-term liabilities had an audited balance of \$3,805,199, which caused a material variance of \$761,635.

The fiscal court failed to have a strong internal control system over liabilities and debt service, and instead relied upon a single employee without sufficient oversight. As a result, the fiscal court's fourth quarter financial report was materially misstated. In addition, by not correctly reporting for outstanding liabilities, the fiscal court cannot make effective management decisions as it relates to debt service outstanding each fiscal year.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The uniform system of accounts is set forth in the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* which requires the liabilities section of the fourth quarter financial report to be utilized for reporting all current long-term debt. Strong internal controls over outstanding debt and liabilities are necessary to ensure accurate financial reporting.

We recommend the fiscal court strengthen internal controls over the reporting of debt service payments and outstanding balances. Internal controls, such as comparisons of payment amounts and outstanding balances to amortization and payment schedules, should be implemented. We also recommend the fiscal court consult with lenders to verify that outstanding debt balances are in agreement with the county's schedule of leases and liabilities. Such practices will strengthen internal controls over liabilities and debt service and ensure that proper amounts are reported.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The previous Treasurer did not correctly record data from various amortization charts resulting in a misstated financial statement. The remedy to this is simple. The current County Treasurer is balancing debt with current amortization schedules. Additionally, she will consult with the financial institutions involved with such debts to make sure the amortization schedule used for this reconciliation are current with those of the debt institution.

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-004 The Fulton County Fiscal Court Has Material Weaknesses And Noncompliances Over Payroll

The Fulton County Fiscal Court lacks adequate internal controls over payroll. The following findings were noted with Fulton County's payroll:

- The former county treasurer's timesheet was not filled out properly.
- A timesheet was not available for one employee.
- Two employees' wage rates did not agree with the approved salary schedule.
- One employee's wage rate was not approved by the fiscal court.
- Health insurance disbursements were not recorded and supported properly.
- Federal payroll taxes were not properly recorded, and the federal tax returns do not agree with the payroll records.
- Retirement reports do not agree with the payroll records, and retirement disbursements were not properly recorded on the disbursements ledger.

The Fulton County Fiscal Court failed to have strong internal controls in place and instead relied on a single employee without sufficient supervision. Because the fiscal court failed to have strong internal controls in place, the aforementioned findings occurred.

Strong internal controls over payroll are vital in ensuring that payroll amounts are calculated and accounted for properly. Strong internal controls are also important in protecting the county's assets and those given the responsibility of accounting for them, as well as helping make certain the county is in compliance with state statutes. KRS 337.320(1)(b) requires every employer to keep a record of "[t]he hours worked each day and each week by each employee[.]"

In response to these findings, we make the following recommendations:

- Timesheets should be properly maintained for employees as required by KRS 337.320(1).
- Employees should be paid wage rates in accordance with the approved salary schedule.
- Each pay period, after payroll is processed, someone other than the person processing payroll should review the payroll records to check for accuracy.
- Health insurance disbursements should be reconciled to the amounts paid and recorded.
- Each month, the retirement reports should be reviewed for accuracy and reconciled with the payroll records and bank statements.
- Each month and each quarter, the tax returns should be reviewed for accuracy and reconciled with the payroll records and bank statements.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: This finding is relative to errors made by the former County Treasurer. Several mistakes were made in managing the county payroll account. She failed to keep proper time sheets on one employee. In another instance an employee was paid but the approval of the rate was not reflected in the minutes of fiscal court meetings. She also failed to record the correct amount for health insurance, federal taxes and retirement. The current Treasurer now uses a professional payroll service which has corrected these deficiencies. The current Treasurer has improved the payroll process and we have not experienced these type difficulties since this audit period.

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-005 Weak Internal Controls Resulted In A Material Misstatement On The County's Schedule Of Capital Assets

This is a repeat finding and was included in the prior year audit report as finding 2015-003. Material weaknesses exist over the reporting of capital assets of Fulton County. The fiscal court's schedule of capital assets for the period of audit was materially misstated because the fiscal court failed to recognize all asset purchases that occurred throughout the year. Construction in progress was misstated by \$3,088,166, vehicles and equipment and infrastructure were misstated by \$265,448 and \$254,004, respectively. The fiscal court failed to periodically conduct physical inspections of all assets to make comparisons to the capital asset list. Furthermore, some asset additions were not properly authorized in the fiscal court minutes.

The fiscal court failed to emphasize strong internal controls over the reporting of capital assets and infrastructure, and instead relied on a single employee without sufficient supervision. However, according to county personnel, there was confusion as to who was responsible for updating the capital asset list; therefore, it did not get updated throughout the year. By having weak internal controls over capital assets, they are left vulnerable to misappropriation or misstatement. In this case, undetected misstatements were able to occur.

Strong internal controls over capital assets are necessary to ensure accurate financial reporting and to protect assets from misappropriation. KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The uniform system of accounts is set forth in the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* which states, "[f]ixed asset records are necessary for proper asset valuation, adequate and accurate insurance coverage, internal control, and long range planning for property replacement." The manual also states, "[a]n annual physical inventory of property and equipment shall be conducted on or before June 30. Physical counts must be compared to the master asset inventory listing. Resulting differences must be reconciled, explained and documented." Furthermore, the manual states, "[a] fixed asset record should be prepared for each acquisition that meets the useful life and threshold limits. Deletion, sale, or disposal of fixed assets must be approved by the authorized personnel and documented accordingly."

In order to strengthen the fiscal court's internal controls over capital assets, we recommend the fiscal court establish a detailed inventory system. This system should include a detailed description of each fiscal court asset, an inventory control number or serial number, the date acquired, purchase price, location, date destroyed or sold as surplus, and a brief description of why the asset was discarded. The inventory of county assets should be updated throughout the year as new assets are acquired or old assets are retired. This system should be applied consistently in accordance with the county's capitalization policy. Also, all asset additions and retirements should be properly authorized by the fiscal court and documented in the fiscal court minutes. We also recommend the county conduct a physical inspection of the county's assets at the end of each year to make comparisons to the county's inventoried assets.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: This finding is relative to the previous County Treasurer not posting expenditures of a capital nature to the capital asset ledger. During the construction of improvements at the jail, the previous Treasurer did not post construction expenditures to the asset ledger. This issue was influenced by the fact that Fiscal Court did not make those expenditures direct from a county bank account. The county borrowed construction funds from KACO and a trustee was established that issued all payments from a county loan account managed by the Trustee. Although the Fiscal Court approved all payments, the Treasurer did not issue the checks. The absence of Treasurer issuing the check contributed to asset journal

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-005 Weak Internal Controls Resulted In A Material Misstatement On The County's Schedule Of Capital Assets (Continued)

Views of Responsible Official and Planned Corrective Action: (Continued)

posting errors. However, the previous Treasurer should have been aware that the trustee payments were being made and that would have triggered the requirements for asset ledger adjustments. Going forward, the current Treasurer is mindful of this requirement and all future capital expenditures, including those made by a trustee, will be posted to the asset ledger resulting in the correct capital asset balances. Another practice established by the current Treasurer is to post to the asset ledger during the year when capital expenditures are being made. Additionally, there was an error when the previous County Treasurer failed to post the value of a leased road grader to the capital asset ledger. There is a difference in interpretation between the auditor and management relative to this lease. It is the county's opinion that this was a straight lease and at the end of the lease period the grader would be turned back to the vendor with not future obligation on either party's part regarding interest in the grader. That being the case, posting of the value of the grader to asset ledger would not be appropriate because the county was not acquiring any interest in the grated except a temporary leasehold interest. The auditor, on the other hand, has a different interpretation of whether the expenditure is capital or operating. The fact that the vendor issued a amortization schedule for the lease, meaning the lease payment include interest and principal and the fact there was an option to purchase at the end of the lease made the grader a capital purchase subjecting the payment of the lease, to recording, at the face value of the grader, as a capital expenditure. On the county's side of the purchase, the Fiscal Court never intended to exercise the option to purchase the grader and considered the acquisition to be an operating expense, not a capital expense. Going forward the Fiscal Court will be more mindful of the difference in capital and operating expenses and post accordingly. The Fiscal Court will improve upon the county inventory of assets. The auditors have rightfully pointed out the weaknesses in the current inventory system.

2016-006 The Fulton County Fiscal Court Lacks Internal Controls Over The Bid Process

This is a repeat finding and was included in the prior year audit report as finding 2015-005. The Fulton County Fiscal Court lacks controls over their bid process, specifically the bid process for jail related expenditures. Twenty-one disbursements for jail construction were made without proper bidding procedures in the amount of \$3,281,737. The former jailer was responsible for advertising and collecting bids for the jail construction project as well as other jail related expenditures. The former jailer manipulated the bid process and did not allow for fair competition. Additionally, for some expenditures, no documentation could be provided to ensure that bids had been made. Two disbursements for the food services contract and one disbursement for a vehicle in the amount of \$71,587 and \$23,000, respectively, were made without documentation of these items being bid.

This control deficiency is due to weak controls over the bid process, and an oversight by the Fulton County Fiscal Court. Due to the weak controls over bids, the Fulton County Fiscal Court is not in compliance with KRS 424.260, and there is a higher risk of misappropriation of funds.

KRS 424.260(1) prohibits a county from entering into a contract for equipment "involving an expenditure of more than twenty thousand dollars (\$20,000) without first making newspaper advertisement for bids." We recommend the fiscal court adhere to the bid process, implement strong internal controls over that process and for any purchase over \$20,000, and keep accurate records of those bids.

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-006 The Fulton County Fiscal Court Lacks Internal Controls Over The Bid Process (Continued)

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: This finding goes back to the previous Jailer having manipulated the bid process for which he was convicted in federal court. The Fiscal Court was informed by the Jailer that proper documentation was in hand and all purchase receipts, etc. were in the proper file. What the Fiscal Court did not know, at the time, was the Jailer had perpetrated an act of disguise and misrepresented the facts in an effort to receive kickbacks to himself. In order to accomplish this act, the Jailer misrepresented facts and documentation to the Fiscal Court. Proper bids were advertised in the local newspaper and proper procedures were followed. The breakdown in compliance with the law occurred after bids were advertised by the Fiscal Court. To say the Fiscal Court lacks internal control over the actions of the Jailer is a fair statement. The Fiscal Court trusted the Jailer and everything he told them. The weakness in this instance is the trust the Fiscal Court had given the Jailer for years. The Jailer had provided many very good contributions for the county with jail assets and was in good standing with the KY Department of Corrections and held in high esteem by his colleagues. That trust was strong until occurrence as outline in this finding materialized and that is when the Fiscal County reacted to these issues by informing appropriate investigative authorities of potential violations. The finding implies the Fiscal Court acted improperly when in fact it was the Jailer that was violating the law. Perhaps the Fiscal Court could have been more aware of activities at the jail over the years but when the evidence was clear, the Fiscal Court did the proper thing and informed authorities of potential irregularities. The Fiscal Court had adopted a comprehensive procurement plan that will eliminate the reoccurrence of this type finding. The current Jailer is following the new procurement regulation in detail. This plan is recorded in the county's Administrative Code as Chapter 9.

2016-007 The Fulton County Fiscal Court Did Not Have Adequate Controls Over Disbursements, Especially In The Jail Fund

This is a repeat finding and was included in the prior year audit report as findings 2015-006 and 2015-007. Internal controls over disbursements were not operating as intended during fiscal year 2016. The Fulton County Fiscal Court had the following control deficiencies over disbursements:

- Twelve of 123 invoices had either missing or insufficient documentation. These invoices totaled \$38,426 and all invoices but two totaling \$936 were invoices from the jail fund.
- Two of 123 invoices were paid prior to the fiscal court's approval. These invoices totaling \$10,350 were from the jail fund.
- Two of 123 invoices were not recorded correctly on the disbursements ledger. These invoices were from the jail fund.
- Fourteen of 123 invoices were paid after 30 days. These invoices totaling \$11,660 were from the jail fund.
- Two of 123 invoices had purchase orders made after the check was cut, and one purchase order was inconsistent with the check. These purchase orders were all issued on jail fund disbursements.
- Four of 19 credit card invoices were missing receipts or itemized receipts. Three of these credit card invoices were from the jail fund.
- Four of 19 credit card invoices had finance charges added on. These invoices were from the jail fund.
- Many of the invoices tested did not have the date received written or stamped on the invoice.
- Reconciliations, check writing, and posting to the ledgers are all done by the treasurer, and there are no signs that those items were reviewed by another person in the office.

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-007 The Fulton County Fiscal Court Did Not Have Adequate Controls Over Disbursements, Especially In The Jail Fund (Continued)

The weakness over disbursements were caused by oversights by the former treasurer and fiscal court, as well as a weak control environment. Due to the control weaknesses over disbursements, there is an increased risk of misappropriation of assets.

Strong internal controls require proper documentation to be kept for every disbursement and each disbursement should be recorded accurately. They also should require transactions to be approved by the fiscal court prior to being paid, and once approved, they should be paid in a timely manner. KRS 68.275 requires claims within budget line items and authorized by the fiscal court be paid by the county judge/executive and co-signed by the county treasurer. In addition, KRS 65.140(2) states, "[u]nless the purchaser and vendor otherwise contract, all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor's invoice[.]" We recommend the Fulton County Fiscal Court strengthen internal controls over disbursements.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: This finding is part of the jail issues discussed elsewhere in this audit. The Jailer, a Constitutional Officer, chose to act outside protocol which prompted this finding. After several complaints from the County Judge's office the Jailer continued to not follow procurement procedures. There were multiple occasions when the current Treasurer and County Judge refused to make disbursements when procedures were not followed. In some cases the Jailer would attempt to disguise the payment or move the payment to the commissary account where the administrative office of the Fiscal Court had no oversight. Past irregularities at the jail are acknowledged herewith. Going forward, the new Jailer is making all purchases in accordance with the Procurement Code adopted by the Fiscal Court and the current Treasurer is strictly enforcing adopted policies and KRS.

County Jailer's Response: This audit is from 2015-2016. I was appointed in August of 2017. The corrective action plan was already in place before I began as Fulton County Jailer. The process used now should be in accordance with the law and with standard accounting principles. It is a purchase order system with all invoices going to the treasurer for processing. Invoices are coded by line item and are not paid until approved by the Fiscal Court. All credit card receipts are to be itemized and are to include signatures. As for receiving, we have three separate employees, one employee depositing, one employee able to write the checks and another to reconcile the checking accounts. Employees will be signing off with others on the daily cash check out sheet. As we continue to review the audits and findings from the past, there will undoubtedly be additional issues. I firmly believe that the system and controls as of this date are within the statutes and guidelines and anticipate cleaner audits to come as they work towards the current years.

2016-008 The Fulton County Detention Center Lacks Adequate Segregation Of Duties Over The Jail Commissary Fund

The Fulton County Detention Center lacks adequate segregation of duties. The bookkeeper is required to perform multiple tasks such as: daily checkout procedures, deposit preparation, bookkeeping, and bank reconciliations. Though the former jailer had some controls in place and was responsible for reviewing the bookkeeper's work, the reviews were not always documented.

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-008 The Fulton County Detention Center Lacks Adequate Segregation Of Duties Over The Jail Commissary Fund (Continued)

A lack of segregation of duties or strong oversight increases the risk that undetected errors or fraud could occur. This lack of segregation of duties is caused by the diversity of operations with a limited number of bookkeeping staff.

Segregation of duties or the implementation of compensating controls, when limited by the number of staff, is essential for providing protection against the misappropriation of assets and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To adequately protect against the misappropriation of assets and inaccurate financial reporting, we recommend the jailer segregate the duties noted above by allowing different deputies to perform these functions. For those duties that cannot be segregated due to a limited number of staff, strong management oversight by the jailer or designee can be a cost effective alternative. This oversight should include reviewing monthly bank reconciliations and ledgers, and requiring dual signatures on checks. Documentation, such as the jailer's or a designee's initials or signature, should be provided on those items that are reviewed.

Views of Responsible Official and Planned Corrective Action:

County Jailer's Response: This audit is from 2015-2016. I was appointed in August of 2017. The corrective action plan was already in place before I began as Fulton County Jailer. The process used now should be in accordance with the law and with standard accounting principles. We have three different employees performing different duties at this time (depositing, issuing checks and reconciliations). With additional oversight and appropriate documentation of reconciliation this finding will be remedied. As we continue to review the audits and findings from the past, there will undoubtedly be additional issues. I firmly believe that the system and controls as of this date are within the statutes and guidelines and anticipate cleaner audits to come as they work towards the current years.

2016-009 The Fulton County Detention Center Has Internal Control Weaknesses Over Disbursements Of The Jail Commissary Fund

This is a repeat finding and was included in the prior year audit report as finding 2015-012. The Fulton County Detention Center has internal control weaknesses over disbursements made from the jail commissary fund. During testing the following issues were noted:

- Five of 22 invoices were missing. These invoices totaled \$903.
- One of 22 invoices was not itemized. This invoice totaled \$2,681.
- Two of 22 invoices had questionable authenticity. These invoices totaled \$648.
- One of 22 invoices was for the purchase of employee meals. This invoice totaled \$201.

The weaknesses over disbursements were caused by oversights of the staff and former jailer, as well as a weak control environment. Due to the control weaknesses over disbursements, there is an increased risk of misappropriation of assets, and the detention center is not in compliance with KRS 441.135.

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-009 The Fulton County Detention Center Has Internal Control Weaknesses Over Disbursements Of The Jail Commissary Fund (Continued)

Strong internal controls require proper documentation to be kept for every disbursement. KRS 441.135 requires all disbursements made from a commissary account to be for the benefit of the inmates. We recommend the Fulton County Detention Center keep itemized records of all receipts and invoices and to only use the jail commissary fund for reasons that benefit the inmates.

<u>Views of Responsible Official and Planned Corrective Action:</u>

County Jailer's Response: This audit is from 2015-2016. I was appointed in August of 2017. The corrective action plan was already in place before I began as Fulton County Jailer. The process used now should be in accordance with the law and with standard accounting principles. As per the canteen fund, we are making sure all invoices are accounted for before issuing payment. Those invoices are to be itemized and only the original receipts are to be accepted. Employee meals should never be purchased with canteen funds. As we continue to review the audits and findings from the past, there will undoubtedly be additional issues. I firmly believe that the system and controls as of this date are within the statutes and guidelines and anticipate cleaner audits to come as they work towards the current years.

2016-010 Long-term Financial Obligations Were Not In Compliance With KRS 65.117

The Fulton County Fiscal Court entered into two long-term financial obligations during the 2016 fiscal year without giving the proper notification to the state local debt officer. The fiscal court entered into a five-year financing obligation in the amount of \$415,000 for HVAC units at the detention center. Additionally, the fiscal court entered into a four-year financing obligation in the amount of \$248,052 for a John Deere grader for the road department.

According to KRS 65.117, "[n]o city, county, urban-county, consolidated local government, charter county, or special purpose governmental entity as defined in KRS 65A.010 shall enter into any financing obligation of any nature...without first notifying the state local debt officer in writing." According to the county judge/executive, he was unaware of the requirements of KRS 65.117. As a result, the fiscal court is not compliant with KRS 65.117.

We recommend the fiscal court comply with KRS 65.117 by making the proper notification to the state local debt officer prior to issuing any sort of debt instrument.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: This finding is based upon the requirement that any capital expenditure in excess of \$500,000 be approved by the state debt officer and that any lease over \$200,000 be reported to the state debt officer. My opinion is the \$410,000 HVAC system for the 300 Block at the jail was reported to the state debt officer. It was reported as part of a \$3,020,608 jail expansion that was approved by the state debt officer. The HVAC lease in question was a part of a larger project that was properly reported and approved in accordance with KRS. If the \$410,000 had been reported again and it would have been a duplication causing a misrepresentation of the county's financial statement. The lease for the HVAC was a mechanism to finance the HVAC system that had been previously reported to the state debt officer. The second part of this finding involves the grader lease discussed in Finding 2016-005. I was unaware of the

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-010 Long-term Financial Obligations Were Not In Compliance With KRS 65.117 (Continued)

Views of Responsible Official and Planned Corrective Action: (Continued)

requirement to report long term financial obligations to the state debt officer. Again, we saw the grader lease as an operating lease, not a capital lease. Since the auditor has classified such leases as capital and I now have the knowledge that long-term financial obligations are required to be reported to the state debt officer, we will correct similar situations in the future.

Auditor's Reply: Additional documentation provided by the county judge/executive did not support his claim that the lease for the HVAC system was part of the jail expansion project.

2016-011 The Fulton County Fiscal Court's Fourth Quarter Financial Report Failed To Meet The Requirements Of KRS 68.360

Fulton County Fiscal Court's fourth quarter financial report did not meet all of the requirements of state statute. No documentation exists to support that the fourth quarter financial report was completed within 15 days after the end of the fiscal year, approved by the fiscal court, or submitted to the state local finance officer as required by KRS 68.360. Additionally, operating funds were not properly reconciled and unencumbered balances were not disclosed by including encumbrances. The ending cash balances per the reconciliation included on the financial cover sheet of the fourth quarter financial report did not agree to the cash balances per the financial report section for any fund. The ending cash balances per the reconciliation were \$496,534 more than the cash balances per the financial report section.

The former county treasurer resigned her position near the end of May 2016. According to county personnel, there was some confusion as to who was responsible for the fourth quarter financial report because of the turnover in the county treasurer's position. As a result, the fiscal court was not in compliance with KRS 68.360(2). In addition, the fourth quarter financial report did not show the unencumbered cash balance as of June 30, 2016, to help management and other users determine the financial position of the fiscal court.

According to KRS 68.360(2), "[t]he county judge/executive shall, within fifteen (15) days after the end of each quarter of each fiscal year, prepare a statement showing for the current fiscal year to date actual receipts from each county revenue source, the totals of all encumbrances and expenditures charged against each budget fund, the unencumbered balance of the fund, and any transfers made to or from the fund. The county judge/executive shall post the statement in a conspicuous place in the courthouse near the front door for at least ten (10) consecutive days, and transmit a copy to the fiscal court and to the state-local finance officer. The statement shall be read at the next meeting of the fiscal court." Additionally, KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The uniform system of accounts is set forth in the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* which requires this information to be presented on the quarterly financial reports.

We recommend the fiscal court comply with KRS 68.360 and KRS 68.210 by meeting all criteria outlined in the statutes.

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-011 The Fulton County Fiscal Court's Fourth Quarter Financial Report Failed To Meet The Requirements Of KRS 68.360 (Continued)

<u>Views of Responsible Official and Planned Corrective Action</u>:

County Judge/Executive's Response: The County Treasurer resigned in May of 2016 and we appointed the Finance Officer to the Treasurer position in late May. The former Treasurer did not have the financial records of Fulton County in proper order which lead to this finding. The current Treasurer is correcting these practices and this type of finding should not repeat in the future.

2016-012 The Fulton County Fiscal Court Failed To Budget Transactions Associated With Borrowed Monies

The Fulton County Fiscal Court entered into a lease purchase agreement totaling \$248,052, without first budgeting for the receipt and disbursement of these funds. The lease agreement was for the purchase of a road grader for the road department. The agreement was entered into with the manufacturer of the grader; therefore, the fiscal court did not actually receive the lease proceeds.

According to fiscal court personnel, the fiscal court did not budget for the receipt and disbursement of these funds because they were not run through the fiscal court's finance office. Therefore, these transactions were never posted to the receipts or disbursements ledgers. As a result, the road fund's machinery and equipment disbursements were over budget by \$248,052 after the necessary financial statement adjustments were made. Therefore, the fiscal court was not in compliance with KRS 68.300.

KRS 68.300 states, "[a]ny appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not within budget appropriation, shall be void." KRS 68.280 states, "[t]he fiscal court may make provision for the expenditure of receipts unanticipated in the original budget by preparing an amendment to the budget, showing the source and amount of the unanticipated receipts and specifying the budget funds that are to be increased thereby."

We recommend the fiscal court comply with KRS 68.300 by budgeting all fiscal court transactions, including those handled by a third-party lender.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Again, this finding is about the grader lease. We did not budget this as a capital expenditure because we did not consider it to be capital but thought it to be an operating lease. Going forward we can correct similar expenditures accordingly.

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-013 The Fulton County Detention Center Failed To Batch Receipts Daily

This is a repeat finding and was included in the prior year audit report as findings 2015-010. The Fulton County Detention Center did not batch receipts daily as required by KRS 68.210, but instead batched them weekly.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The uniform system of accounts is set forth in the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* which requires receipts to be deposited and batched daily. Strong internal controls put in place will ensure that this KRS is met and risks over receipts are minimized.

This material weakness is due to a lack of oversight by the jailer and the Fulton County Detention Center staff, and a weak internal control process. As a result, the Fulton County Detention Center is not in compliance with KRS 68.210 and receipts are put at a higher risk of misappropriation.

We recommend the Fulton County Detention Center batch and deposit all receipts daily.

Views of Responsible Official and Planned Corrective Action:

County Jailer's Response: This audit is from 2015-2016. I was appointed in August of 2017. The corrective action plan was already in place before I began as Fulton County Jailer. The process used now should be in accordance with the law and with standard accounting principles. The batching and depositing of receipts will be made daily with the accompanying daily cash check out sheet. If there are no monies to deposit that day, appropriate documentation is to be made. As we continue to review the audits and findings from the past, there will undoubtedly be additional issues. I firmly believe that the system and controls as of this date are within the statutes and guidelines and anticipate cleaner audits to come as they work towards the current years.



MIKE HARMON AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
The Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
The Honorable Jim Martin, Fulton County Judge/Executive
Members of the Fulton County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Fulton County Fiscal Court, for the year ended June 30, 2016, and the related notes to the financial statement which collectively comprise the Fulton County Fiscal Court's financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. This includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. 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 this 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 Fiscal Court Audits* 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.

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 Fiscal Court on the basis of the accounting practices prescribed or permitted by the Department for Local Government 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.

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 the Fulton County Fiscal Court as of June 30, 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 fund balances of the Fulton County Fiscal Court as of June 30, 2016, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of the Fulton County Fiscal Court. The Budgetary Comparison Schedules and Capital Asset Schedule are presented for purposes of additional analysis and are not a required part of the financial statement; however, they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws.

The accompanying Budgetary Comparison Schedules and Capital Asset Schedule are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statement. Such 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 Budgetary Comparison Schedules and Capital Asset Schedule are fairly stated in all material respects in relation to the financial statement as a whole.

To the People of Kentucky

The Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

The Honorable Jim Martin, Fulton County Judge/Executive

Members of the Fulton County Fiscal Court

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 19, 2019, on our consideration of the Fulton County Fiscal Court'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 Fiscal Court's internal control over financial reporting and compliance.

Based on the results of our audit, we present the accompanying Schedule of Findings and Responses included herein, which discusses the following report findings:

- 2016-001 The Fulton County Fiscal Court Lacks Segregation Of Duties Over Accounting Functions And Financial Reporting
- 2016-002 The Fulton County Fiscal Court Has Material Weaknesses Over Cash And Financial Reporting
- 2016-003 Material Weaknesses Exist Over The Reporting Of Liabilities And Debt
- 2016-004 The Fulton County Fiscal Court Has Material Weaknesses And Noncompliances Over Payroll
- 2016-005 Weak Internal Controls Resulted In A Material Misstatement On The County's Schedule Of Capital Assets
- 2016-006 The Fulton County Fiscal Court Lacks Internal Controls Over The Bid Process
- 2016-007 The Fulton County Fiscal Court Did Not Have Adequate Controls Over Disbursements, Especially In The Jail Fund
- 2016-008 The Fulton County Detention Center Lacks Adequate Segregation of Duties Over The Jail Commissary Fund
- 2016-009 The Fulton County Detention Center Has Internal Control Weaknesses Over Disbursements Of The Jail Commissary Fund
- 2016-010 Long-term Financial Obligations Were Not In Compliance With KRS 65.117
- 2016-011 The Fulton County Fiscal Court's Fourth Quarter Financial Report Failed To Meet The Requirements Of KRS 68.360
- 2016-012 The Fulton County Fiscal Court Failed To Budget Transactions Associated With Borrowed Monies
- 2016-013 The Fulton County Detention Center Failed To Batch Receipts Daily

Respectfully submitted.

Auditor of Public Accounts

March 19, 2019

State law requires the Auditor of Public Accounts to annually audit fiscal courts, county clerks, and sheriffs; and print the results in a newspaper having general circulation in the county. The complete audit and any other audit of state agencies, fiscal courts, county clerks, sheriffs, and property valuation administrators may be viewed in the reports section of the Auditor of Public Accounts' website at www.auditor.ky.gov or upon request by calling 1-800-247-9126.

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