



Auditor of Public Accounts
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Harmon Releases Audit of Fulton County Sheriff's Fee Account

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2021 financial statement of Fulton County Sheriff Derek Goodson. State law requires the auditor to annually audit the accounts of each county sheriff. In compliance with this law, the auditor issues two sheriff's reports each year: one reporting on the audit of the sheriff's tax account, and the other reporting on the audit of the fee account used to operate the office.

Auditing standards require the auditor's letter to communicate whether the financial statement presents fairly the receipts, disbursements and excess fees of the Fulton County Sheriff in accordance with accounting principles generally accepted in the United States of America. The sheriff's financial statement did not follow this format. However, the sheriff's financial statement is fairly presented in conformity with the regulatory basis of accounting, which is an acceptable reporting methodology. This reporting methodology is followed for all 120 sheriff audits in Kentucky.

As part of the audit process, the auditor must comment on noncompliance with laws, regulations, contracts, and grants. The auditor must also comment on material weaknesses involving the internal control over financial operations and reporting.

The audit contains the following findings:

The Fulton County Sheriff's Office does not have adequate segregation of duties: The Fulton County Sheriff's Office does not have adequate segregation of duties over receipts and disbursements. The bookkeeper is responsible for collecting cash, preparing the daily checkout sheet, preparing deposits, processing payroll, posting transactions to the ledgers, preparing, and signing checks, reconciling the bank statements, and preparing monthly and quarterly reports. While the sheriff has implemented compensating controls such as dual signatures being required on checks and review of bank reconciliations, compensating controls were determined to be ineffective.

The following control deficiencies and noncompliances occurred due to the lack of segregation of duties without effective compensating controls:

- The fourth quarter report was materially misstated.
- A sheriff's employee was improperly paid in advance.
- Deposits were not made daily.
- Numerous disbursements were not made by check.
- Negative account balances resulted in overdraft fees.
- Payroll withholdings for December 2021 were not turned over to the county treasurer.

While it may be customary for the bookkeeper to perform these functions, the sheriff failed to adequately segregate the duties involved. The sheriff also failed to establish adequate management oversight to ensure receipts and disbursements were properly recorded and that completed bank reconciliations were accurate. Furthermore, the sheriff failed to establish adequate management oversight to ensure that employees were not paid in advance, that deposits were made daily, that all disbursements were made by check, and that bank balances were sufficient to cover disbursements. According to the sheriff, due to a limited staff size, the bookkeeper is required to perform most of the accounting functions. This condition is the result of a limited budget, which restricts the number of employees the sheriff can hire or delegate duties to. A lack of segregation of duties or strong oversight increases the risk of undetected errors and fraud.

Strong internal controls dictate that the duties associated with the custody of cash, authorization of transactions, and recording of transactions be performed by different employees. The segregation of duties over various accounting functions such as collecting cash, preparing deposits, recording receipts and disbursements, and preparing monthly reports, or the implementation of compensating controls, is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the sheriff segregate the duties noted above by allowing different deputies to perform them. For those duties that cannot be segregated due to a limited staff size, strong management oversight by the sheriff or designee could be a cost-effective alternative. This oversight should include reviewing daily checkout sheets, reviewing daily deposits, reviewing payroll summaries each period, and reviewing monthly bank reconciliations. Also, all checks should require dual signatures, with one being the sheriff's. Documentation, such as the sheriff's or designee's initials or signature, should be provided on those items that were reviewed.

County Sheriff's Response: We are a very small office. This has been an issue for years. We will continue to check all deposits, checks and bank statements that are prepared by the bookkeeper.

The Fulton County Sheriff's fourth quarter financial statement was materially misstated: The Fulton County Sheriff has material weaknesses over the recordkeeping and reporting functions of the office. The sheriff's fourth quarter financial statement did not agree with the receipts and disbursements ledgers or the annual settlement. Therefore, material audit adjustments in the amount of \$83,200 were necessary.

Additionally, the sheriff did not report outstanding principal and interest associated with a vehicle loan on the liabilities section of the fourth quarter financial statement. Outstanding principal totaled \$18,167, and outstanding interest totaled \$1,106. Also, the sheriff deposited \$8,263 of receipts received in calendar year 2020 into the 2021 fee account. These prior year receipts were inaccurately reported on the fourth quarter financial statement as current year receipts.

Due to an oversight, the sheriff failed to report outstanding debt associated with the vehicle loan. The other misstatements were due in part to the sheriff failing to report outstanding receivables and unpaid obligations on the fourth quarter financial statement. However, multiple misstatements were the direct result of the lack of segregation of duties as discussed in Finding 2021-001.

Due to weak internal controls over the recordkeeping and reporting functions, the aforementioned errors occurred without being detected and corrected thereby causing the fourth quarter financial statement to be materially misstated. Also, weak internal controls increase the risk of misappropriation. Furthermore, the sheriff is not in compliance with the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual* requires officials to ensure accurate and complete financial reporting. Furthermore, strong internal controls dictate that the fourth quarter financial statement be reconciled to the underlying accounting records.

We recommend the Fulton County Sheriff strengthen internal controls over the recordkeeping and reporting functions of the office. Controls such as comparison of the daily checkout sheets to the ledgers, as well as comparison of the ledgers to the bank statements should be implemented. We also recommend the sheriff compare the fourth quarter financial statement to the ledgers to ensure that they agree. Furthermore, we recommend the sheriff review amortization schedules to ensure that outstanding debt balances are properly reported on the fourth quarter financial statement.

County Sheriff's Response: There are monies collected and disbursed during the month of January and February for the previous year. It is very difficult for transactions/deposits that do not take place until months following to be on a report. In the future any transactions or deposits that I am aware of will be added to my fourth quarter report. Anything that comes in after December 31st, will be added to the report at a later date and that report will be titled as my fourth quarter amendment.

An employee of the sheriff's office was improperly paid in advance: One employee of the Fulton County Sheriff's Office was improperly paid in advance. A recap of cancelled checks revealed nine payroll checks that cleared the bank prior to the date on the check. These checks cleared anywhere from two to thirteen days before the actual check date. In addition to those checks, we noted three checks that were written and dated prior to the end of the pay period. These checks were written four to five days before the end of the pay period.

According to the sheriff, employees are not allowed to be paid in advance. However, internal controls were circumvented through the use of a signature stamp, which allowed for the advancements to occur. Because the employee was paid in advance, the sheriff was not in compliance with the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*.

KRS 68.210 gives the state local finance officer the authority to prescribe a system of uniform accounts. DLG's *County Budget Preparation and State Local Finance Officer Policy Manual* says the prepayment for goods and services is strictly prohibited.

We recommend the sheriff strengthen internal controls over payroll to ensure employees cannot be paid in advance and that the sheriff's office be in compliance with DLG's *County Budget Preparation and State Local Finance Officer Policy Manual*.

County Sheriff's Response: This employee was going to be out of the office and received their paycheck two days prior to the correct pay date. In the future no checks will be written in advanced. Fee pooling with the county will also solve this issue.

The Fulton County Sheriff did not make deposits daily: The Fulton County Sheriff's Office did not make deposits daily. Each day, the sheriff's office batched receipts, performed checkout procedures, and prepared deposits; however, rather than make deposits daily, the sheriff's office often held the deposits several days before taking them to the bank.

According to staff of the sheriff's office, deposits were not taken to the bank each day due to the sheriff's office not having enough staff on hand to travel to the bank.

Because receipts were not properly deposited daily into a federally insured banking institution, public funds were left vulnerable to misappropriation and loss. Furthermore, the sheriff is not in compliance with Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*.

KRS 68.210 gives the state local finance officer the authority to prescribe a system of uniform accounts. DLG's *County Budget Preparation and State Local Finance Officer Policy Manual* outlines requirements for counties' handling of public funds, which include making daily deposits into a federally insured banking institution.

We recommend the Fulton County Sheriff's office strengthen internal controls over receipts by depositing receipts into a federally insured banking institution on a daily basis.

County Sheriff's Response: The bookkeeper batches receipts daily in our office. There are some days, due to transports, courts, calls, etc, that the bookkeeper is in the office by herself. There could be multiple deposits in a bank bag when it is taken to the bank. In the future, if the bookkeeper is in the office and no one is available to take the bank bag to the bank, it will be put in the night deposit box at the bank after the office closes.

The Fulton County Sheriff did not pay all disbursements by check: Rather than pay all disbursements by check, the sheriff paid numerous disbursements over the telephone by means of electronic transfers. Disbursements paid over the telephone totaled \$14,909.

According to staff of the sheriff's office, the disbursements were paid over the telephone due to the bookkeeper being out of the office, and no one else was available to prepare the checks in the bookkeeping software program. To avoid late payments, the disbursements were paid over the telephone.

Because the sheriff did not pay all disbursements by check, the sheriff is not in compliance with the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*. Additionally, because the sheriff did not require all disbursements to be made by check, the control of requiring dual signatures for all disbursements was allowed to be circumvented, which, increases the risk of misappropriation.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual* requires officials to pay all disbursements by check. Furthermore, strong internal controls dictate that disbursements be made by check to help prevent misappropriation of assets since paying disbursements over the telephone allows individuals direct access to the bank account.

We recommend the Fulton County Sheriff strengthen internal controls over disbursements and comply with DLG's *County Budget Preparation and State Local Finance Officer Policy Manual* by ensuring that all disbursements are paid by check.

County Sheriff's Response: By the time we get the credit card bill, collect all the receipts from the Sheriff/Deputies and put the check in the mail, we were receiving a late fee. We paid the bill on the credit card website to avoid late payments. We have since found out that we can pay our credit card bill at our local bank and will continue to that in the future.

The Fulton County Sheriff failed to properly turn over payroll withholdings to the fiscal court: The Fulton County Sheriff's office processes its own payroll. The sheriff's office then turns over payroll withholdings for each month to the fiscal court for distribution to the proper authorities. Most of the time these payments are not made timely. However, for the month of December 2021, withholdings totaling \$6,709 were never turned over to the county treasurer.

According to personnel of the sheriff's office, withholdings are not paid over timely due to a lack of available funds. The failure to pay over December withholdings was an error on the part of the sheriff's office. Internal controls failed to detect that the withholdings had not been paid over, in-part due to a lack of segregation of duties.

Because payroll withholdings were not turned over to the fiscal court in a timely manner and the fact that December's withholdings were never turned over to the county treasurer, the fiscal court was required to cover the insurance, retirement, and tax deductions of sheriff's office employees. This creates a hardship on the county in trying to maintain a properly reconciled payroll revolving account.

Strong internal controls over payroll are necessary to ensure that all payroll obligations are properly met and turned over to the appropriate authorities in a timely manner.

We recommend the sheriff's office turn over payroll withholdings to the fiscal court in a timely manner. If the sheriff does not have the available funds to meet these obligations, we recommend the sheriff work with the fiscal court to develop a payroll system and schedule that works for both entities. We also recommend the sheriff strengthen internal controls over payroll to help ensure all payroll withholdings are properly turned over to the county treasurer.

County Sheriff's Response: This payroll withholdings not turned over to the Fiscal Court was in December. December is a very busy time in the Sheriff's Office. We are in the middle of tax season, starting a brand new year as far as budget, bank accounts, etc. This was a simple oversight by the Sheriff's Office, but also was not caught by the County Treasurer who collects the payroll withholdings. Starting in January 2023 the Sheriff's Office will be fee pooling with the County, so this should not be an issue in the future.

The sheriff's responsibilities include collecting property taxes, providing law enforcement and performing services for the county fiscal court and courts of justice. The sheriff's office is funded through statutory commissions and fees collected in conjunction with these duties.

The audit report can be found on the [auditor's website](#).

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