

**REPORT OF THE AUDIT OF THE  
FULTON COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2021**



**MIKE HARMON  
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**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

**Independent Auditor's Report**

The Honorable Jim Martin, Fulton County Judge/Executive  
The Honorable Derek Goodson, Fulton County Sheriff  
Members of the Fulton County Fiscal Court

**Report on the Audit of the Financial Statement**

**Opinions**

We have audited the accompanying Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the Sheriff of Fulton County, Kentucky, for the year ended December 31, 2021, and the related notes to the financial statement.

*Unmodified Opinion on Regulatory Basis of Accounting*

In our opinion, the accompanying financial statement presents fairly, in all material respects, the receipts, disbursements, and excess fees of the Fulton County Sheriff for the year ended December 31, 2021, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

*Adverse Opinion on U.S. Generally Accepted Accounting Principles*

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles section of our report, the financial statement does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Fulton County Sheriff, as of December 31, 2021, or changes in financial position or cash flows thereof for the year then ended.

**Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Audit Program for County Fee Officials*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statement section of our report. We are required to be independent of the Fulton County Sheriff and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



The Honorable Jim Martin, Fulton County Judge/Executive  
The Honorable Derek Goodson, Fulton County Sheriff  
Members of the Fulton County Fiscal Court

### **Basis for Opinion (Continued)**

#### *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles*

As described in Note 1 of the financial statement, the financial statement is prepared by the Fulton County Sheriff on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

### **Responsibilities of Management for the Financial Statement**

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibilities for the Audit of the Financial Statement**

Our objectives are to obtain reasonable assurance about whether the financial statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statement.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fulton County Sheriff's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statement.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fulton County Sheriff's ability to continue as a going concern for a reasonable period of time.

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

The Honorable Jim Martin, Fulton County Judge/Executive  
The Honorable Derek Goodson, Fulton County Sheriff  
Members of the Fulton County Fiscal Court

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2022, on our consideration of the Fulton County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fulton County Sheriff's internal control over financial reporting and compliance.

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

- 2021-001 The Fulton County Sheriff's Office Does Not Have Adequate Segregation Of Duties
- 2021-002 The Fulton County Sheriff's Fourth Quarter Financial Statement Was Materially Misstated
- 2021-003 An Employee Of The Sheriff's Office Was Improperly Paid In Advance
- 2021-004 The Fulton County Sheriff Did Not Make Deposits Daily
- 2021-005 The Fulton County Sheriff Did Not Pay All Disbursements By Check
- 2021-006 The Fulton County Sheriff Failed To Properly Turn Over Payroll Withholdings To The Fiscal Court

Respectfully submitted,

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

Mike Harmon  
Auditor of Public Accounts  
Frankfort, KY

October 14, 2022

FULTON COUNTY  
DEREK GOODSON, SHERIFF  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2021

Receipts

State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)	\$	13,336
State Fees For Services:		
Finance and Administration Cabinet	\$	26,152
Sheriff Security Service		3,295
Cabinet For Health And Family Services		1,936
		31,383
Circuit Court Clerk:		
Fines and Fees Collected		2,750
Fiscal Court		148,524
County Clerk - Delinquent Taxes		4,788
Commission On Taxes Collected		138,037
Fees Collected For Services:		
Auto Inspections	1,110	
Accident and Police Reports	75	
Serving Papers	13,885	
Carry Concealed Deadly Weapon Permits	1,300	
		16,370
Other:		
Add-On Fees	7,235	
Miscellaneous	9,368	
		16,603
Interest Earned		22
Total Receipts		371,813

Disbursements

Operating Disbursements:	
Personnel Services-	
Deputies' Salaries	\$ 170,139
Other Salaries - KLEFPF	12,000
Contracted Services-	
Vehicle Maintenance and Repairs	6,240

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



FULTON COUNTY  
 DEREK GOODSON, SHERIFF  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2021  
 (Continued)

Disbursements (Continued)

Operating Disbursements: (Continued)

Materials and Supplies-

Office Materials and Supplies \$ 3,320

Uniforms 631

Law Enforcement Equipment 869

Auto Expense-

Gasoline 1,638

Other Charges-

Conventions and Travel 3,044

Dues 740

Postage 2,153

Miscellaneous 186

Business Phone 5,135

Feeding the Jury 524

Travel and Expense 9,245

Civil Clerk Fees 2,000 \$ 217,864

Debt Service:

Notes 6,291

Interest on Notes 942 7,233

Total Disbursements \$ 225,097

Net Receipts 146,716

Less: Statutory Maximum 85,239

Excess Fees 61,477

Less: Training Incentive Benefit 7,607

Excess Fees Due County for 2021 53,870

Payment to Fiscal Court - March 8, 2022 53,806

Balance Due Fiscal Court at Completion of Audit \$ 64

FULTON COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2021

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the sheriff as determined by the audit. KRS 134.192 requires the sheriff to pay to the governing body of the county any fees, commissions, and other income of his or her office, including income from investments, which exceed the sum of his or her maximum salary as permitted by the Constitution and other reasonable expenses, including compensation of deputies and assistants by March 15 of each year. KRS 64.830 requires an outgoing sheriff to make a final settlement with the fiscal court of his county by March 15 immediately following the expiration of his term of office.

The financial statement has been prepared on a regulatory basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. This basis demonstrates compliance with the laws of Kentucky and is a special purpose framework. Under this regulatory basis of accounting, receipts and disbursements are generally recognized when cash is received or disbursed, with the exception of accrual of the following items (not all-inclusive) as of December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2021 services
- Reimbursements for 2021 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2021

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the county treasurer in the subsequent year.

C. Cash and Investments

KRS 66.480 authorizes the sheriff's office to invest in obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

FULTON COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2021  
(Continued)

Note 2. Employee Retirement System and Other Post-Employment Benefits

The sheriff's office has elected to participate, pursuant to KRS 78.530, in the County Employees Retirement System (CERS), which is administered by the Kentucky Public Pensions Authority (KPPA). This is a cost-sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. 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 be allocated as follows: five percent will go to the member's account and one percent will go to the CERS insurance fund.

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 accounts. Nonhazardous covered employees contribute five percent of their annual creditable compensation. Nonhazardous members also contribute 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 CERS Board of Directors 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 employer pay credit. The employer pay credit represents a portion of the employer contribution.

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.

The county's contribution rate for nonhazardous employees was 24.06 percent for the first six months and 26.95 percent for the last six months.

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS 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:

Years of Service	% Paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

FULTON COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2021  
(Continued)

Note 2. Employee Retirement System and Other Post-Employment Benefits (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

A. Health Insurance Coverage - Tier 1 (Continued)

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.

Benefits are covered under KRS 78.5536.

B. Health Insurance Coverage - Tier 2 and Tier 3 - Nonhazardous

Once members reach a minimum vesting period of 15 years, they 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 by 1.5 percent. This was established for Tier 2 members during the 2008 Special Legislative Session by House Bill 1. During the 2013 Legislative Session, Senate Bill 2 was enacted, creating Tier 3 benefits for members.

The monthly insurance benefit has been increased annually as a 1.5 percent cost of living adjustment (COLA) since July 2003 when the law changed. The annual increase is cumulative and continues to accrue after the member's retirement.

Tier 2 member benefits are covered by KRS 78.5536. Tier 3 members are not covered by the same provisions.

C. Cost of Living Adjustments - Tier 1

The 1996 General Assembly enacted an automatic cost of living adjustment (COLA) provision for all recipients of Kentucky Retirement Systems benefits. During the 2008 Special Session, the General Assembly determined that each July beginning in 2009, retirees who have been receiving a retirement allowance for at least 12 months will receive an automatic COLA of 1.5 percent. The COLA is not a guaranteed benefit. If a retiree has been receiving a benefit for less than 12 months, and a COLA is provided, it will be prorated based on the number of months the recipient has been receiving a benefit.

D. Cost of Living Adjustments - Tier 2 and Tier 3

No COLA is given unless authorized by the legislature with specific criteria. To this point, no COLA has been authorized by the legislature for Tier 2 or Tier 3 members.

E. Death Benefit

If a retired member is receiving a monthly benefit based on at least 48 months of service credit, KRS will pay a \$5,000 death benefit payment to the beneficiary designated by the member specifically for this benefit. Members with multiple accounts are entitled to only one death benefit.

FULTON COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2021  
 (Continued)

Note 2. Employee Retirement System and Other Post-Employment Benefits (Continued)

Kentucky Retirement System Annual Financial Report and Proportionate Share Audit Report

Kentucky Retirement System 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.

Kentucky Retirement System also issues proportionate share audit reports for both total pension liability and other post-employment benefits for CERS determined by actuarial valuation as well as each participating county's proportionate share. Both the Schedules of Employer Allocations and Pension Amounts by Employer and the Schedules of Employer Allocations and OPEB Amounts by Employer reports 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 3. Deposits

The Fulton County Sheriff maintained deposits of public funds with federally insured banking institutions as required by the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*. The DLG Manual strongly recommends perfected pledges of securities covering all public funds except direct federal obligations and funds protected by federal insurance. In order to be perfected in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the sheriff's deposits may not be returned. The Fulton County Sheriff does not have a deposit policy for custodial credit risk, but rather follows the requirements of the DLG *County Budget Preparation and State Local Finance Officer Policy Manual*. As of December 31, 2021, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Long-Term Debt

A. Direct Borrowings

On August 20, 2018, the Citizens Bank issued a fixed rate loan in the amount of \$38,130 for the purpose of purchasing a vehicle for the sheriff's office. Principal and interest, which was calculated at a fixed rate of 4.35 percent was due monthly beginning on September 20, 2018. The loan was secured by a first security interest in the vehicle being purchased. In the event of default, the lender may declare the entire unpaid principal balance and all accrued unpaid interest immediately due. The balance of this note was \$18,167 as of December 31, 2021. Future principal and interest payments are as follows:

FULTON COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2021  
(Continued)

Note 4. Long-Term Debt

A. Direct Borrowings (Continued)

	Calendar Year Ended December 31	Principal	Interest
2022		\$ 6,572	\$ 661
2023		6,864	369
2024		4,731	76
Totals		<u>\$ 18,167</u>	<u>\$ 1,106</u>

B. Changes In Long-term Debt

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Direct Borrowings	\$ 24,458	\$	\$ 6,291	\$ 18,167	\$ 6,572
Total Long-term Debt	<u>\$ 24,458</u>	<u>\$ 0</u>	<u>\$ 6,291</u>	<u>\$ 18,167</u>	<u>\$ 6,572</u>

Note 5. Other Accounts

A. Drug Forfeiture Fund

The Fulton County Sheriff maintains a drug forfeiture fund. The account is to be funded by court-ordered forfeitures of money, proceeds from the sale of forfeited property, or interest received on these funds. The funds are restricted under state regulations and are to be used for various law enforcement operations, equipment, and education to fight against the drug problems of the county. As of January 1, 2021, the drug forfeiture fund had a balance of \$7,849. During the year, receipts totaled \$4,501 and disbursements totaled \$11,736. As of December 31, 2021, the balance of the account was \$614.

B. Federal Drug Forfeiture Fund

The Fulton County Sheriff maintains a federal drug forfeiture fund. The account is to be funded by forfeitures awarded in federal drug cases and interest earned on deposits. The funds are restricted under federal regulations and are to be used for various law enforcement operations, equipment, and education to fight against the drug problems in the county. Funds are not subject to be turned over as excess fees. As of January 1, 2021, the federal drug forfeiture fund had a balance of \$0. There were no receipts or disbursements during the year. As of December 31, 2021, the balance of the account was \$0.

FULTON COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2021  
(Continued)

Note 6. Fiduciary Accounts

A. Escrow Account

The Fulton County Sheriff held outstanding checks in a non-interest-bearing custodial account. During the year, the sheriff turned over \$453 of escrowed funds to the Kentucky State Treasurer as unclaimed property. As of December 31, 2021, the balance of the account was \$0.

B. Sheriff's Evidence Holding Account

The Fulton County Sheriff deposited cash evidence into a custodial bank account. These funds are held until a resolution in the form of a court order is received. The funds are then remitted in accordance with the court order. The account had a beginning balance of \$19,705 with receipts of \$24,488 and \$4,493 of disbursements for calendar year 2021. The account balance was \$39,700 as of December 31, 2021.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With *Government Auditing Standards*

Independent Auditor's Report

The Honorable Jim Martin, Fulton County Judge/Executive  
The Honorable Derek Goodson, Fulton County Sheriff  
Members of the Fulton County Fiscal Court

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the Fulton County Sheriff for the year ended December 31, 2021, and the related notes to the financial statement and have issued our report thereon dated October 14, 2022. The Fulton County Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statement, we considered the Fulton County Sheriff's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Fulton County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fulton County Sheriff's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control 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 and other deficiencies that we consider to be significant deficiencies.

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 2021-001, 2021-002, 2021-003, and 2021-004 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)

**Internal Control over Financial Reporting (Continued)**

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2021-005 and 2021-006 to be significant deficiencies.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Fulton County Sheriff'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 financial statement. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed 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 2021-002, 2021-003, and 2021-004.

**Views of Responsible Official and Planned Corrective Action**

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

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

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

Mike Harmon  
Auditor of Public Accounts  
Frankfort, KY

October 14, 2022

## SCHEDULE OF FINDINGS AND RESPONSES

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FULTON COUNTY  
DEREK GOODSON, SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2021

FINANCIAL STATEMENT FINDINGS:

2021-001    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.

*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.*

FULTON COUNTY  
DEREK GOODSON, SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended December 31, 2021  
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2021-002 The Fulton County Sheriff's Fourth Quarter Financial Statement Was Materially Misstated

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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.

*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 31<sup>st</sup>, will be added to the report at a later date and that report will be titled as my fourth quarter amendment.*



FULTON COUNTY  
DEREK GOODSON, SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended December 31, 2021  
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2021-003 An Employee Of The Sheriff's Office Was Improperly Paid In Advance

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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. The Department for Local Government's (DLG) *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 the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*.

*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.*

2021-004 The Fulton County Sheriff Did Not Make Deposits Daily

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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. The Department for Local Government's (DLG) *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.

FULTON COUNTY  
DEREK GOODSON, SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended December 31, 2021  
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2021-004 The Fulton County Sheriff Did Not Make Deposits Daily (Continued)

*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.*

2021-005 The Fulton County Sheriff Did Not Pay All Disbursements By Check

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 the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* by ensuring that all disbursements are paid by check.

*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.*

2021-006 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.

FULTON COUNTY  
DEREK GOODSON, SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended December 31, 2021  
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2021-006 The Fulton County Sheriff Failed To Properly Turn Over Payroll Withholdings To The Fiscal Court  
(Continued)

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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.

*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.*