

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

**For The Period  
September 22, 2016 Through December 31, 2016**



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

The Honorable Jim Martin, Fulton County Judge/Executive  
The Honorable Robert Woods, Jr., Fulton County Sheriff  
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 Excess Fees - Regulatory Basis of the Sheriff of Fulton County, Kentucky, for the period September 22, 2016 through December 31, 2016, and the related notes to the financial statement.

**Management's Responsibility for the Financial Statement**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Audit Guide for County Fee Officials* 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.



The Honorable Jim Martin, Fulton County Judge/Executive  
 The Honorable Robert Woods, Jr., Fulton County Sheriff  
 Members of the Fulton County Fiscal Court

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

As described in Note 1 of the financial statement, the financial statement is prepared by the Fulton County Sheriff on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

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

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the Fulton County Sheriff, as of December 31, 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 receipts, disbursements, and excess fees of the Fulton County Sheriff for the period September 22, 2016 through December 31, 2016, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2017, 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 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 entity'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:

- 2016-001 The Fulton County Sheriff Had \$123 Of Disallowed Disbursements From The 2016 Fee Account
- 2016-002 The Fulton County Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,



Mike Harmon  
 Auditor of Public Accounts

September 7, 2017

FULTON COUNTY  
ROBERT WOODS, JR., SHERIFF  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Period September 22, 2016 Through December 31, 2016

Receipts

State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)	\$	3,451
State Fees For Services:		
Finance and Administration Cabinet	\$	8,438
Sheriff Security Service		10,912
		<u>2,474</u>
Circuit Court Clerk:		
Fines and Fees Collected		2,054
Fiscal Court		27,514
County Clerk - Delinquent Taxes		91
Commission On Taxes Collected		98,175
Fees Collected For Services:		
Auto Inspections	665	
Accident and Police Reports	33	
Serving Papers	2,389	
Carry Concealed Deadly Weapon Permits	525	3,612
		<u>11</u>
Other:		
Miscellaneous		474
Interest Earned		<u>11</u>
Total Receipts		146,294

Disbursements

Operating Disbursements:

Personnel Services-		
Deputies' Salaries	\$	26,850
KLEFPF		2,667
Contracted Services-		
Vehicle Maintenance and Repairs	9,253	
Auto Expense	15	

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

FULTON COUNTY  
 ROBERT WOODS, JR., SHERIFF  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
 For The Period September 22, 2016 Through December 31, 2016  
 (Continued)

Disbursements (Continued)

Operating Disbursements: (Continued)

Materials and Supplies-

Office Materials and Supplies \$ 2,834

Uniforms 1,898

Auto Expense-

Gasoline 878

Law Enforcement Equipment 3,869

Computer Expense 135

Business Phone 2,174

Other Charges-

Dues 545

Postage 16

Travel Expense 2,803

Miscellaneous 281 \$ 54,218

Debt Service:

State Advancement 52,366

Notes 4,242

Interest 109 56,717

Total Disbursements \$ 110,935

Less: Disallowed Disbursements 123

Total Allowable Disbursements 110,812

Net Receipts 35,482

Less: Statutory Maximum 19,236

Excess Fees 16,246

Less: Training Incentive Benefit 992

Excess Fees Due County for 2016 15,254

Payments to Fiscal Court - November 7, 2016 15,000

July 14, 2017 131 15,131

Balance Due Fiscal Court at Completion of Audit \$ 123

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



FULTON COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2016

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 settle excess fees with the fiscal court at the time he files his annual settlement with the fiscal court on or before September 1 of each year. KRS 64.830 requires an outgoing sheriff to settle excess fees 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 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) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2016 services
- Reimbursements for 2016 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2016

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).

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

The county official and employees have elected to participate, pursuant to KRS 78.530, in the County Employees Retirement System (CERS), which is administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). 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.

FULTON COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2016  
 (Continued)

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

Nonhazardous

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 KRS 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 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 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 17.06 percent for the first six months and 18.68 percent for the last six months.

Health Insurance Coverage

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:

<b>Years of Service</b>	<b>% Paid by Insurance Fund</b>	<b>% Paid by Member through Payroll Deduction</b>
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, 2016  
 (Continued)

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

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 3. Deposits

The Fulton County Sheriff 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 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.

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 KRS 66.480(1)(d) and KRS 41.240. As of December 31, 2016, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of November 2, 2016, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured           \$271,196

Note 4. Drug Forfeiture Fund

The Fulton County Sheriff maintained a drug forfeiture fund. The account is to be funded by court-ordered forfeitures of money or proceeds from the sale of forfeited property, and interest received on these funds. The funds are to be used for various law enforcement operations, equipment, and education. As of September 22, 2016, the drug forfeiture fund had a balance of \$4,996. During the period, the account earned \$1 of interest and expended \$1,238. As of December 31, 2016, the balance in the account was \$3,759.

FULTON COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2016  
 (Continued)

Note 5. Promissory Note

The Fulton County Sheriff's office was liable for a secured promissory note to a local bank in the amount of \$59,969. The purpose of the note was to purchase law enforcement vehicles. The note matures in July 2017 and the interest rate is 3.375 percent. As of December 31, 2016, the principal balance of the note was \$6,434. The office of the former sheriff was in compliance with the terms of the agreement as of December 31, 2016.

Year Ended December 31,	Principal	Interest
2017	<u>\$ 6,434</u>	<u>\$ 57</u>
Total	<u>\$ 6,434</u>	<u>\$ 57</u>

Note 6. State Advancement

The former Fulton County Sheriff's office received a state advancement totaling \$65,000 in January 2016. The office of the former sheriff repaid \$12,634 of this amount on January 24, 2017. The balance of \$52,366 was repaid by the current sheriff on January 24, 2017.

Note 7. Former Sheriff

The former Fulton County Sheriff, Robert Hopper, Jr. passed away on September 17, 2016. Robert Woods, Jr. was appointed Fulton County Sheriff by the county judge/executive on September 22, 2016.

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

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

The Honorable Jim Martin, Fulton County Judge/Executive  
The Honorable Robert Woods, Jr., Fulton County Sheriff  
Members of the Fulton County Fiscal Court

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

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the Fulton County Sheriff for the period September 22, 2016 through December 31, 2016, and the related notes to the financial statement and have issued our report thereon dated September 7, 2017. 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) 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 Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fulton County Sheriff's internal control.

*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. *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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified a certain deficiency in internal control, which is described in the accompanying Schedule of Findings and Responses as item 2016-002 at we consider to be a significant deficiency.



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 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 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2016-001.

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

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

**Purpose of this Report**

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

Respectfully submitted,



Mike Harmon  
Auditor of Public Accounts

September 7, 2017



SCHEDULE OF FINDINGS AND RESPONSES

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FULTON COUNTY  
ROBERT WOODS, JR., SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES

For The Period September 22, 2016 Through December 31, 2016

STATE LAWS AND REGULATIONS:

2016-001 The Fulton County Sheriff Had \$123 Of Disallowed Disbursements From The 2016 Fee Account

The Fulton County Sheriff had \$123 of disallowed disbursements from the 2016 fee account. A disbursement for \$123 for employee meals during election night was unnecessary, and thus it is disallowed. According to the sheriff, the meal was provided to employees that worked the polls after office hours and he was not aware this was not allowed.

In Funk vs. Milliken, 317 S.W.2d 499 (Ky. 1958), Kentucky's highest court ruled that county fee officials' expenditures of public funds will be allowed only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not primarily personal in nature. Because the sheriff expended public funds for employee meals which were not considered necessary for the office, he is not in compliance with Funk vs. Milliken.

We recommend the Fulton County Sheriff repay \$123 to the fiscal court as additional excess fees.

*Sheriff's Response: The entire \$123 was the result of purchasing food for the entire office staff that is required to stay and work the voting polls after office hours every year. This office was unaware that this was a disallowed expenditure and in the future will be providing our own meals the day of the election. The Fiscal Court has since then approved this expenditure.*

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2016-002 The Fulton County Sheriff's Office Lacks Adequate Segregation Of Duties

The Fulton County Sheriff's office lacks adequate segregation of duties. The bookkeeper is required to perform multiple tasks such as the collection of cash from customers, daily checkout procedures, deposit preparation, bookkeeping, and bank reconciliations. To offset this lack of segregation of duties, the sheriff implemented compensating controls including dual signatures and cross-checking procedures; however, these procedures were not sufficient to reduce the risks associated with the lack of segregation of duties. According to the sheriff, this lack of segregation of duties is caused by the diversity of operations with a limited number of 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. A lack of segregation of duties or strong oversight increases the risk of undetected errors or fraud.

To adequately protect against the misappropriation of assets and inaccurate financial reporting, we recommend the sheriff 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 staff, strong management oversight by the sheriff or designee can be a cost effective alternative. This oversight should include reviewing monthly bank reconciliations and the receipts and disbursements ledgers. Documentation, such as the sheriff's or a designee's initials or signature, should be provided on those items that are reviewed.

*Sheriff's Response: The Sheriff's Office has reviewed our current procedures and has added several changes to document all transaction, so that there is more of a system of check and balances within the office.*