



Auditor of Public Accounts
Mike Harmon

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Contact: Michael Goins
Michael.Goins@ky.gov
502.564.5841
502.209.2867

Harmon Releases Audit of Fulton County Sheriff's Tax Settlement

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2020 taxes for 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 sheriff's settlement presents fairly the taxes charged, credited and paid in accordance with accounting principles generally accepted in the United States of America. The sheriff's settlement is prepared on the regulatory basis, which is described in the auditor's opinion letter. Regulatory basis reporting for the sheriff's settlement is an acceptable reporting methodology, and this reporting methodology is followed for all 120 sheriff settlements in Kentucky.

The sheriff's financial statement fairly presents the taxes charged, credited and paid for the period May 16, 2020 through April 15, 2021 in conformity with the regulatory basis of accounting.

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 comment:

The Fulton County Sheriff failed to distribute all tax collections by the tenth day of the month as required by statute: The Fulton County Sheriff failed to distribute all tax collections by the tenth day of the month as required by statute. Franchise taxes totaling \$239,054 were collected in July 2020, however these collections were not distributed to the districts until September 2020. Additionally, \$84,603 of property taxes collected in February, March, and April 2021 were not distributed to the districts until July 2021. Because tax collections were not properly distributed to

the districts by the tenth day of each month, tax collections were vulnerable to misappropriation and loss. Furthermore, the taxing districts were denied funds that they rely on to provide services to Fulton County. Additionally, the sheriff is not in compliance with KRS 134.191.

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

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

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

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

The Fulton County Sheriff’s Office does not have adequate segregation of duties with inadequate compensating controls: The Fulton County Sheriff’s Office does not have adequate segregation of duties over the accounting and reporting of tax collections. The bookkeeper’s primary responsibilities include collecting taxes, preparing daily deposits, processing monthly tax reports, preparing and signing checks, performing monthly bank reconciliations, and preparing the annual tax settlement. To offset this control deficiency, the sheriff has implemented compensating controls such as reviewing deposits, reviewing and signing monthly reports, reviewing monthly bank reconciliations, and requiring dual signatures on checks. However these compensating

controls were not sufficient in offsetting the risks caused by the lack of segregation of duties which resulted in the sheriff not distributing tax payments timely as noted in Finding 2020-001.

A lack of segregation of incompatible duties or strong oversight could result in the misappropriation of assets and inaccurate financial reporting to external agencies such as the Fulton County Fiscal Court. Without proper segregation of duties or effective compensating controls, such misappropriation or inaccurate financial reporting could go undetected. Proper segregation of duties over the receipts and disbursements functions or implementation of compensating controls, when necessary because of a limited number of staff, is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

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

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

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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