

**REPORT OF THE AUDIT OF THE
MADISON COUNTY
SHERIFF**

**For The Year Ended
December 31, 2017**



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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Reagan Taylor, Madison County Judge/Executive
The Honorable Mike Coyle, Madison County Sheriff
Members of the Madison County Fiscal Court

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying Statement of Receipts and Disbursements - Regulatory Basis of the Sheriff of Madison County, Kentucky, and the Statement of Receipts, Disbursements, and Fund Balances of the Sheriff's Operating Fund and County Fund with the State Treasurer - Regulatory Basis for the year ended December 31, 2017, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements 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 statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements 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 statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, 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 statements 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 statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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AN EQUAL OPPORTUNITY EMPLOYER M / F / D



The Honorable Reagan Taylor, Madison County Judge/Executive
 The Honorable Mike Coyle, Madison County Sheriff
 Members of the Madison County Fiscal Court

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

As described in Note 1 of the financial statements, the financial statements are prepared by the Madison 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 statements 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 statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the Madison County Sheriff, as of December 31, 2017, 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 statements referred to above present fairly, in all material respects, the receipts and disbursements of the Madison County Sheriff and the receipts, disbursements, and fund balances of the Madison County Sheriff's operating fund and county fund with the state treasurer for the year ended December 31, 2017, 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 August 16, 2019, on our consideration of the Madison 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:

- 2017-001 The Madison County Sheriff Does Not Have Adequate Segregation Of Duties For Receipts, Disbursements, And Reconciliations
- 2017-002 The Madison County Sheriff Expended Funds For Unallowable Items

Respectfully submitted,



Mike Harmon
 Auditor of Public Accounts

August 16, 2019

MADISON COUNTY
 MIKE COYLE, SHERIFF
STATEMENT OF RECEIPTS AND DISBURSEMENTS - REGULATORY BASIS

For The Year Ended December 31, 2017

Receipts

Federal Grant		\$ 28,403
State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)		132,342
State Fees for Services:		
Finance and Administration Cabinet	\$ 234,619	
Sheriff Security Service	36,639	
Cabinet For Health And Family Services	<u>771</u>	272,029
Circuit Court Clerk:		
Fines/Fees Collected	15,120	
Court Ordered Payments	<u>4,445</u>	19,565
Fiscal Court		1,130,095
County Clerk - Delinquent Taxes		109,363
Commission on Taxes		1,294,682
Fees Collected for Services:		
Auto Inspections	44,775	
Accident/Police Reports	2,009	
Serving Papers	107,204	
Carry Concealed Deadly Weapon Permits	<u>33,945</u>	187,933
Other:		
Add-On Fees	92,415	
Fingerprints	840	
Eastern State Hospital Transport	1,568	
Telecommunications Tax	13,955	
Proceeds from Auction	3,230	
Fiscal Court Ordinance Fees	22,540	
Miscellaneous (includes Reimb., copies, Imprest, etc.)	<u>50,785</u>	<u>185,333</u>
Total Receipts		3,359,745

The accompanying notes are an integral part of the financial statements.

MADISON COUNTY
MIKE COYLE, SHERIFF
STATEMENT OF RECEIPTS AND DISBURSEMENTS - REGULATORY BASIS
For The Year Ended December 31, 2017
(Continued)

Disbursements

Payments to County:

Fees Collected - Fiscal Court	<u>\$ 18,589</u>	
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Total Disbursements		<u>\$ 18,589</u>
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Less: Disallowed Disbursements

Unnecessary Items (Flowers)	264	
Unsupported Credit Card Purchase	<u>35</u>	<u>299</u>

Total Allowable Disbursements		<u>18,290</u>
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Net Receipts		3,341,455
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Payments to State Treasurer:

75% Operating Fund *	3,053,974	
25% County Fund	<u>286,836</u>	<u>3,340,810</u>

Balance Due at Completion of Audit		<u><u>\$ 645</u></u>
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* Includes reimbursed expenses in the amount of \$2,189,864 for the audit period.
See Note 1 of Notes to Financial Statements.

MADISON COUNTY
MIKE COYLE, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
FUND BALANCES OF THE SHERIFF'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS

For The Year Ended December 31, 2017

	75% Operating Fund	25% County Fund	Totals
Fund Balance - January 1, 2017	\$ (1,104,008)	\$	\$ (1,104,008)
<u>Receipts</u>			
Fees Paid to State - Operating Funds (75%)	3,053,974		3,053,974
Fees Paid to State - County Funds (25%)		286,836	286,836
Total Funds Available	1,949,966	286,836	2,236,802
<u>Disbursements</u>			
Madison County Fiscal Court		286,836	286,836
Personal Services-			
Official's Statutory Maximum	109,395		109,395
Official's Training Incentive	4,052		4,052
Deputies' Salaries	1,044,926		1,044,926
Part Time Salaries	161,863		161,863
KLEFPF	130,675		130,675
Other Payroll	294,211		294,211
Employee Benefits-			
Employer's Share Social Security	128,936		128,936
Employer's Share Retirement	368,489		368,489
Employer's Share Health Insurance	182,708		182,708
Workers' Compensation	8,886		8,886
Unemployment Insurance	14,114		14,114
Contracted Services-			
Advertising	420		420
Audit Expenses	18,000		18,000
Prisoner Transports	1,123		1,123
Technical Programming Support	27,356		27,356

The accompanying notes are an integral part of the financial statements.

MADISON COUNTY
MIKE COYLE, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
FUND BALANCES OF THE SHERIFF'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS
For The Year Ended December 31, 2017
(Continued)

	75%	25%	
	Operating	County	Totals
	<u>Fund</u>	<u>Fund</u>	
<u>Disbursements (Continued)</u>			
Supplies and Materials-			
Office Supplies	\$ 15,773	\$	\$ 15,773
Uniforms/Equipment	16,215		16,215
Other Charges-			
Convention	15,510		15,510
Bond Fees	1,000		1,000
Dues	2,466		2,466
Insurance - Vehicle	55,000		55,000
Law Enforcement Liability	31,356		31,356
Postage	916		916
Canine	2,310		2,310
Phone and Internet	22,519		22,519
Equipment and Training	23,494		23,494
Record System	5,084		5,084
Subscriptions	5,914		5,914
Security Cameras and Supplies	3,999		3,999
Auto Expenses-			
Gasoline	123,568		123,568
Maintenance and Repairs	35,000		35,000
Lease Payments	1,305		1,305
Capital Outlay-			
Vehicles	59,929		59,929
Total Disbursements	<u>2,916,512</u>	<u>286,836</u>	<u>3,203,348</u>
Less: Disallowed Disbursements	<u>(299)</u>		<u>(299)</u>
Total Allowable Disbursements	<u>2,916,213</u>	<u>286,836</u>	<u>3,203,049</u>
Fund Balance - December 31, 2017	<u>\$ (966,247)</u>	<u>\$ 0</u>	<u>\$ (966,247)</u>

The accompanying notes are an integral part of the financial statements.

MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

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 due from the sheriff as determined by the audit.

KRS 64.350 establishes that a fee official in counties with a population over 70,000 has two funds with the state treasurer for the deposit of fees collected. Seventy-five percent (75%) of the fees collected are deposited in the sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected are deposited to the county fiscal court fund and paid to the fiscal courts, urban-county governments, or consolidated local governments of the respective counties quarterly no later than April 15, July 15, October 15, and January 15. These funds are closed at the end of each official term by paying the balances to the respective county government.

Also, some revenues of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are treated as revenue in the 75 percent fund.

The financial statements have been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. 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:

- Interest receivable
- Collection on accounts due from others for 2017 services
- Reimbursements for 2017 activities
- Payments due other governmental entities for December tax and fee collections
- Payroll expenditures incurred but not paid
- Payments due vendors for goods or services provided in 2017

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).

MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017
(Continued)

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.

The sheriff's contribution for calendar year 2015 was \$363,474, calendar year 2016 was \$366,418, and calendar year 2017 was \$368,489.

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 and one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A nonhazardous 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 18.68 percent for the first six months and 19.18 percent for the last six months.

Hazardous

Hazardous covered employees are required to contribute eight percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008, are required to contribute nine percent of their salary to be allocated as follows: eight 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.

MADISON COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2017
 (Continued)

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

Hazardous (Continued)

Members in the plan contribute a set percentage of their salary each month to their own account. Hazardous members contribute eight percent of their annual creditable compensation and one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A hazardous member's account is credited with a seven and one half percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008, aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

The county's contribution rate for hazardous employees was 31.06 percent for the first six months and 31.55 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:

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%

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.

Hazardous employees whose participation began on or after July 1, 2003, earn 15 dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, the employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. 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.

MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017
(Continued)

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

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.

KRS also issues a proportionate share audit report that includes the total pension liability for CERS determined by actuarial valuation as well as each participating county's proportionate share. The Schedules of Employer Allocations and Pension Amounts by Employer report and the related actuarial tables are available online at <https://kyret.ky.gov/Employers/Resources/Pages/GASB.aspx>. 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 Madison 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 Madison 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, 2017, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Forfeited Funds

The Madison County Sheriff maintains a forfeited funds account. These funds were used in law enforcement activities against illegal drug use and are not considered in determining excess fees. As of January 1, 2017, the sheriff had a balance of \$29,026. During the year, the sheriff received \$0 and disbursed \$24,972, leaving a balance of \$4,054 as of December 31, 2017.

Note 5. Donations Account

The Madison County Sheriff maintains a donations account. The purpose of these funds is to further the public purpose of the office and not to supplement the sheriff's normal operating budget; therefore, they are not considered in determining excess fees. As of January 1, 2017, the sheriff had a balance of \$3,536. During the year, the sheriff received \$1,825 and disbursed \$3,798, leaving a balance of \$1,563 as of December 31, 2017.

Note 6. Federal Highway Safety Grant

The Madison County Sheriff received a federal grant passed through from the Kentucky Transportation Cabinet Office of Highway Safety for equipment and personnel expenses. The sheriff received \$28,403 during calendar year 2017.

MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017
(Continued)

Note 7. Seized Account

The Madison County Sheriff maintains an account for all seized monies. The use of these monies is determined by a court order granting forfeited funds to the sheriff's office; therefore, they are not included as excess fees. As of January 1, 2017, the sheriff had a balance of \$51,795. During the year, the sheriff received \$28,994 and disbursed \$1,571, leaving a balance of \$79,218 as of December 31, 2017.

Note 8. MCSO Seized Account

The Madison County Sheriff maintains an account for funds seized and turned over by the state. The use of these monies is for expenses of the sheriff's office and will not be included as excess fees. This account was opened in September 2017. During the year, the sheriff received \$2,728 and disbursed \$0, leaving a balance of \$2,728 as of December 31, 2017.

Note 9. 75% Operating Fund - Deficit Balance

The Madison County Sheriff's 75% operating fund had a deficit balance of \$966,247 as of December 31, 2017. KRS 64.345(4) states, in part, "[i]f seventy-five percent (75%) of the amount paid into the State Treasury in any month by any of such officers is not sufficient to pay the salaries and expenses of his office for that month, the deficit may be made up out of the amount paid in any succeeding month; but in no event shall the amount allowed by the Finance and Administration Cabinet to any officer for salaries and expenses exceed seventy-five percent (75%) of the amount paid to the Finance and Administration Cabinet by the officer during his official term." The 75% operating fund must be settled at the end of the sheriff's term, which ends December 31, 2018.

Note 10. Contingencies

The Madison County Sheriff's office is involved in a lawsuit that arose from the normal course of doing business. Due to the uncertainty of the litigation, a reasonable estimate of the financial impact on the county cannot be made at this time.

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

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Reagan Taylor, Madison County Judge/Executive
The Honorable Mike Coyle, Madison County Sheriff
Members of the Madison County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements 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 and Disbursements - Regulatory Basis of the Sheriff of Madison County, Kentucky, the Statement of Receipts, Disbursements, and Fund Balances of the Sheriff's Operating Fund and County Fund with the State Treasurer - Regulatory Basis for the year ended December 31, 2017, and the related notes to the financial statements, and have issued our report thereon dated August 16, 2019. The Madison County Sheriff's financial statements are 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 statements, we considered the Madison 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 statements, but not for the purpose of expressing an opinion on the effectiveness of the Madison County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Madison 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 statements 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 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 certain deficiencies in internal control described in the accompanying Schedule of Findings and Responses as items 2017-001 and 2017-002 that we consider to be significant deficiencies.



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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Madison County Sheriff's financial statements are 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

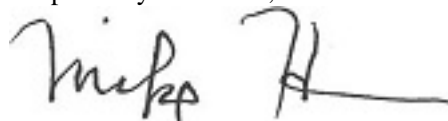
Views of Responsible Official and Planned Corrective Action

The Madison County Sheriff's views and planned corrective actions for the findings identified in our audit are included in the accompanying Schedule of Findings and Responses. The Madison County Sheriff's responses were not subject to the auditing procedures applied in the audit of the financial statements 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

August 16, 2019

SCHEDULE OF FINDINGS AND RESPONSES

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MADISON COUNTY
MIKE COYLE, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2017

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES:

2017-001 The Madison County Sheriff Does Not Have Adequate Segregation Of Duties For Receipts, Disbursements, And Reconciliations

This is a repeat finding and was reported in the prior year audit as finding 2016-001. The sheriff's bookkeeper is responsible for collecting receipts, preparing deposits, preparing daily checkout sheets, posting to ledgers, and performing bank reconciliations. The sheriff or another employee did not document oversight of bank reconciliations. The sheriff's bookkeeper is also responsible for preparing purchase orders, preparing checks, and signing checks.

This lack of segregation of duties is a result of a limited budget, which restricts the number of employees the sheriff can hire and delegate responsibilities to. This deficiency increases the risk of misappropriation of assets, errors, and inaccurate financial reporting to external agencies, such as the Department for Local Government.

The segregation of duties over various accounting functions such as preparing deposits, preparing daily checkout sheets, and issuing cash receipts is essential for providing protection from asset misappropriation and inaccurate financial reporting. Good internal controls further dictate that duties of preparing purchase orders, preparing checks, signing checks, posting to ledgers, and reconciliations of ledgers to bank accounts be segregated. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the sheriff segregate duties over receipts, bank reconciliations, and disbursements. If segregation of duties is not feasible due to lack of staff, the sheriff could implement compensating controls to help mitigate any weakness. The sheriff could:

- Require an employee other than the preparer to reconcile the daily deposits to the daily checkout sheets,
- Review the monthly bank reconciliations and document his review by initialing,
- Ensure an employee who did not prepare the deposit take the deposit to the bank, and
- Examine proper supporting documentation for checks prepared by another employee and document his review by initialing.

Sheriff's Response: Receipts, disbursements, and reconciliations have now been distributed between six employees to check.

2017-002 The Madison County Sheriff Expended Funds For Unallowable Items

The sheriff expended fee account funds for items not necessary to the function of the sheriff's office. The sheriff's office made three disbursements, totaling \$264, for flowers and paid \$35 for fuel that did not have any supporting documentation.

Controls were not in place to ensure funds were spent only on allowable items and that all purchases were adequately supported. Expending funds on unallowable items result in fewer funds to spend on allowable items.

MADISON COUNTY
MIKE COYLE, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2017
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2017-002 The Madison County Sheriff Expended Funds For Unallowable Items (Continued)

In the case of Funk v. Milliken, 317 S.W.2d 499 (Ky. 1958), Kentucky's highest court reaffirmed the rule that county fee officials' expenditures of public funds will be allowable only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not personal expenses.

We recommend the sheriff ensure all funds spent from the fee account are for allowable expenditures for direct law enforcement purposes and properly supported prior to payment. Furthermore, we recommend the sheriff reimburse the fee account for the total of \$299.

Sheriff's Response: This issue was corrected in 2018.