

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

**For The Year Ended
December 31, 2018**



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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, 2018, 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.



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 the Madison County Sheriff, as of December 31, 2018, 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, 2018, 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 December 18, 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.

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

Other Reporting Required by *Government Auditing Standards* (Continued)

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:

- 2018-001 The Sheriff's 75% Operating Fund Had A Deficit Balance At End Of Term
- 2018-002 The Madison County Sheriff Expended Funds For Unallowable Items
- 2018-003 The Madison County Sheriff Does Not Have Adequate Segregation Of Duties For Disbursements And Reconciliations

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

December 18, 2019

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

For The Year Ended December 31, 2018

Receipts

Federal Highway Safety Grant	\$	29,962	
State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)			144,539
State Fees for Services:			
Finance and Administration Cabinet	\$	213,749	
Sheriff Security Service		38,349	
Cabinet For Health And Family Services		<u>928</u>	253,026
Circuit Court Clerk:			
Fines/Fees Collected		16,359	
Court Ordered Payments		<u>4,059</u>	20,418
Fiscal Court			989,953
County Clerk - Delinquent Taxes			114,780
Commission on Taxes			1,375,766
Fees Collected for Services:			
Auto Inspections		41,461	
Accident /Police Reports		5,180	
Serving Papers		136,202	
Carry Concealed Deadly Weapon Permits		<u>43,120</u>	225,963
Other:			
Add-On Fees		89,908	
Miscellaneous		53,666	
Fingerprints		725	
Eastern State Hopsital		1,566	
Telecommunications Tax		15,119	
Fiscal Court Ordinance Fees		<u>29,230</u>	<u>190,214</u>
Total Receipts			3,344,621

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, 2018
 (Continued)

Disbursements

Payments to County:		
Fees Collected - Fiscal Court	\$	26,911
Total Disbursements		<u>\$ 26,911</u>
Net Receipts		3,317,710
Payments to State Treasurer:		
75% Operating Fund *	3,007,566	
25% County Fund	<u>310,144</u>	<u>3,317,710</u>
Balance Due at Completion of Audit		<u><u>\$ 0</u></u>

* Includes reimbursed expenses in the amount of \$2,076,081 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, 2018

	75% Operating Fund	25% County Fund	Totals
Fund Balance - January 1, 2018	\$ (966,247)	\$	\$ (966,247)
<u>Receipts</u>			
Fees Paid to State - Operating Funds (75%)	3,007,566		3,007,566
Fees Paid to State - County Funds (25%)		310,144	310,144
Total Funds Available	<u>2,041,319</u>	<u>310,144</u>	<u>2,351,463</u>
<u>Disbursements</u>			
Madison County Fiscal Court		310,144	310,144
Personal Services-			
Official's Statutory Maximum	111,840		111,840
Official's Training Incentive	4,137		4,137
Deputies' Salaries	1,157,049		1,157,049
Part Time Salaries	142,597		142,597
KLEFPF	143,685		143,685
Other Payroll	306,191		306,191
Employee Benefits-			
Employer's Share Social Security	138,332		138,332
Employer's Share Retirement	405,899		405,899
Employer's Share Health Insurance	191,509		191,509
Workers' Compensation	7,427		7,427
Unemployment Insurance	9,207		9,207
Contracted Services-			
Advertising	1,514		1,514
Maintenance -Vehicles	40,000		40,000
Auditor	25,000		25,000
Technical Programming Support	10,000		10,000

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, 2018
(Continued)

	75%	25%	
	Operating	County	
	Fund	Fund	Totals
Disbursements (Continued)			
Supplies and Materials-			
Office Supplies	\$ 21,710	\$	\$ 21,710
Uniforms/Equipment	19,845		19,845
Data Processing (MDT)	5,000		5,000
Deputy Equipment	29,984		29,984
IT Service	31,570		31,570
Subscriptions	4,753		4,753
Other Charges-			
Bond Fees	586		586
Dues	2,500		2,500
Insurance - Vehicle	56,953		56,953
Postage	2,367		2,367
Telephone/Fax/Cellular	25,168		25,168
Training	17,642		17,642
Transport	1,957		1,957
Vehicle Equipment	2,513		2,513
Law Enforcement Liability	29,325		29,325
Canine	3,102		3,102
Auto Expenses-			
Gasoline	124,885		124,885
Capital Outlay-			
Vehicles and Equipment	162,051		162,051
Total Disbursements	<u>3,236,298</u>	<u>310,144</u>	<u>3,546,442</u>
Less: Disallowed Disbursements	<u>(485)</u>		<u>(485)</u>
Total Allowed Disbursements	<u>3,235,813</u>	<u>310,144</u>	<u>3,545,957</u>
Fund Balance - December 31, 2018	* <u>\$ (1,194,494)</u>	<u>\$ 0</u>	<u>\$ (1,194,494)</u>

* The Madison County Fiscal Court paid \$1,195,278 on April 2019; however, the sheriff owes \$299 and \$485 for 2017 and 2018 disallowed disbursements, respectively.

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

MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

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 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), at December 31:

- Interest receivable
- Collection on accounts due from others for 2018 services
- Reimbursements for 2018 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 2018

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, 2018
(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 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 2016 was \$366,418, calendar year 2017 was \$368,489, and calendar year 2018 was \$405,899.

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 KRS 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 19.18 percent for the first six months and 21.48 percent for the last six months.

Hazardous

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008, are required to contribute 9 percent of their salary to be allocated as follows: 8 percent will go to the member's account and 1 percent will go to the KRS insurance fund.

MADISON COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2018
 (Continued)

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

Hazardous (Continued)

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. Hazardous members contribute eight percent of their annual creditable compensation and 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 hazardous member's account is credited with a 7.5 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 31.55 percent for the first six months and 35.34 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%

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.

MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018
(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)

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.

Benefits are covered under KRS 161.714 with exception of COLA and retiree health benefits after July 2003.

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

Once members reach a minimum vesting period of 15 years, 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 161.714 with exception of COLA and retiree health benefits after July 2003. Tier 3 members are not covered by the same provisions.

C. Health Insurance Coverage - Tier 2 and Tier 3 - Hazardous

Once members reach a minimum vesting period of 15 years, earn fifteen 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. 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 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 COLA since July 2003 when the law changed. The annual increase is cumulative and continues to accrue after the member's retirement.

D. Cost of Living Adjustments - Tier 1

The 1996 General Assembly enacted an automatic cost of living adjustment (COLA) provision for all recipients of KRS 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.

MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018
(Continued)

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

Other Post-Employment Benefits (OPEB) (Continued)

E. 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.

F. 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.

KRS Annual Financial Report and Proportionate Share Audit Report

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 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 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, 2018, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018
(Continued)

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, 2018, the sheriff had a balance of \$4,054. During the year, the sheriff received \$0 and disbursed \$4,054, leaving a balance of \$0 as of December 31, 2018.

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, 2018, the sheriff had a balance of \$1,563. During the year, the sheriff received \$520 and disbursed \$1,282, leaving a balance of \$801.

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 \$29,962 as of December 31, 2018.

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, 2018, the sheriff had a balance of \$79,218. During the year, the sheriff received \$31,200 and disbursed \$55,552, leaving a balance of \$54,866 as of December 31, 2018.

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. As of January 1, 2018, the sheriff had a balance of \$2,728. During the year, the sheriff received \$61,263 and disbursed \$36, leaving a balance of \$63,955.

Note 9. 75% Operating Fund - Deficit Balance

The Madison County Sheriff's 75% operating fund had a deficit balance of \$1,194,793 as of December 31, 2018. 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. Lease Agreement

The Madison County Sheriff's office was committed to a lease agreement for a postage meter. The agreement requires a monthly payment of \$60 for 60 months to be completed September 2022. The total remaining balance of the agreement was \$2,881 as of December 31, 2018.

MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018
(Continued)

Note 11. 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.

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, 2018, and the related notes to the financial statements, and have issued our report thereon dated December 18, 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 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.

Our consideration of internal control 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 a certain deficiency in internal control that we consider to be a material weakness 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 statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2018-001 to be a material weakness.



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)

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 2018-002 and 2018-003 to be significant deficiencies.

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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which is described in the accompanying Schedule of Findings and Responses as item 2018-001.

Views of Responsible Official and Planned Corrective Action

The Madison 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 Madison County Sheriff's responses were not subjected 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

December 18, 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, 2018

FINANCIAL STATEMENT FINDINGS:

2018-001 The Madison County Sheriff's 75% Operating Fund Had A Deficit Balance At End Of Term

The Madison County Sheriff's 75% operating fund had a deficit balance of \$1,194,494 at the end of the term ending December 31, 2018. The deficit balance required the Finance and Administration Cabinet to issue a no-interest loan to Madison County using the funds of the commonwealth. The sheriff did not monitor his budget to ensure that expenditures did not exceed receipts for the term. The sheriff may not have understood that he was responsible for monitoring the 75% operating fund since the funds were administered by Kentucky Finance and Administration Cabinet. Funds totaling \$1,194,494 are due to the Finance and Administration Cabinet in order to cover the deficit. Repayment of deficits for counties with populations over 70,000 only occurs at the end of the term, therefore the Commonwealth of Kentucky is impacted by the no-interest loan.

While KRS 64.345(4) states, "[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." Also, good internal controls dictate the sheriff monitor the financial activities of his office.

We recommend the sheriff monitor his 75% operating fund receipts and disbursements to ensure that no deficit occurs. We further recommend the sheriff resolve this deficit. This issue will be referred to the Finance and Administration Cabinet and the Madison County Attorney because it is the end of a term.

Sheriff's Response: This office will always have a deficit balance due to the lack of receipts collected.

2018-002 The Madison County Sheriff Expended Funds For Unallowable Items

This is a repeat finding and was included in the prior year audit report as finding 2017-002. The sheriff expended fee account funds for items not necessary to the function of the sheriff's office. The sheriff's office paid \$145 in late fees and finance charges, \$78 in over limit fees, and \$262 for three unsupported credit card charges.

Controls were not in place to ensure timely payment to vendors to avoid late fees being assessed on the sheriff's account. Expending funds on unallowable items result in fewer funds to spend on allowable items.

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 funds spent from the fee account are for allowable expenditures in accordance with Funk v. Milliken. Further, we recommend that the sheriff ensure prompt payment to vendors to avoid late fees. Finally, we recommend the sheriff reimburse the fiscal court for the total \$485 since the term has been closed out.

Sheriff's Response: Already implemented.

MADISON COUNTY
MIKE COYLE, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2018
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-003 The Madison County Sheriff Does Not Have Adequate Segregation Of Duties For Disbursements
And Reconciliations

This is a repeat finding and was included in the prior year audit report as finding 2017-001. 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.

The sheriff indicated the 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 of Local Government.

The segregation of duties over various accounting functions such as preparing purchase orders, preparing checks, signing checks, posting to ledgers, and reconciliations of ledgers to bank accounts is essential for providing protection from inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the sheriff segregate duties over 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:

- 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: Already implemented.