

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

**For The Year Ended
December 31, 2019**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE 502.564.5841
FACSIMILE 502.564.2912**

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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, 2019, 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, 2019, 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, 2019, 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 October 20, 2020, 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, include herein, which discusses the following report comment:

2019-001 The Madison County Sheriff’s Fourth Quarter Report Contained Material Inaccuracies

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

October 20, 2020

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

For The Year Ended December 31, 2019

Receipts

Federal Highway Safety Grant	\$	26,803	
State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)			157,919
State Fees for Services:			
Finance and Administration Cabinet	\$	238,545	
Sheriff Security Service		56,218	
Cabinet For Health And Family Services		<u>1,312</u>	296,075
Circuit Court Clerk:			
Fines/Fees Collected		11,476	
Court Ordered Payments		<u>3,340</u>	14,816
County Clerk - Delinquent Taxes			120,615
Commission on Taxes			1,377,540
Fees Collected for Services:			
Auto Inspections		44,925	
Accident/Police Reports		2,285	
Serving Papers		131,280	
Carry Concealed Deadly Weapon Permits		<u>25,545</u>	204,035
Other:			
Add-On Fees		81,337	
Miscellaneous (copies, reports, reimbursements)		54,172	
Fingerprints		950	
Eastern State Hospital		687	
Telecommunications Tax		12,792	
Fiscal Court Ordinance Fees		<u>24,440</u>	<u>174,378</u>
Total Receipts			2,372,181

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, 2019
(Continued)

Disbursements

Payments to County:

Fees Collected - Fiscal Court	\$ 24,902
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Total Disbursements	\$ 24,902
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Net Receipts	2,347,279
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Payments to State Treasurer:

75% Operating Fund *	2,044,092	
25% County Fund	301,477	2,345,569

Balance Due at Completion of Audit		\$ 1,710
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* Includes reimbursed expenses in the amount of \$1,128,862 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, 2019

	Operating Fund	County Fund	Totals
Fund Balance - January 1, 2019	\$	\$	\$
<u>Receipts</u>			
Fees Paid to State - Operating Funds (75%)	2,044,092		2,044,092
Fees Paid to State - County Funds (25%)		301,477	301,477
Total Funds Available	2,044,092	301,477	2,345,569
<u>Disbursements</u>			
Madison County Fiscal Court		93,747	93,747
Personal Services-			
Official's Statutory Maximum	124,815		124,815
Official's Training Incentive	4,216		4,216
Deputies' Salaries	1,227,190		1,227,190
Part Time Salaries	146,448		146,448
KLEFPF	144,977		144,977
Other Payroll	346,932		346,932
Employee Benefits-			
Employer's Share Social Security	147,326		147,326
Employer's Share Retirement	489,731		489,731
Employer's Share Health Insurance	209,957		209,957
Workers' Compensation	7,426		7,426
Unemployment Insurance	5,947		5,947
Contracted Services-			
Advertising	381		381
Maintenance -Vehicles	39,999		39,999
Auditor	25,000		25,000

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, 2019
(Continued)

	Operating Fund	County Fund	Totals
Disbursements (Continued)			
Supplies and Materials-			
Office Supplies	\$ 17,928	\$	\$ 17,928
Uniforms/Equipment	20,000		20,000
Data Processing (MDT)	5,000		5,000
Deputy Equipment	26,529		26,529
IT Services	62,718		62,718
Subscriptions	4,433		4,433
Other Charges-			
Bond Fees	603		603
Dues	2,500		2,500
Insurance - Vehicles	56,453		56,453
Miscellaneous	5,972		5,972
Postage	1,539		1,539
Telephone/Fax/Cellular	21,921		21,921
Training	12,683		12,683
Transport	1,288		1,288
Vehicle Equipment	2,977		2,977
Law Enforcement Liability	29,325		29,325
Canine	3,499		3,499
Retirement Spike	25,080		25,080
Auto Expenses-			
Gasoline	124,920		124,920
Capital Outlay-			
Vehicles and Equipment	<u>105,000</u>		<u>105,000</u>
Total Disbursements	<u>3,450,713</u>	<u>93,747</u>	<u>3,544,460</u>
Fund Balance - December 31, 2019	<u>\$ (1,406,621)</u>	<u>\$ 207,730</u>	<u>\$ (1,198,891)</u>

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

MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

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 2019 services
- Reimbursements for 2019 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 2019

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, 2019
(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 2017 was \$368,489, calendar year 2018 was \$405,899, and calendar year 2019 was \$489,731.

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 21.48 percent for the first six months and 24.06 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, 2019
 (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 35.34 percent for the first six months and 39.58 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, 2019
(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, 2019
 (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, 2019, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019
(Continued)

Note 4. Federal Highway Safety Grant

The Madison County Sheriff's office received a federal grant passed through from the Kentucky Transportation Cabinet Office of Highway Safety for equipment and personnel expenses. The sheriff received \$26,803 as of December 31, 2019.

Note 5. Forfeiture 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, 2019, the sheriff had a balance of \$0. During the year, the sheriff received \$20,804 and disbursed \$0, leaving a balance of \$20,804 as of December 31, 2019.

Note 6. 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, 2019, the sheriff had a balance of \$801. During the year, the sheriff received \$24,745 and disbursed \$11,444, leaving a balance of \$14,102 as of December 31, 2019.

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, 2019, the sheriff had a balance of \$54,866. During the year, the sheriff received \$6,905 and disbursed \$17,333, leaving a balance of \$44,438 as of December 31, 2019.

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, 2019, the sheriff had a balance of \$63,955. During the year, the sheriff received \$13,131 and disbursed \$40,101, leaving a balance of \$36,985 as of December 31, 2019.

Note 9. 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 \$2,161 as of December 31, 2019.

Note 10. Contingencies

The Madison County Sheriff's office is involved in multiple lawsuits. Due to the uncertainty of the litigation, a reasonable estimate of the financial impact on the county cannot be made at this time.

MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019
(Continued)

Note 11. 75% Operating Fund - Deficit Balance

The Madison County Sheriff's 75% operating fund had a deficit balance of \$1,406,621 as of December 31, 2019. 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 has to be settled at the end of the sheriff's term, which ends December 31, 2022.

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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, 2019, and the related notes to the financial statements, and have issued our report thereon dated October 20, 2020. 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 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2019-001 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)

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 matter that is required to be reported under *Government Auditing Standards* and is described in the accompanying Schedule of Findings and Responses as item 2019-001.

Views of Responsible Official and Planned Corrective Action

The Madison County Sheriff's views and planned corrective action for the finding identified in our audit is included in the accompanying Schedule of Findings and Responses. The Madison County Sheriff's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly we express no opinion on it.

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

October 20, 2020

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, 2019

FINANCIAL STATEMENT FINDING:

2019-001 The Madison County Sheriff's Fourth Quarter Report Contained Material Inaccuracies

The sheriff's fourth quarter report, which serves as the sheriff's financial statement, reflected discrepancies in receipts and disbursements for calendar year 2019, requiring multiple audit adjustments. The following issues were noted:

- The report showed \$113,260 in prior year accounts receivables to be deducted that were not included in the first quarter. This led to an understatement of receipts by \$113,260.
- The accounts receivable total did not contain \$4,836 in receipts for 2019 collected in 2020.
- The disbursements side did not reflect all funds turned over to the state for the 75%/25% account. An audit adjustment of \$1,060,520 had to be done to show the accounts receivable collected and disbursed in January 2020 for December 2019

Controls were not in place to ensure that all receipts were posted correctly to the ledgers or quarterly reports. Misstatements could result in an increased risk of uncorrected errors, theft, loss or misappropriated assets.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The Department for Local Government's *County Budget Preparation & State Local Finance Officer Policy Manual* requires the sheriff to prepare a quarterly report which includes all receipts and disbursements the sheriff collected and paid during the calendar year. KRS 134.160(3) states in part, "[a]ll payments received by the sheriff shall be entered immediately by the sheriff on his or her books."

We recommend the sheriff's office implement controls to ensure that ledgers reflect actual amounts received and disbursed. Additionally, ensure correct amounts are shown on all financial statements presented to the public and to the Department for Local Government and comply with KRS 68.210 and 134.160(3).

Sheriff's Response: In regards to the 4th quarter and year ending report recommendations, I will be preparing 2 January monthly reports. One will be for 2021 and the other will be for 2020 so that the December payments received in January can be reported on the January 2020 4th quarter report. This should help with the reconciliation of receipts and disbursements. This will start with the 2020 4th quarter report.