



Auditor of Public Accounts  
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FOR IMMEDIATE RELEASE

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### **Harmon Releases Audit of Campbell County Fiscal Court**

**FRANKFORT, Ky.** – State Auditor Mike Harmon has released the audit of the financial statements of the Campbell County Fiscal Court for the fiscal year ended June 30, 2019. State law requires annual audits of county fiscal courts.

Auditing standards require the auditor’s letter to communicate whether the financial statements presents fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Campbell County Fiscal Court, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America. The fiscal court’s financial statement is fairly presented in conformity with accounting principles generally accepted in the United States of America.

As part of the audit process, the auditor must comment on noncompliance with laws, regulations, contracts, and grants. The auditor must also comment on material weaknesses involving internal control over financial operations and reporting.

The audit contains the following comments:

**The processes over the Campbell County Detention Center’s commissary fund resulted in material misstatements:** The Campbell County Fiscal Court controls the Campbell County Detention Center’s commissary funds even though there is no statutory authority to permit this. The fiscal court requires the jailer to remit the commissary proceeds to the treasurer monthly, after direct payments to the commissary vendor have been made. The fiscal court also requires the jailer to make requests of the treasurer for disbursements from these funds, even though it is the jailer’s responsibility to maintain the commissary funds. Further, the jailer did not submit an annual commissary report to the county treasurer as required. The treasurer’s financial reporting of the commissary activity only included the commissary funds the county managed. It was determined

that the jailer retained some funds that were not remitted to the treasurer and used these funds for various purchases. Therefore, the treasurer's financial report did not include \$407,020 cash retained by the jailer at the beginning of the fiscal year nor the current year activities that ran through the jailer's commissary bank account. As a result, the financial report did not include \$468,474 in commissary receipts, \$468,474 in commissary disbursements, or the remaining cash retained from the prior year of \$407,020.

The fiscal court wanted control over the detention center's commissary funds. The jailer did not prepare a commissary report, therefore the treasurer was not aware of the funds retained by the jailer nor the activities from his account. However, there may have been confusion over the jailer's responsibility for filing a commissary report due to the county's maintenance of the account, which should have been the jailer's responsibility. The fiscal court maintained an account that the jailer is required to maintain. This led to confusion and misreporting of the activities.

KRS 441.135(1) states, "[t]he jailer may maintain a canteen for the benefit of prisoners lodged in the jail and may assign such jail employees and prisoners to operate the canteen as are necessary for efficient operation." Further, KRS 441.135(2) expressly states, in part, "[t]he jailer shall keep books of accounts of all receipts and disbursements from the canteen and shall annually report to the county treasurer on the canteen account."

We recommend the Campbell County Fiscal Court adhere to KRS 441.135 by having the jailer maintain the commissary fund and all required books of accounts for this fund. We further recommend the jailer submit an annual commissary report to the county treasurer and that all activities of the fund be reported on the financial statement.

*County Judge/Executive's Response: When the jail changed commissary systems several years ago, the systems implementation staff trained the jail staff to send **Gross Profits** per system reports to the Fiscal Court to deposit in the Jail Commissary account at [bank name redacted]. The Fiscal Court pays for certain invoices from the [bank name redacted] Jail Commissary account. Therefore, the jail should have been sending **Gross Sales** for those items to the Fiscal Court instead of **Gross Profits**. This caused a balance to build up in the [bank name redacted] commissary account that the jail maintains and misstate the amount of profits recording the financial statements.*

*Since this issue was discovered, [name redacted] Office Manager, has done a full accounting of the amount that should be transferred to the Fiscal Court since the implementation of the new commissary system. A check should be issued to the Fiscal Court from [bank name redacted] jail's commissary account to the [bank name redacted] fiscal court's commissary account by Friday, March 5, 2021.*

*Also, the Office Manager has revised her process so the correct amounts are transferred to the Fiscal Court. This should keep the [bank name redacted] commissary account balance below \$100,000 and therefore, well below the FDIC insurance limit of \$250,000. The Fiscal Court will also review the monthly bank reconciliation of the [bank name redacted] jail commissary account.*

Auditor's Reply: As stated above, we recommend the Campbell County Fiscal Court adhere to KRS 441.135 by having the jailer maintain the commissary fund and all required books of accounts for this fund. We further recommend the jailer submit an annual commissary report to the county treasurer and that all activities of the fund be reported on the financial statement.

**The Campbell County Jailer did not enter into a written collateral security agreement with the financial institution to protect deposits:** The jailer did not require the depository institution to prepare and enter into an agreement to protect deposits. As of June 30, 2019, the jailer had bank deposits of \$506,609 and Federal Deposit Insurance Corporation (FDIC) insurance of \$250,000, leaving \$256,609 unsecured.

The amount in the account has recently accumulated over the \$250,000 FDIC amount, necessitating the jailer to obtain additional coverage. Due to the jailer not having a collateral security agreement in place to protect deposits, \$256,609 of funds were left unsecured and exposed to the potential risk of loss.

According to KRS 66.480(1)(d) and KRS 41.240(4), 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. According to federal law, 12 U.S.C.A. § 1823(e), this pledge of collateral, in order to be recognized as valid by the FDIC, should be (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.

We recommend the Campbell County Jailer enter into a written agreement with the depository institution to secure the jailer's interest in the collateral pledged or provided by the depository institution.

*County Judge/Executive's Response: See answer to Finding 2019-001 for cause and corrective action to be taken.*

The audit report can be found on the [auditor's website](#).

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