



Auditor of Public Accounts  
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**FOR IMMEDIATE RELEASE**

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**Harmon Releases Audit of Harlan County Fiscal Court**

**FRANKFORT, Ky.** – State Auditor Mike Harmon has released the audit of the financial statement of the Harlan County Fiscal Court for the fiscal year ended June 30, 2017. State law requires annual audits of county fiscal courts.

Auditing standards require the auditor's letter to communicate whether the financial statement presents fairly the receipts, disbursements, and changes in fund balances of the Harlan County Fiscal Court in accordance with accounting principles generally accepted in the United States of America. The fiscal court's financial statement did not follow this format. However, the fiscal court's financial statement is fairly presented in conformity with the regulatory basis of accounting, which is an acceptable reporting methodology. This reporting methodology is followed for 115 of 120 fiscal court audits in Kentucky.

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 Harlan County Fiscal Court does not have sufficient internal controls over waste removal collections:** This is a repeat finding and was included in the prior year audit report as Finding 2016-001. The Harlan County Fiscal Court has failed to implement controls to ensure compliance with requirements of the Solid Waste Franchise Renewal Agreement. The following controls were not in place for Fiscal Year 2017:

- The fiscal court does not have written agreements with districts for garbage collections.
- The fiscal court does not receive delinquent list for all outstanding collections.

- The fiscal court does not receive sufficient documentation of garbage fees collected by all the utility districts.
- The fiscal court did not receive monthly collection fees totaling \$5,119 from the City of Benham for September 2016, November 2016, December 2016, January 2017, and April 2017.

As of June 30, 2017, the fiscal court is aware of approximately \$585,988 in accounts receivables for collection of residential and commercial solid waste throughout Harlan County. These account receivables also include 1,232 accounts that are past due. Utility districts do not provide monthly collection reports or lists of delinquent residents to the fiscal court. As such, the fiscal court cannot verify the amount of gross residential garbage removal fees collected by the districts or the amount of garbage removal fees remitted to the fiscal court. The lack of delinquent lists prevents the fiscal court from effectively monitoring uncollected revenues. Also, the fiscal court cannot provide a listing of delinquent residential customers to the company with the solid waste franchise.

The Harlan County Fiscal Court collects fees for garbage collections as allowed by KRS 109.056(2) and has chosen to collect these fees under the provisions of KRS 109.056(3). KRS 109.056(3) states the fiscal court “may enter into an agreement with other utilities either public or private to collect such charges.” Good internal controls require these agreements be in writing to provide all parties with the terms of the agreements. In addition, these written agreements should include the supporting documentation to be provided to the fiscal court by third parties for fees collected and delinquent. In addition, the Solid Waste Franchise Renewal Agreement requires the fiscal court to provide a list quarterly to the company with the solid waste franchise documenting residential customers with delinquent accounts that are subject to having pickup services terminated.

We recommend the fiscal court enter into written agreements with the utility districts detailing recordkeeping requirements for waste collections, monthly financial reports, and delinquent listings. When procedures are implemented to create a list of delinquent customers, the fiscal court should provide the listing to the county attorney for potential collection efforts and the company with the solid waste franchise for potential termination of services, as necessary.

*County Judge/Executive’s Response: The fiscal court worked with Auditor of Public Account staff, along with software company personnel to ensure we are now receiving all reports APA and the fiscal court need to effectively monitor uncollected revenues. From January 2015 through June 30, 2017, over \$3.1 million has been paid to the fiscal court for garbage service by the utility districts. In that same period, \$585,988 became delinquent. This places the county at over 84% collection rate. While this is not a perfect collection rate, we believe it to be in line with other collection services. However, prior to the fiscal court handling garbage service collections in this manner, the collection rate was at near 50% when handled by the garbage service provider. The comment mentions 1,200 plus delinquent accounts. We have worked diligently to contact many of these customers and have agreements in place with over 100 of these customers to make their bills current over time and are actively pursuing efforts with other delinquent customers to make them current. The court will work with the County Attorney and the districts to prepare a written agreement and enter into a contract with all districts for garbage collections.*

**The Harlan County Fiscal Court did not add a capital asset addition to the county's asset listing or insurance policy:** The fiscal court did not add a newly acquired capital asset purchased during Fiscal Year 2017 to the county's asset listing or insurance policy. A body scanner purchased through the jail's commissary account valued at \$118,750 was susceptible to uninsured loss. This control deficiency resulted from a lack of adequate communication between the jail and the county judge/executive's office. The asset was not insured for a period of time and the county was at an avoidable risk.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. Per KRS 68.210, the Department for Local Government's *County Budget Preparation and State Local Financial Officer Policy Manual* requires the fiscal court to "[d]etermine the accuracy of insurance coverage" for capital assets. Good internal controls require the fiscal court to submit a policy change form timely to the county's insurance provider to ensure that newly acquired assets are included on the county's insurance policy.

We recommend the fiscal court submit all required forms to the county's insurance provider when assets are purchased. We also recommend the fiscal court review the county's insurance policy annually, at a minimum, to ensure it is accurate.

*County Judge/Executive's Response: While it is the fiscal court's responsibility to maintain an accurate asset schedule and listing of insured assets, the fiscal court did not receive any documentation related to this purchase. As stated, this scanner was purchased through the Jail's Commissary Account. This means the fiscal court did not pay for this purchase, approve this purchase, nor receive documentation of this purchase, nor does the fiscal court have any authority over the jail commissary funds. Without proper documentation such as cost, purchase date, etc., the County Treasurer cannot add this item to our asset list, nor can my office add this item to the county's insurance policy. We will continue to rely heavily on the jailer and his staff to make the court aware of any items purchased that should be included on the asset listing or insurance policy.*

**The jailer did not comply with bidding requirements set forth in KRS 424.260:** The jailer purchased a body scanner from the jail commissary fund for \$118,750 without obtaining bids. Also, the jailer paid a total of \$28,875 to a single vendor for electronic cigarettes purchased for resale through the jail commissary fund without obtaining bids. The jailer failed to advertise for bids on the purchase of the body scanner. The jailer stated he did obtain quotes from two different companies, but could not provide documentation of these quotes. Jail commissary purchases of electronic cigarettes consisted of nine separate purchases from the same vendor, all of which were less than \$20,000 each. The jailer was unaware of the requirement to obtain bids for these items. The jailer cannot ensure that he has purchased these items at the best price available without obtaining bids.

KRS 424.260 (1) states, "[e]xcept where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district, or board or commission of a city or county, or sheriff or county clerk, may make a contract, lease, or other agreement for materials, supplies except perishable meat, fish, and vegetables, equipment, or for contractual services other than professional, involving an expenditure of more than twenty thousand dollars (\$20,000) without first making newspaper advertisement for bids."

We recommend the jailer comply with KRS 424.260 by obtaining bids for all purchases involving expenditures of more than \$20,000 except for those items exempted in the statute.

*County Judge/Executive's Response: The County Judge/Executive referred to the Jailer for response.*

*Jailer's Response: At the time there was two scanner companies to purchase from, [vendor name redacted] quoted a price of \$118,750 and [vendor name redacted] quoted a price of \$169,900. I contacted several different offices and all told me I didn't have to bid them because there were only two companies and I was getting the lesser of the two.*

*The nine purchases were over a period of a year. To bid, I was under the impression it had to be one (1) purchase over \$20,000.*

Auditor's Reply: The jailer should comply with KRS 424.260 by advertising for bids when required.

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

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