



Auditor of Public Accounts
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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, 2015. 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 non-compliance with laws, regulations, contracts and grants. The auditor must also comment on material weaknesses involving the internal control over financial operations and reporting.

The audit contains the following comments:

The jailer did not maintain supporting documentation for sales tax payments, did not submit one sales tax report timely, and did not resolve unpaid sales taxes for fiscal year 2014. The jailer did not maintain supporting documentation for sales tax payments for July, August, and September 2014. The jailer did not submit a timely payment for August 2014 sales tax, which was due by September 15, 2014, until October 22, 2014. Also, a follow up of the prior year audit findings determined that \$3,544 owed to the Kentucky State Treasurer for five months of sales from the jail commissary for fiscal year 2014 had not been resolved.

The jailer did not implement procedures to ensure supporting documentation for commissary expenses was retained and all sales tax returns were paid timely. When expenditures are not

properly supported or explained, the risk of error in financial reporting significantly increases. Failure to prepare and submit sales tax reports timely could result in finance charges and late fees.

KRS 139.540 and KRS 139.550 require sales tax to be reported and paid to the Kentucky Department of Revenue monthly on or before the twentieth day of the next month. Good internal controls dictate that adequate original supporting documentation be maintained for all disbursements.

We recommend the jailer maintain all original invoices, including any supporting documentation for sales tax payments, and submit sales tax reports in a timely manner to prevent incurring any penalties and interest on late payments. We also recommend the jailer and the county treasurer consult with the Kentucky Department of Revenue to ensure delinquent sales tax payments are resolved for fiscal year 2014.

County Judge/Executive's response: The jailer and treasurer have contacted the Department of Revenue and ensured nothing is past due.

County Jailer's response: Since I entered office in January 2015 all records have been kept and all past due payments have been made. There are no overdue payments owed. I will continue to keep and maintain records and make timely payments as I have done up to this point in time.

The Harlan County Fiscal Court does not have sufficient internal controls over waste removal collections. The Harlan County Fiscal Court has failed to implement controls to ensure compliance with requirements of the Solid Waste Franchise Renewal Agreement (Agreement). The following controls were not in place for fiscal year 2015:

- The fiscal court does not have written agreements with districts for garbage collections.
- The fiscal court does not receive a delinquent list for all outstanding collections.
- The fiscal court does not receive sufficient documentation of garbage fees collected by all the utility districts.

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 list 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 to be written to provide all parties with the terms of the agreements. These written agreements should include the supporting documentation to be provided to the fiscal court by third parties for fees collected and delinquent. The Agreement requires the fiscal court to provide to the company with the

solid waste franchise, each quarter, a list of 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 list 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, as of May 2017, now has the ability to view all delinquent accounts and will begin receiving sufficient documentation of garbage fees collected by all the utility districts. 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 Solid Waste Ordinance mandates that all residents and commercial customers are required to have garbage service, and the county will develop and implement a plan to better address delinquent account customers.

The Harlan County Fiscal Court insured assets for other legally separate entities. The assets of the Tucker-Guthrie Airport, Sleepy Hollow Golf Course, and the Harlan County Outdoor Recreation Board Authority (HCORBA) are included on the fiscal court's insurance policy. These assets are not legally owned by the fiscal court. The fiscal court includes the assets of these entities on the county's insurance policy because these entities lack the financial ability to maintain insurance on the assets.

As a result of adding these assets, the fiscal court may have to pay higher premiums than necessary. The Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* requires the fiscal court to "determine the accuracy of insurance coverage" for capital assets.

Also, effective internal controls should ensure taxpayer funds are used to only insure fiscal court assets. According to the fiscal court's insurance provider, the fiscal court cannot legally insure items it does not own.

In order to obtain complete and accurate insurance coverage and to avoid overpaying premiums, we recommend the fiscal court work with the Harlan County Attorney and the fiscal court's insurance provider to determine what can be insured by the fiscal court. Any assets that cannot be insured should be removed from the fiscal court's insurance policy.

County Judge/Executive's response: The fiscal court did provide insurance for several assets of boards that are component units of the county. As stated, the insurance was provided because the entities were not able to purchase the insurance themselves. It has been the court's decision to maintain insurance on these assets, as it is much less expensive than replacing the assets insured, if a loss occurs. For example, if the county had not insured the Terminal building at the Tucker Guthrie Airport during the winter storm of 2015, the county would have had to expend approximately \$1.2 million to build a new facility. However, as a result of insuring the property, the county only had to pay a \$500 deductible. The county has spoken to its insurance provider

and was given assurance that any claims on the assets would be paid. The county has also worked with the staff of the Auditor of Public Accounts and the County Attorney to determine the most effective way to handle future insurance coverage for these entities.

The Harlan County Fiscal Court did not have adequate internal controls over the payroll process. The following payroll deficiencies were noted:

- Five timesheets were not signed by the supervisor.
- The gross salaries for two employees did not agree to the salary schedule approved by the fiscal court.

The lack of adequate controls and oversight of employees' timesheets resulted in approval not being documented by the employee's supervisor to ensure that the reported time and rate of pay was correct. A lack of review of gross salaries compared to approved pay rate resulted in the gross salaries of the two employees not agreeing to the approved salary schedule.

A lack of oversight and review of pay rates approved by the fiscal court resulted in timesheets not signed by the supervisor and employees being paid more than what was approved by the fiscal court.

Without oversight, supervisors may not be aware of the time charged by the employees. Lack of proper internal controls for payroll increases the risk that incorrect payroll information will be processed by the fiscal court and that errors will not be identified and corrected. An accurate, approved salary schedule is essential to ensure payroll is processed correctly.

Good internal controls dictate that all timesheets are signed by employees and have supervisory approval documented by signatures. Comparing gross salaries to the approved salary schedule is essential to ensure payroll is being processed accurately and employees are paid according to pay rates approved by the fiscal court.

In order to strengthen internal controls over payroll, we recommend the fiscal court implement procedures to ensure that timesheets are maintained and properly documented with supervisor's approval. Also, the fiscal court should update the approved salary schedule to reflect accurate salaries for all employees or review salaries in the payroll system to ensure pay rates agree to the salary schedule approved by the fiscal court.

County Judge/Executive's response: The fiscal court has now implemented a new software program for payroll tracking and is requiring hourly and salary employees and supervisors to sign all timesheets. The two employees whose salaries did not agree to the salary schedule had salaries that were changed by the fiscal court in 2013, however the treasurer did not correctly reflect the change on the previous salary schedule.

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

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