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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, 2016. 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 the 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. 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 2016:

- 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.

As of June 30, 2016, the fiscal court is aware of approximately \$426,442 in accounts receivable for collection of residential and commercial solid waste throughout Harlan County. These accounts receivable also include 1,030 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 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 Solid Waste Franchise Renewal Agreement requires the fiscal court to provide quarterly to the company with solid waste franchise 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 collection. 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. Assets were included on the fiscal court’s insurance policy that were not legally owned by the fiscal court. The fiscal court includes the assets of these entities on the county’s insurance policy because the entities lack the financial ability to maintain insurance on the assets. As a result of adding these assets, the fiscal court may have had 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. 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. 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 Failed to improve internal controls over the payroll process. The Harlan County Fiscal Court failed to improve internal controls over the payroll process for timesheets and the flexible spending health plan. The following control deficiencies were noted:

- Two out of 16 timesheets tested were not signed by supervisor to verify time worked. These two timesheets were for employees working at the jail.
- One employee enrolled in the flexible spending health plan was reimbursed \$600 for Fiscal Year 2016, which was the balance in his flexible spending health plan account for the year. The employee had submitted receipts for health expenses totaling \$569 leaving \$31 that was not documented by receipts.

A lack of adequate controls and oversight of employee timesheets and the flexible spending health plan resulted in approval not being documented by the employee’s supervisor, and a lack of sufficient documentation for flexible spending health plan reimbursements. Without oversight, supervisors may not be aware of the time charged by the employees. The lack of proper internal controls for payroll and the flexible spending health plan increase the risk that incorrect payroll information will be processed by the fiscal court and that errors will not be identified and corrected. Good internal controls dictate that all timesheets are signed by employees and the supervisor. Also, reimbursements made from the flexible spending health plan should be properly supported with receipts for the health expenses submitted for reimbursement.

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. We also recommend that each flexible spending health plan reimbursement have supporting documentation of the health expense to be reimbursed.

County Judge/Executive's response: The fiscal court has now implemented a new software program for payroll tracking and is requiring employees and supervisors to sign all timesheets. The employee enrolled in the flex spending health plan was reimbursed his full amount of flex spending withheld, so that the payroll liabilities ledger would not affect the General Fund cash ledger balance for the end of the fiscal year. The employee did turn in the remaining amount of receipts necessary to document the \$31 in expenditures, however, it was after the close of the fiscal year. Due to the limited amount of employees participating in this plan, the Judge Executive will recommend to the fiscal court to remove this program in the future.

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

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