



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, 2018. 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 2017-001. 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 2018:

- The fiscal court does not have written agreements with districts for garbage collections.
- The fiscal court does not receive delinquent lists 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, 2018, the fiscal court is aware of at least \$699,079 in accounts receivable for collection of residential and commercial solid waste throughout Harlan County. 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. These written agreements should also 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 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 company with the solid waste franchise for potential termination of services, as necessary.

*County Judge/Executive Response: From January 2015 through June 30, 2018, over \$4.5 million has been paid to the fiscal court for garbage service. In that same period, \$699,079 became delinquent. This places the county at over an 86% collection rate. We believe this to be in line with other collection services, and consider it to be a good collection rate. 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 court is also working with its software provider to determine the best way to move forward collecting data from the one utility district it does not receive information or delinquent lists from.*

**Auditor’s Reply:** As the finding notes, the accounts receivable amount could not be verified because reports were not provided by the utility districts. Without complete and accurate reporting, the fiscal court does not have the information to determine its true collection rate.

**The jailer did not comply with bidding requirements set forth in KRS 424.260:** This is a repeat finding and was included in the prior year audit report as Finding 2017-003. The jailer paid a total of \$33,275 to a single vendor for electronic cigarettes purchased for resale through the jail commissary fund without obtaining bids. Jail commissary purchases of electronic cigarettes consisted of 11 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 official did not provide a response.*

*Jailer’s Response: When doing our own research into which ecig vendor to use we only came into [vendor 1] and [vendor 2]. We received free samples of each product to let certain inmates try to get an inmate perspective of what type was desirable. The [vendor 2] samples leaked upon arrival and were not tamperproof in any way. The [vendor 1] were tamper resistant, and in our facility the inmates all chose [vendor 1] as the viable option in flavor between the two. At that time [vendor 1] was also the least expensive option.*

Auditor’s Reply: Due to the dollar amount of the purchase, the jailer was required to advertise for bids for the electronic cigarettes, as noted in the finding. The process used by the jailer for the selection does not comply with KRS 424.260.

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

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