



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

April 2, 2013

The Honorable Phil Trzop, Mayor
City of Walton
P.O. Box 95
Walton, Kentucky 41094-0095

RE: Findings and Recommendations

Dear Mayor Trzop:

As you are aware, this office received concerns regarding certain financial transactions and activities of the City of Walton (City). To address the concerns expressed, we requested and examined certain City records, including but not limited to, bank statements for all City bank accounts, City credit card statements, and the Mayor's travel and expense reimbursements for the period July 1, 2009 through June 30, 2012. In addition to our documentation review, we discussed these matters with you, as the current Mayor, the City Clerk, the City Public Works Supervisor, and an individual who served as a former Councilmember and Mayor.

We have completed our examination of these matters and have presented our findings and recommendations below:

Finding 1: City scrap metal was sold and the proceeds were paid out to City employees as bonuses, yet the City maintained no documentation to support the transactions.

According to the City Clerk and the City Public Works Supervisor, City Public Works employees transported City scrap metal to a local recycle center to be sold for cash. This cash was given to the City Clerk, who then distributed the proceeds to employees as cash bonuses at the end of calendar years 2009, 2010, and 2011. The City has no record of the items sold as scrap metal or the amount of the bonuses paid to City employees. The City Clerk stated that seven City employees received an annual bonus of \$100 to \$125 from the sale of scrap metal; however, the Mayor did not receive any of these funds. In addition, these bonuses were not reported as income received by employees on their employer-issued W-2 forms.



According to the City Clerk, the City has adopted the Kentucky Model Procurement Code; however, the practice of selling City scrap metal and distributing the funds to employees was approved by three different City mayors who served in office during the examination period. While this practice was reportedly approved by each mayor, the City Clerk had no written records documenting the approvals.

According to the Kentucky Office of Attorney General (OAG) Opinion 83-432, the payment of a bonus to public employees is considered “a gift from an employer given out of his largesse”, and as such “it would be illegal under Kentucky Constitution, Section 3, as a grant of exclusive, separate public emolument or privilege—not in consideration of public service.” Based on this OAG opinion, we believe the annual bonus payments are not allowable.

The City did not have any formal written guidance to address the issue of scrap metal until Executive Order No. 2012-07 on December 13, 2012, which states:

Mayor Philip W. Trzop adopts a “Recycling Program” for the City of Walton, Kentucky. The Public Works Supervisor shall transport all scrap metal owned by the City to the nearest recycling company to be resold and for a check to be issued to the City of Walton Water and Sewer Fund.”

While this Executive Order does allow the Public Works Supervisor to transport and sell City scrap metal for a check payable to a City fund, it does not provide procedures for the declaration or disposition of City scrap metal as surplus property, or the need for timely deposit of these funds into a City account, or the allowable uses for these funds. The City has a responsibility to properly account for City property even if it is considered surplus scrap metal, and to ensure public funds are accounted for properly.

Recommendations

We recommend the City Council develop a policy, consistent with KRS 45A.425 – Surplus or Excess Property to address how City scrap metal is declared as surplus property, as well as the disposition of scrap metal as surplus property. This policy could reflect the language of Executive Order No. 2012-07, but also specify the procedures required to declare and document an item of scrap metal as surplus property. The policy should also require any funds the City receives from the disposition of this surplus property to be deposited immediately upon receipt of the check into the appropriate City account. Documentation as to the amount and type of scrap metal should be required and the policy should stipulate the allowable uses for this revenue. Once developed, the policy should be formalized in writing and distributed to those employees responsible for implementing the policy.

We recommend the City ensure all taxable income is reported on City employees' W-2 forms as required by the Internal Revenue Service (IRS). We recommend the City contact the Kentucky Department of Revenue to discuss any possible actions that may need to occur to resolve past discrepancies caused by the City's failure to properly report employee taxable income.

Finally, we recommend the City refrain immediately from awarding bonuses to City employees.

Finding 2: City funds used to purchase various gifts for City employees, City Council members, and Mayor.

During the review period, auditors found City funds were used to purchase gift cards for City employees and City Council members. In addition, City funds were used to purchase hams annually for City employees and a birthday gift was purchased for you, as the Mayor, in your former term in office.

Gift Cards

Through examining City credit card statements for the period July 1, 2009 through June 30, 2012, auditors found the Mayor and City Clerk charged over \$5,500 to purchase gift cards. According to both the Mayor and City Clerk, the gift cards were distributed to City employees and City Council members. According to the City Clerk, the gift cards were purchased at the approval of the Mayor and City Council members as a sign of employee appreciation; however, because the approval was reportedly given during a caucus meeting of the Council, meeting minutes do not document that approval was given for these expenditures. A former Council member, who also served as Mayor between November 2011 and November 2012, could not recall whether the Council had approved the gift card expenses or if they were just informed of the purchase.

Annually, all City employees received a gift certificate to a local clothing retail chain and a local grocery chain. In addition, the City Clerk and the other employees who were not assigned a work vehicle would receive a gift card to a fuel station. The value of these gift cards given to City employees was not recognized as income on the employees' W-2 forms issued by the City.

In 2009 and 2010, there were more gift cards purchased than there were City employees. According to those interviewed, this was because City Council members were also provided with gift cards to the local businesses referred to above. While this may account for the additional gift cards, supporting documentation for the credit card purchase provided no indication of those who actually received the gift cards. Simply providing gift cards to employees is effectively providing a bonus to the City employees. As detailed in Finding 1 of this letter, bonus payments to City employees are not allowable.

Ham

Auditors also identified an annual credit card charge for the purpose of purchasing hams as gifts for City employees. Over the three year examination period, the City spent approximately \$450 on this gift to employees, in addition to the gift cards. According to the City Clerk, the ham purchase was part of the City's employee appreciation gift to its staff. Again, supporting documentation for the credit card purchase provided no indication of those who actually received the hams.

Birthday Gift

On October 13, 2010, City credit card records document that the City Clerk made a nearly \$75 purchase for a cookie bouquet. In an interview with the City Clerk, she stated that the cookie bouquet was a birthday gift to the Mayor. When asked if this purchase had been approved, the City Clerk indicated that she had just made the purchase on her own with the use of the City credit card.

The City should be conservative with the use of City funds for the purpose of purchasing gifts for City employees and City officials. While the expenses may not be large, it is still a benefit that is not part of each individual's official compensation package. Furthermore, public funds should not be used to the benefit of a few, but rather should have a public purpose. The City does not have a policy to address gifts, or other items provided to City employees or officials through the use of public funds. Further, City records do not document these purchases were ever discussed or approved publically in council meetings.

Recommendations

We recommend final City Council actions be made in regular City Council meetings and actions approved be properly documented in the formal meeting minutes of the Council meeting.

We recommend that the City properly account for employee's income reported on each employee's W-2 form issued by the City.

We recommend the City develop a formal written policy regarding gifts provided to employees and officials. In determining this policy, consideration of any action taken should be equitable and transparent to protect the interest of City taxpayers.

Finally, we recommend the City refrain immediately from providing gift cards, which are effectively bonuses, to City employees.

Finding 3: The City incurred expenses on behalf of former Mayor's spouse while attending the Governor's Local Issue Conference.

Receipts supporting credit card charges made by one former Mayor in August 2011, document that the former Mayor incurred expenses on the City credit card on behalf of himself and his spouse. The charges incurred were for meal expenses during the former Mayor's trip to the Governor's Local Issues Conference in Louisville, Kentucky. While the amounts charged were not excessive and were incurred at the time of the conference, the City's public funds should not be used to pay for expenses on behalf of the spouses of City officials or employees.

Recommendations

We recommend travel, meal, and other costs for spouses and companions not be paid by the City. To provide clarification for City officials and employees, we recommend the City revise its current travel policy to include language specifically prohibiting the use of City funds to pay for the cost of spouse expenses.

Finding 4: The City provided little oversight of City credit card usage.

While examining City credit card activity, auditors found that the City had not established a formal written credit card policy to provide guidance to credit card users or to require a documented process to review and approve credit card transactions.

According to the City Clerk and Public Works Supervisor, while they understand through verbal directive that the City credit card is to be used for work purposes and that transactions should be supported by an invoice, they have not received any formal written instructions regarding the use of the City credit card. In addition, the City has not required City credit card holders to sign a user agreement stipulating a card holder's responsibilities.

While City credit card holders are asked to submit invoices to the City Clerk to support credit card transactions, the City Clerk indicated that she did not consistently question the cardholder when receipts were not submitted to substantiate a credit card charge. The Clerk stated that she would tell the Mayor about the missing supporting documentation but the Clerk would not go back to the cardholder to request the documentation unless "something didn't check out."

Auditors found several transactions where supporting documentation was either missing or insufficient in detail to describe the item purchased and the business purpose of the purchase. Without sufficient supporting documentation for credit card purchases, the City cannot properly review for appropriateness and reasonableness of charges made on City credit cards.

In addition, the City had not established an independent process by which credit card charges can be reviewed and approved to ensure charges are reasonable, necessary, and appropriate. Currently, the City Clerk is an authorized cardholder and the individual responsible for reviewing and approving credit card statements for payment. During the examination period, the Mayors were authorized card holders but were not subjected to scrutiny by anyone other than the City Clerk, who reports directly to the Mayor.

Recommendations

We recommend the City establish a comprehensive credit card policy. The policy should identify allowable and unallowable uses of City credit cards. Specifically, the policy should state that personal use is prohibited. We further recommend the policy require detailed documentation be provided to support credit card purchases and for the supporting documentation to be maintained with the credit card statement in the City's records. The policy should also address the employees' responsibility to reimburse unsupported expenditures and establish a timeframe by which the employee has to reimburse the City for unsupported expenditures. Once the policy is formalized in writing, it should be distributed to employees.

We further recommend that the credit card policy ensure that the individual responsible for reviewing credit card transactions for appropriateness, reasonableness, and payment is not also a cardholder. If for some reason this separation cannot be made, the City should ensure that compensating controls are put in place to ensure that individual's transactions are reviewed prior to payment by someone in a supervisory position over the primary credit card reviewer.

If the Mayor is once again assigned a City credit card in the future, we recommend the City Council appoint a committee of the Board to be responsible for reviewing and approving the credit card transactions incurred by the Mayor. The review should ensure the charge is for a legitimate business purpose, reasonable in amount, and supported by appropriate documentation. The committee's review should be clearly documented by applying a signature or initials to the credit card statement after the review is completed to authorize payment by the responsible party.

We also recommend the City develop and implement a user agreement for employees assigned a City credit card to sign to acknowledge their understanding of the City's expectations and that they have received, read, and understand the City's credit card usage policy. These forms once completed and signed by employees should be appropriately maintained in the City's records.

Finding 5: Mayor travel and expense reimbursements were not adequately supported, were not submitted in a timely manner, and were not subject to review by the council.

As part of this examination, auditors requested and reviewed all travel and expense reimbursements submitted by City mayors between July 1, 2009 through June 30, 2012. While there were three different mayors in office during the examination period, City records provided to auditors indicated that only two of the mayors in office during the period requested and received reimbursement for expenses from the City.

As a result of our examination, auditors found a total of over \$2,600 in reimbursements made to two different mayors which lacked supporting documentation. Auditors found one reimbursement made to the current Mayor, during his former term in office, was for mileage for an entire year and lacked sufficient details, such as a specific date of travel, travel destination, and the purpose for the trip, which are typically required on the City's official travel reimbursement form. While the City does have a travel policy and an official travel reimbursement form, the travel policy does not specifically address what documentation is required to be submitted to receive reimbursement from the City and does not address the time period by which a reimbursement should be submitted. Without adequate supporting documentation, the City cannot determine whether the expense is a valid business expense of the City.

Auditors also found reimbursement requests made by both mayors during the period were not subject to review by the Council. As was the case with credit card purchases, the City had not established an independent process by which the mayor's reimbursement requests are reviewed and approved.

Recommendations

We recommend the City revise its current travel policy to strengthen its internal controls over travel and expense reimbursements. We specifically recommend the City revise its travel policy to include a requirement for reimbursement requests to be submitted within a 30 day period of the expense being incurred and should require adequate supporting documentation be submitted along with the request to substantiate the claim. If reimbursement requests are not submitted in a timely manner or adequate supporting documentation is not submitted along with the request, we recommend the policy state that the request will automatically be denied. If mileage is claimed, the City should require the individual to submit a reimbursement request including the specific date of travel, the destination to which the individual traveled, the purpose, and the miles traveled. Once the policy is formally revised it should be distributed immediately to all employees and City officials.

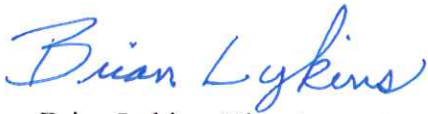
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We recommend the City reexamine and revise its current travel and expense reimbursement review process to ensure that the process allows for a thorough and independent review of the Mayor's travel and expense requests. We recommend the City Council appoint a committee of the Board to be responsible for reviewing and approving the Mayor's reimbursements requests. The committee's review should be clearly documented by applying a signature or initials to the credit card statement after the review is completed to authorize payment by the responsible party.

We would like to thank the City employees for their assistance throughout the examination process. We trust that the findings and recommendations we have presented to you through this letter will be of assistance to the City in strengthening its controls and oversight of City financial activity.

If you have any questions regarding this letter, please contact me at (502) 564-5841. Thank you, in advance for your attention to these matters.

Sincerely,



Brian Lykins, Director
Division of Examination and Information Technology

BL:TW:kct

cc: Olivia Ballou, City Councilmember
Gabe Brown, City Councilmember
Matt Brown, City Councilmember
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