



Auditor of Public Accounts
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Examination of City of Salyersville to Be Referred to Attorney General, U.S. Department of Housing and Urban Development

Review by Auditor Mike Harmon's office details two findings, one on city and other on local tourism commission

FRANKFORT, Ky. (August 6, 2020) – Today, Kentucky Auditor Mike Harmon released the results of an examination by his office of the financial management and operational activities of tourism funds received by the city of Salyersville in Magoffin County. The exam has two findings, which will be referred to the Office of Attorney General, the U.S. Department of Housing and Urban Development, and the local ethics board for review and possible action.

“Our decision to do this examination came about from concerns we received from the public about how Salyersville’s leadership was conducting business with tourism dollars they had received,” said Auditor Harmon. “What our exam found were overpayments to a contractor who also happens to be the Salyersville mayor’s son, and expenditures from the tourism commission for things like contract labor for election work and laundering uniforms. We found the local tourism commission did not approve those and other expenditures because the board hasn’t met since 2009.”

In a letter to Salyersville Mayor James Shepherd, Auditor Harmon detailed the two findings made by auditors:

The city provided limited oversight of contract personnel paid through tourism funds, and one contractor, who is also the mayor’s son, reported working approximately 224 hours of duplicate time on behalf of the city and the Magoffin-Salyersville Housing Authority between July 24, 2017 and June 23, 2018: The Auditor’s letter to the city detailed concerns regarding actual or perceived supervision of the mayor’s sons by the mayor, which would violate the City’s Code of Ethics.

A review of timesheets for one of the mayor's sons reflected 148 instances, and 224 hours, of duplicate time submissions in his two different capacities as a contract worker for the city and as Executive Director of the Housing Authority. Based on the documentation and information provided it is unclear which entity paid the contractor/Executive Director for work not performed.

The city expended tourism funds for non-tourism related purposes without input or approval of the Salyersville Tourism Commission: City records indicate that the Commission has not met since August 6, 2009; however tourism funds have continued to be spent by the city, often for non-tourism purposes. In a sample of 63 expenditures from the tourism funds during the period of July 1, 2017 through April 30, 2019, 48 did not appear to be tourism related, such as spending on health insurance for city workers, excavation of a county road, and "payday advances" to a city contractor. While many of those 48 expenditures appeared to be related to the general operation of a city, by state law it should be the responsibility of the commission to oversee the use of tourism funds and make the determination of whether or not an operating expense of the city is a valid use of those funds. Additionally, tourism funds, like other public funds, should not be used for personal purposes.

Some of the expenditures identified in the Auditor's letter as a Standard City Expenditure or as having an Unclear Purpose include:

- Contract labor for three people for election work \$360
- Health insurance for city workers \$1,662
- Christmas gifts to be given away at community event \$2,502
- Concrete work for tornado shelter \$5,000
- General use gasoline \$2,919
- Portion of workers compensation insurance \$13,187
- Coffee for City Hall and Fire Department \$259
- Pumper truck for Fire Department \$4,000
- Boots for street department workers \$1,378

Additionally, the city used tourism funds to make a "payday advance" of \$800 to a contract worker who normally is paid from the general fund. Documentation of the advance indicates that the worker already had a cumulative balance of \$700 owed to the city from prior "payday advances." While the city describes these payments to the city contractor as "payday advances," the payments function as a series of interest-free personal loans from public funds. Regardless of the classification, such action by the city is in direct conflict with Section 3 of the Kentucky Constitution, which requires that any payment to a public employee be for consideration of public service (in other words, salary and wages for work performed).

Without an active commission to make decisions on how tourism funds were to be spent or policies by the city as to the allowable uses of public funds, personal expenditures like the ones identified in the sample could continue to occur, despite guidance from the state level.

The Auditor's letter recommended the city reestablish routine meetings of the commission, reappoint members, if necessary, and transfer oversight of tourism funds to the commission to ensure tax proceeds are used for proper purposes.

"This exam comes on the heels of our recent data bulletin, which highlighted a failure by the Department for Local Government to properly track whether local tourism commissions and other special purpose governmental entities, like the Salyersville Tourism Commission, are registered with DLG and receiving audits as required by law," Auditor Harmon said. "It further illustrates why steps must be followed to make sure local tourism dollars are being used properly, with accountability and transparency to taxpayers."

The letter from Auditor Harmon to Mayor Shepherd is available for review on the [auditor's website](#). You can also review our recent data bulletin on local tourism commissions [here](#).

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