



Limited-Scope Special Examination of the City of Mount Washington

March 2025

★ **AUDITOR ALLISON BALL** ★

KENTUCKY AUDITOR OF PUBLIC ACCOUNTS



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**ALLISON BALL
AUDITOR OF PUBLIC
ACCOUNTS**

March 12, 2025

Stuart Owen, Mayor
City of Mount Washington
311 Snapp Street
Mt. Washington, Kentucky 40047
Via Email: sowen@mtwky.org

Dear Mayor Owen,

The Auditor of Public Accounts (APA) has completed a limited-scope special examination of the city of Mount Washington (City). This special examination was initiated after our office received concerns about questionable spending practices. To address the expressed concerns, the APA reviewed requested information, including policies and procedures, financial reports, and other supporting documentation. The examination procedures focused primarily on activity between July 1, 2022, through June 30, 2024. Our examination resulted in the below findings and corresponding recommendations.

Pursuant to KRS 43.090(1), “[w]ithin sixty (60) days of the completion of the final audit or examination report, the agency to which an Auditor's report pertains shall notify the Legislative Research Commission and the Auditor of the audit recommendations it has implemented and of the audit recommendations it has not implemented. The agency shall state the reasons for its failure to implement any recommendation made in the final audit or examination report.

All audit reports and agency responses shall be, subject to KRS 61.870 to 61.884, posted online in a publicly searchable format.”

Thank you for your attention to these matters and your cooperation with this limited-scope special examination. If you have any questions or concerns regarding this letter, please contact Alexander Magera, Executive Director of the Office of Special Examinations, at alexander.magera@ky.gov.

Sincerely,

A handwritten signature in cursive script that reads "Allison Ball".

Allison Ball
Auditor of Public Accounts

CC:

Elizabeth D. Hardin | City Clerk
dhardin@mtwky.org

Layne Abell | Councilmember
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Findings

Finding 1: The City Did Not Comply With The Statutory Requirement To Advertise For Bids When Expenditures Exceed 40,000

All cities are required to comply with KRS 424.260 unless they have adopted a stricter procurement policy. The City does not have a procurement policy related to bidding requirements, so compliance with KRS 424.260 is required. Under this statute, the City may not make a contract, lease, or other agreement for materials, non-perishable supplies, equipment, or nonprofessional services involving expenditures of more than \$40,000 without first making a newspaper advertisement for bids. Prior to June 29, 2023, KRS 424.260 was stricter by requiring bids to be advertised when expenditures exceeded \$30,000.

After reviewing the City's expenditures for fiscal year (FY) 2024, we requested advertisements for bids related to selected vendors paid over \$40,000. While advertised bids and bid tracking documents were provided for the City's lawn care service provider, no such documentation supported the selection of the following vendors:

- **Enterprise Trust:** Per City staff, this vendor provided a leased vehicle program because the cost of purchasing an entire fleet was not feasible per the City's budget. City Council meeting minutes from May 7, 2019, document Enterprise's presentation on the leasing of vehicles to the Public Works, Parks, and Police departments. The leased vehicle program was incorporated into the budget ordinance approved on June 24, 2019. The annual amount paid to this vendor in FY 24 totaled \$694,462 (\$412,951 from the City General Fund and \$281,511 from the Water and Sewer Fund). In support, the City provided a spreadsheet titled Enterprise 2024—which listed information regarding 83 vehicles—but did not provide proof that bid requests were advertised for this service.
- **Wright Implement:** According to City staff, this vendor was selected via Sourcewell contract #031121-DAC to purchase a John Deere backhoe for \$43,448 and a track loader with accessories for \$95,479. These purchases were incurred in FY 2024 for the City's Public Works and Parks Department. Bid requests were not solicited and Sourcewell appears to be a public agency created by the Minnesota legislature for competitive bidding.
- **Louisville Paving:** As explained by City staff, this vendor was used for paving city streets. When the City had issues with a former paving contractor, the Public Works and Parks departments used Sourcewell to select a state contractor. The City provided a project proposal submitted by Louisville Paving, but no evidence that bids were advertised. The selection method for this vendor was questioned because the City paid it over \$40,000 in FY 2024, including payments for \$175,000 and \$70,000.

Recommendations

We recommend City officials ensure an advertisement soliciting bids is published for any project or purchase expected to exceed \$40,000 unless it meets the exceptions stated in KRS 424.260. Advertisement soliciting bids, in accordance with KRS 424.130(1)(b) and KRS 424.140(3), must be published at least once and must include a description of what is to be bid, the time and place for receipt of bids, and any special terms. This process will allow the City to ensure fair competition and required transparency.

City officials should also adopt written procurement policies that document the City's procedures to comply with state laws when obtaining goods and services. These policies should address the methods used to advertise and how bids will be received, tracked, evaluated, and selected. As required by KRS 61.252, these policies should also prohibit the purchase of goods and services from city officers and employees unless the statute's specified exceptions have been met. A violation of KRS 61.252 could void the contract and is grounds for removal from office or employment.

Finding 2: The City Used Public Funds For Purchases Prohibited By Law

Section 3 of the Kentucky Constitution states that “no grant of exclusive, separate public emoluments or privileges shall be made to any man or set of men, except in consideration of public service.” To comply with the Kentucky Constitution, any payment to a public employee should be in consideration of public service, which has been interpreted to mean salary and wages fixed by the city’s legislative body. Further, Kentucky’s Office of Attorney General Opinion 62-1 (Attached) states that a city is prohibited from giving any bonus, gift, or extra compensation to city officers or employees over and above that which is fixed in the ordinance establishing their compensation.

The City’s expenditures in FY 2023 and FY 2024 included amounts charged to an "Employee Appreciation" account. As detailed in *Figure 1*, these expenses were found to be purchases of gifts, catered events, and employee awards using public funds.

Figure 1: Mount Washington Employee Appreciation Type Expenditures Found

Fiscal Year	Date	Amount Incurred	Description of Expense
2023	12/07/2022	\$24,406.25	Gift cards purchased for 108 city employees, 14 water/sewer employees, 6 city council members, and an attorney. Full time employees, council members, and the attorney received \$250 gift cards while part time and seasonal employees received gifts cards ranging from \$62.50 to \$125.
2023	12/08/2022	1,479.00	Crystal trophies engraved for 17 staff members.
2023	12/08/2022	1,000.00	Ten \$100 gift cards purchased but the recipients were not identified.
2023	12/15/2022	904.65	Various food, drinks, and supplies purchased with the purpose of an employee appreciation meal.
2023	12/17/2022	3,304.00	Catered employee appreciation dinner for 160 people for \$2,800 and a rental fee of \$504.
2024	11/21/2023	3,807.50	Catered employee appreciation dinner for 110 people, totaling \$3,807.50. The total includes a rental fee of \$500 and refundable deposit of \$100.
2024	12/16/2023	250.00	DJ services for the annual employee appreciation dinner.
2024	12/17/2023	907.30	Engraved awards for 20 employees.
Grand Total		\$36,058.70	

Source: Auditor of Public Accounts based on information provided by the City.

As support for the annual employee appreciation dinner and employee gifts provided around the holiday season, City staff provided a letter dated November 9, 2017, from an attorney stating the following:

It is my opinion that based on prior custom and the authorization of an approved budget line item for the expenditure, that you are authorized to contract for an Employee Appreciation Dinner and to authorize the purchase of a gift card or other modest token of employee appreciation to be provided to City employees at the Employee Appreciation Dinner.

As long as you operate within the previously approved line-item budget, the items would appear to be the expenditures would be appropriate and would be routinely then included in the treasurer's report at approved by subsequent approval and ratification in the regular course of council meetings.

This opinion, however, does not recognize Section 3 of the Kentucky Constitution or Attorney General Opinion 62-1's prohibition on public funds being spent on gifts or additional compensation for employees. Unallowable expenses should not be included as a line item in the City's budget.

Recommendations

We recommend City officials compensate employees at their fixed compensation amounts per state law and discontinue the practice of providing any form of extra compensation. The City should also cease using public funds to award gifts (regardless of their form).

Observation

During our testing, we observed that the expenditures listed in Figure 1 were split equally between the City's General Fund and the Water and Sewer Fund. This does not appear to be a proportional and equitable allocation. For example, the list of employees supporting the \$24,406.25 purchase of gift cards on 12/07/2022 documents 108 city employees but only 14 water/sewer employees. Any use of public funds must be allowable, reasonably based, and proportionally allocated between funds.

CITY OF MOUNT WASHINGTON RESPONSE



CITY OF MT. WASHINGTON

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March 5, 2025

Re: Summary of Examination Report/Response

State Auditor Allison Ball
209 St. Clair Street
Frankfort, KY 40601

Dear Allison Ball,

This letter is in response to a special limited-scope examination of the City of Mt. Washington (City) for the period of July 1, 2022, through June 30, 2024. This examination was initiated by concerns about questionable spending practices of the city. Insomuch, the Auditor of Public Affairs (APA) reviewed requested documentation, including policies and procedures, financial reports, and other supporting information. Recommendations were set forth in the findings provided by the APA to adopt policy and procedures that are in accordance with the KRS 424.130(1)(b), KRS 424.140 (3) and KRS 61.252. Furthermore, clarification was provided pertaining to KRS 45A.050(3), when seeking utilization of vendors that participate in the state agency Master Agreements as to the same extent of the Commonwealth. It was highly recommended that the city maintains specific proof requirements as well as documentation for auditing purposes. In further review, APA observed expenditures that were not in compliance with Section 3 of the Constitution nor the Attorney General Opinion 62-1.

The city understands the recommendations provided by the APA and has implemented a new policy on procurement to provide clear and consistent procedures to ensure compliance, fair competition and required transparency. Furthermore, the city recognizes the importance of following the law and is committed to following good policy and implementing procedural practices into our daily operations, we will continue to work diligently to create policies that ensure we follow the law set forth by the Kentucky Revised Statutes.

Sincerely,

Stuart Owen
Mayor



Allison Ball
Auditor of Public Accounts
2025 City of Mount Washington Special Examination

