

**Examination of Certain Policies, Procedures, Controls, and
Financial Activity of the City of West Buechel**



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The Auditor Of Public Accounts Ensures That Public Resources Are Protected, Accurately Valued, Properly Accounted For, And Effectively Employed To Raise The Quality Of Life Of Kentuckians.

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

December 10, 2015

The Honorable Mayor Rick Richards
City of West Buechel
3705 Bashford Avenue
Louisville, Kentucky 40218

RE: Examination of Certain Policies, Procedures, Controls, and Financial Activity of the City of West Buechel

Dear Mayor Richards:

We have completed our Examination of Certain Policies, Procedures, Controls, and Financial Activity of the City of West Buechel (City). This examination resulted in 14 findings and offers multiple recommendations to strengthen the management and internal controls of the City. Unless otherwise indicated, the examination period was July 1, 2012 through December 31, 2014.

These findings identify serious concerns regarding questionable spending, use of funds, weak processes and internal controls related to fiscal management and oversight, and disregard for existing policies. It also appears certain action was taken without the City Council's knowledge or approval. Due to the nature of certain findings discussed within this report, we are referring these issues to the Attorney General's Office, the Federal Bureau of Investigation, and the Department of Revenue to determine whether further investigation is warranted.

The examination was severely limited due to significant missing accounting records and unreliable computer-generated information from the City's accounting system. The City was able to provide auditors with bank statements from nine different City bank accounts; however, several months of bank statements were missing and some of these accounts did not provide the canceled checks processed during the month. In addition, the City provided a few boxes and stacks of various documents and records from multiple years that were not labeled or organized for auditors to examine.

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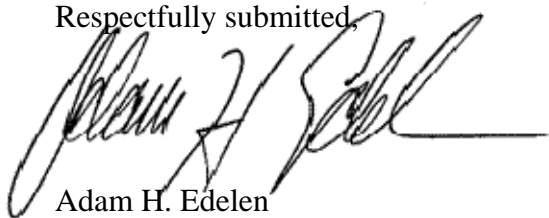
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Mayor Richards
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The Auditor of Public Accounts requests a report from the City on the implementation of the examination recommendations within (60) days of the completion of the final report. If you wish to discuss this report further, please contact Brian Lykins, Executive Director of the Office of Technology and Special Audits, or me.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Adam H. Edelen", with a long horizontal line extending to the right.

Adam H. Edelen
Auditor of Public Accounts



Examination of Certain Policies, Procedures, Controls, and Financial Activity of the City of West Buechel

Impetus, Scope and Methodology

The West Buechel (City) City Council approved a resolution on January 6, 2015, requesting this office to conduct an examination of the City's finances and operations under the former City administration. To initiate this examination, auditors met with City officials on January 20, 2015, to discuss several issues and to request the initial documentation needed to address the City officials' concerns. The purpose of this examination was not to provide an opinion on financial statements or activities, but to review specific concerns brought to the attention of this office regarding activities of the former City administration and evaluate the processes and controls related to those concerns. Unless otherwise indicated, the examination period was July 1, 2012 through December 31, 2014.

The examination was suspended on March 13, 2015, to allow the City to gather the necessary accounting information and documentation to address the areas of concern. According to current City officials, upon taking office, they had limited access to City records and other financial information and, at that time, the information and documentation requested could not be located or was not available.

On August 6, 2015, our office informed the City that more than a reasonable time period had passed for the City to prepare for the examination and auditors would be on-site at the City on August 13, 2015, to initiate testing and other examination procedures. Upon our arrival, the City provided a few boxes and stacks of various documents and information from multiple years that were not labeled or organized for auditors to examine. Except for an incomplete summary of payments made to City vendors, City officials did not provide any type of financial statement or ledger. In addition, the City was not able to provide the following information:

- Detailed staff information related to position and salary data. The only staff related information was provided by the City's payroll vendor. This information provided the amounts

paid to individuals through the payroll vendor only. The employee's position titles, position descriptions, approved salary rates, or timesheets were not provided.

- Supporting documentation for expenditures in fiscal year (FY) 2013, FY 2014, and FY 2015, including invoices, purchase orders, applicable bidding documentation.
- List of any donations made by the City during FY 2013, FY 2014, and FY 2015.
- A list of all vendor contracts maintained by the City during FY 2013, FY 2014, and FY 2015.
- Listing of all capital assets maintained by the City during FY 2013, FY 2014, and FY 2015.
- Listing of property owned by the City during FY 2013, FY 2014, and FY 2015.
- Listing of investments made by the City during FY 2013, FY 2014, and FY 2015.

The City provided auditors with bank statements from nine different City bank accounts; however, several months of bank statements were missing and some of these accounts did not provide the canceled checks processed during the month. Given the lack of documentation for these accounts, auditors focused on examining the Operating Account and Payroll Account. The City then requested and provided all of the bank statements for these accounts for the period under review.

Background

The City is located in Jefferson County, Kentucky with a population of approximately 1,300 with a total land area of 0.6 square miles. It operates under an elected mayor-council form of government with six City Council members. The primary revenue sources are property taxes, occupational taxes, net profit taxes, business license taxes, insurance premium taxes, bank franchise taxes, and municipal road aid. According to the City's most recent financial statement audit as of June 30, 2014, total revenue was \$1,649,862 with expenses of \$1,537,394, which resulted in excess revenue of \$112,432. For FY 2013, the City's revenue

totaled \$1,579,409 with expenses of \$1,201,577, resulting in excess revenue of \$377,832.

The City's current Mayor took office in January 2015, but had also served a previous term as City Mayor from January 2003 until December 2006. The City's former Mayor originally took office in January 1995 and was re-elected to another term that ended in December 2002. After the current Mayor's original term ended in December 2006, the former Mayor was re-elected and served two more terms from January 2007 until December 2014.

Findings and Recommendations

Finding 1: The examination was severely limited due to significant missing accounting records and unreliable computer generated information from the City's accounting system.

Due to the lack of accounting records and information maintained by the City, the unreliable information generated from the City's accounting system, and the City's failure to implement fundamental financial operating processes and controls, the auditors' ability to perform a detailed examination was severely limited. It was determined the City lacks records and documentation to support expenditures known to have been incurred based on details of the City's bank accounts that were provided. In addition, limited to no documentation was available to support the financial statements and other information provided in the City's annual audits. It could not be determined whether the financial documentation was ever maintained or was subsequently removed or deleted. Due to the lack of supporting documentation and missing data, only the random items of documentation provided by the City could be reviewed and City officials provided no assurance the information provided to auditors was complete or accurate. This situation indicates that a high fraud risk exists due to the lack of accountability established by the City.

Recommendations: We recommend the City, a member of the Kentucky League of Cities (KLC), contract with KLC or another firm having expertise in establishing written policies and controls designed to ensure a City operates in an efficient, effective, and professional manner to the benefit of the public it serves. We further recommend the development and implementation of policies and controls include:

- Training staff to ensure an understanding of the City's accounting process and system;
- Recording and reporting of transactions and other related information consistently and accurately;

- Requiring detailed documentation to be obtained and maintained to support of financial activity;
- Maintaining financial and other related documents in a logical and secured manner to ensure documents are readily available;
- Documenting and reporting records determined to be missing to ensure the issue is thoroughly investigated;
- Requiring two signatures for checks and delegating authority to specific individuals to be responsible for signing checks; and
- Establishing other financial related policies and controls to ensure the City consistently operates in an efficient, effective, and professional manner. For example, we recommend the City Council establish a policy detailing the process to report lost or missing financial information or records to the appropriate authorities.

Finding 2: Almost \$87,000 in charges with no supporting documentation were made on a credit card issued to the former Mayor.

The City's Operating Account was used to automatically pay the monthly balance of a credit card issued in the former Mayor's name without adhering to the City's Handbook policies regarding credit card purchases. The City's credit card policies require a monthly schedule of credit card transactions be developed that document which employee made the purchase, a brief description of the items purchased, the dollar amount of the items purchased, and the purpose of the purchase. No schedules documenting this information or supporting documentation was provided to auditors for the almost \$87,000 in purchases made on this credit card from April 2012 through December 2014. A review of credit card statements found approximately \$38,000 of these expenditures appeared personal in nature based on the type of purchase made and the lack of any supporting documentation identifying a related business purpose for the purchase. Significant expenditures were incurred on the credit card issued to the former Mayor without the City Council's oversight or review of whether the expenditures benefitted the City or were personal in nature.

Recommendations: We recommend the City enforce the current credit card policy if the City continues to maintain a credit card. We also recommend the credit card policy be expanded to require all City employees and officials, including the Mayor and City Council members, comply with the policy. To improve oversight and transparency, we recommend the policy

require the credit card transaction action summary and the credit card statement be provided monthly in the City Council members meeting packets for review and discussion at City Council meetings. We further recommend that this review and discussion be documented in the City Council meeting minutes. To facilitate providing this documentation, we recommend the City consider developing a credit card transaction form to record the information required by the credit card policy and the necessary approvals. Specifically, the form should document the name of the employee making the purchase; the purpose of the purchase; a description of the purchase including the quantity and dollar amount of the purchase, the date of the purchase, and the employee's name who preapproved the purchase. We also recommend, in lieu of credit cards, the City consider the following:

- The use of purchasing cards that would allow the City to restrict the types of purchases that can be made on the card based on industry codes. Casinos, specialty retail outlets, and food and beverage establishments are examples of these restrictions. The amount spent on a single purchase can also be restricted through the use of a purchasing card.
- Reimburse employees' personal credit card charges when the use is necessary. Procedures and supporting documentation requirements should be developed to facilitate this type of reimbursement.

Finally, we recommend, if the use of credit cards is needed, the City implement the following oversight controls:

- A City Council member or committee of the City Council should be assigned to review, at a minimum, credit card statements of executives prior to payment.
- Credit card charges should be supported by detailed receipts, documented business purpose, and supervisory approval. The employee should be responsible for the timely payment of any unsupported credit card charges or disallowed expenses.
- Policies established by the City should ensure that all review procedures are performed in a timely manner to avoid late fee and finance charges.

Finding 3: Financial reporting provided by the former Mayor to the City Council was inconsistent, incomplete, and not adequate to monitor the City's financial activity.

A review of a sample of monthly packets provided to City Council members by the former Mayor, as well as the available City Council meeting minutes, found that the City Council was not provided adequate financial information needed to fully understand or monitor the City's financial activities. The information provided to City Council members prior to a City Council meeting was inconsistent and incomplete with no reconciliation to actual bank statements. During the examination period, it was determined the City's financial activity included at least nine bank accounts, numerous automatic and online purchases, a credit card, and a fleet card account, yet the City Council meeting minutes do not document the presentation of specific financial reports, information, or any detailed discussions of the City's financial situation. KRS 91A.020 requires cities to maintain an accounting system and financial reports for disclosure of financial operations and to determine a city's compliance with statutory provisions.

Recommendations: We recommend that the City comply with KRS 91A.020 and maintain proper accounting records and present the City Council with complete and accurate financial reports. These reports should disclose sufficient financial information for City Council members to understand and discuss the City's financial operations. We recommend the City conduct monthly reconciliations of all City bank accounts prior to the presentation of financial information to the City Council. We recommend the City Council determine specific reports and other financial information including budget-to-actual reports to be provided in City Council members' monthly meeting packets, which assists in providing continuity and transparency.

Finding 4: According to City Council meeting minutes, the City has not passed a budget ordinance since May 2012 and the former Mayor did not provide quarterly budget to actual reports as required by KRS 91A.030(11).

Based on information provided by City staff, City ordinances, and the available City Council meeting minutes, the City continues to operate under the budget ordinance passed by the City Council for FY 2013. In addition, a review of the available City Council meeting minutes and City Council member meeting packets found no indication that the former Mayor provided City Council members with financial reports comparing budget-to-actual revenues and expenditures. KRS

91A.030 requires each city to operate under an annual budget ordinance and provide quarterly budgetary comparisons for each governmental fund. The lack of detailed financial and budgetary information provided by the former Mayor appears to have resulted in a City Council not having sufficient information to be well informed or aware of the City's financial condition. This lack of information and the inability to properly monitor the City's financial activity can result in City officials making uninformed decisions or failing to take action that is in the best interests of its citizens.

Recommendations: We recommend the City comply with KRS 91A.030 and pass a budget ordinance each fiscal year. In order to properly plan and monitor the City's financial activity, revenue and expenditures must be budgeted and consistently monitored. As recommended in Finding 3, City Council members should receive in meeting packets at least quarterly, a budget-to-actual financial report and other necessary financial reports to strengthen monitoring of the City's financial activity. The budget categories or line items should provide transparency and sufficient detail to allow City Council members to accurately identify the types of expenditures attributed to each budget item. Further, if expenditures occur at an unexpected rate, additional detail should be requested to ensure expenditures are reasonable and necessary. Finally, we recommend the City develop and implement policies and controls to ensure financial activity is consistently recorded and reported in the City's accounting system, which increases transparency and disclosure.

Finding 5: The City purchased property paying at least \$364,000 in FY 2013 having questionable or no public benefit.

On December 21, 2012, the City paid \$238,812, net of fees, taxes, and allowances, to purchase a building, known as the TEM Building, and, on June 25, 2013, purchased six lots, located near City Hall, for \$125,497 in addition to any unknown associated costs. The City entered into a loan with KLC Kentucky Bond Corporation dated July 31, 2012, to purchase the TEM Building, though the City's Operating Account had a balance of \$1,491,685 in unrestricted funds available for use at the time. In contrast, the six lots located near City Hall were purchased using funds from the Operating Account. City Council meeting minutes document very little about these purchases, so it is not clear whether the City Council members approved these two purchases or understood how the City was funding these purchases. Additionally, information provided does not disclose whether these properties were ever independently appraised prior to the purchases. While the City had no established procurement policies, the use of taxpayer funds to purchase property and the

method of financing the purchase should be approved by the City Council. All information related to these purchases should have been disclosed and discussed with the City Council prior to incurring significant expenses.

Recommendations: We recommend the City adopt procurement policies requiring disclosure to and authorization by the City Council prior to purchasing and financing a property above a determined amount. We also recommend bond, loan, or other financing agreements above a determined amount be presented to the City Council for review and authorization. The resulting action taken by the City Council should be documented in the meeting minutes. This disclosure provides transparency and an opportunity for the City Council to discuss the need and approval for the purchase. We further recommend the City have an appraisal performed by a qualified third party to ensure a clear understanding of the value of any property being considered for purchase. We recommend the City address the use of these properties to ensure they provide the best use and benefit to the City. Further, an evaluation should be performed to determine whether it is in the best interests of the City to retain or sell the properties. We also recommend that the City notify the Kentucky Bond Corporation that no further funds will be requested for the property purchase, referred to as a project, to ensure the City minimizes the amount required to be repaid. We recommend the City perform an analysis to determine whether it is in the City's best interest to retire the loan balance early or to follow the established payment schedule, which continues to accrue interest.

Finding 6: Business records related to two private companies associated with the former Mayor, two computers with missing hard drives, and property of unknown ownership were found in the City's TEM Building.

An examination of the contents of the TEM Building was made in an attempt to determine how the property may have been used by the City. Auditors found file cabinets containing business documentation related to two different companies associated with the former Mayor, two computers with missing hard drives, and property of unknown ownership. Due to the current administration's concerns regarding the reason for the former Mayor to have an office in the TEM Building in addition to the office in City Hall, City officials stated an effort was made to secure the TEM Building so the contents of the building could be reviewed without any items being tampered with or removed. These efforts were unsuccessful as the building suffered water

damage from burst pipes in March 2015, which resulted in extensive repairs. In addition, City maintenance equipment was stored in the building so staff retained keys to the building after the locks were changed. The City was not able to provide auditors with any inventory listing or purchasing documentation, which made it impossible to determine the property that should have been onsite and the ownership of several seemingly random and unnecessary items of property. However, the removal of hard drives from two on-site computers demonstrates action may have been taken to prevent the computers' contents from being identified. According to the current Mayor, the two on-site computers were functional prior to securing the building.

Recommendations: We recommend the City take steps to inventory all of the City's assets, including all property contained in the TEM Building. We recommend City employees evaluate these items and keep those that provide a benefit to the City, while disposing of other items as surplus property. If records are located that document the computers in the TEM building were purchased by the City, we recommend further investigation be performed to determine whether the hard drives for these computers were removed for an inappropriate purpose.

Finding 7: Although a total could not be determined, a review of the City's Operating Account identified questionable checks and expenditures.

A review of the City's Operating Account revealed excessive and questionable uses of City funds although a total amount could not be determined. Given that complete financial statements, actual expenditures, and supporting documentation could not be provided by the City, a review was performed of the Operating Account bank statements and processed checks were categorized by the type of expenditure activity. The review identified several questionable types of expenditures and expenditure amounts that appeared excessive. In addition to checks written from the Operating Account, many on-line and automatic payments were made from this account; however, on many occasions, it was difficult to determine the purpose of the automatic withdrawals. The majority of the amount of the City's expenditures are made from the Operating Account given automatic payments from this account include transactions to pay the City's monthly payroll and credit card account balances.

Recommendations: We recommend that the City maintain the documentation needed to support City expenditures and other financial activity. We also recommend this documentation be maintained electronically so the information can be easily accessed

and available if the paper copy of the documentation cannot be located. Maintaining documentation electronically should assist in providing timely expenditure and other information to City officials, management, City Council members, and others. We further recommend a reconciliation of the City's Operating and other account bank statements to the transactions recorded in the accounting system be performed monthly to properly oversee the City's financial activity. Bank reconciliations should be available to assist in answering potential questions asked by City Council members. To ensure proper segregation of duties, the bank account reconciliations should be performed by someone other than the employee responsible for recording the financial activity into the City's account system. We recommend any questionable activity identified during the bank account reconciliations be investigated and reported to the Mayor and at City Council meetings. We further recommend the City comply with the policies established in the City's Handbook related to allowable expenditures and review these policies at least annually to determine whether any modifications are necessary to strengthen the policy and internal controls. Finally, as recommend in Finding 1, a policy should be developed to delegate authority to specific individuals to be responsible for signing checks and require two signatures.

Finding 8: Manual checks totaling over \$22,000 from the City's Payroll Account included salary payments not reported as taxable income and checks totaling \$7,200 for unknown purposes.

The City outsourced its payroll accounting to a vendor but issued additional manual checks that were not included in an employee's taxable income. Based on Payroll Account bank statements for the period June 2012 through January 2015, manual checks totaling \$22,361 were written. Two \$2,500 checks were written for cash and another two checks totaling \$2,200 were written to the former Mayor. In addition, checks were written to non-employees that appear to have provided ad hoc services for the City.

Recommendations: We recommend the City's Payroll Account solely be used to pay salary related expenditures. We also recommend the City refrain from improperly compensating employees for vacation leave as the employee already receives accrued vacation leave. We recommend the City discontinue the practice of writing checks for cash. We further recommend all compensation be properly reported as taxable income. If manual checks are needed, this information should be provided to the payroll

accounting vendor to ensure necessary accounting adjustments are made. We also recommend strengthening internal controls by designating a City Council Committee Chair or member to be a required signatory for all checks written to the Mayor. Monthly Payroll and other bank account reconciliations should be conducted and available for the City Council's monthly meetings to assist in responding to questions raised by City Council members.

Finding 9: The City used Operating Account funds to open at least two bank accounts that appear unwarranted and were not available to City Council for review.

The City maintains at least two bank accounts, the Buechel Festival and Christmas Fund Accounts, which appear unnecessary and not available for review by the City Council. The funds used to open each of these bank accounts originated from the City's Operating Account, which is held at the same bank. Based on a review of the information provided to the City Council, these bank accounts were not disclosed to the City Council. It appears the only bank accounts disclosed to the City Council are the City's Operating and Road Aid Accounts. Therefore, these two bank accounts were under the sole discretion of the Mayor without the City Council having the opportunity to oversee or approve the establishment of the bank accounts and the use of the accounts' funds.

Recommendations: We recommend the City ensure that proper oversight be implemented for all bank accounts under the City control. As recommended in Findings 7 and 8, monthly bank account reconciliations should be performed by an employee independent of the person entering transactions activity into the City's accounting system. Further, these reconciliations should be provided to appropriate City management and to the City Council members to discuss or question during City Council meetings. Also, as previously recommended in Finding 7, City management and the City Council should be provided monthly financial statements for review to strengthen the oversight of the City's financial activity. In addition, we recommend the City Council discuss the need for multiple bank accounts.

Finding 10: Evidence identified three loans made to City officials; however, the total number and amount of loans could not be determined.

As auditors reviewed the random and haphazard documents provided by the City, various items of documentation that loans were provided to the former Mayor, Chief of Police, and a clerk were identified. The evidence of a loan made to the former Mayor was a report from the payroll accounting vendor indicating

loan payments were deducted from the former Mayor's salary. In addition, other questionable payments made to the former Mayor were identified. Regarding the Chief of Police, a canceled check was found that stated "Loan" on the memo line. The loan to the clerk was found during a review of the Check Request Forms that documented the City made a loan to the former clerk. A canceled check was also found during the time period and for the amount on the Check Request Form.

Recommendations: We recommend the City implement controls to prevent loans from being provided to City staff or officials to ensure public funds are not used for personal needs. As stated in the City's handbook, public funds should not be used to benefit one person or a small number of persons without a value to the community as a whole. For loans that have been made, we recommend the City ensure all loans made to City official or employees are fully repaid. We further recommend strengthening internal controls over the reporting of questionable activity by the City Council establishing an independent process to receive, analyze, and ensure investigation and resolution of issues involving questionable activity or other concerns. The process to report such issues should be available to employees, business associates, and the general public. An advertised email or postal address to receive concerns would allow the City Council to receive this information.

Finding 11: The City's operating and human resource policies do not adequately address financial controls and reporting necessary to professionally manage the City's financial operations.

While the City provided a policy Handbook, first revised in April 1993 and later revised in October 2007, the City's financial management and human resource (HR) policies are not properly updated or complete to adequately address the City's needs. A review of the City's policy Handbook found crucial financial areas and procedures were not addressed. Further, it was determined that compliance with existing policies and procedures was either nonexistent or minimal. Based on the lack of compliance to established policies or procedures and that the Handbook was last revised approximately eight years ago during the previous administration, it appears there was a lack of awareness of the current Handbook policies.

Recommendations: We recommend the City review and update its financial policies and procedures. As recommended in Finding 1, the City, a member of the KLC, should contract with KLC or another firm having expertise in establishing written policies and controls designed to ensure a City operates in an efficient,

effective, and professional manner to the benefit of the public it serves. In addition to the policy areas recommended in Finding 1, we also recommend the City address general procurement policies, bidding requirements, basic financial procedures such as reconciliations, expense approvals, and the need for a petty cash policy. The City should also update its position descriptions that include education and experience requirements to ensure qualified staff are consistently hired. The development and implementation of other financial related policies and controls should also be considered to ensure the City consistently operates in an efficient, effective, and professional manner.

Finding 12: The City's travel reimbursement policy is undefined, vague, and requires no documentation to support a request for reimbursement.

The City's Handbook includes a travel reimbursement policy that does not define criteria for travel status yet provides the amount of \$50 to be reimbursed for any type of travel. This policy does not assist the City in controlling travel costs and protecting public funds from unnecessary reimbursements. In its current state, the policy does not provide criteria to determine what constitutes travel status, establish the process to request and approve travel, identify allowable travel expenses, or have a requirement to provide supporting documentation for any travel expenses.

Recommendations: We recommend the City travel policy specifies what constitutes travel status, when documentation is required, and clearly state the expenses covered by the established per diem amount to prevent the duplication of reimbursements. In addition, the City should also create a travel reimbursement form to document the travel information such as the time period the City official or employee was in travel status, the travel location, and the reason for the travel. We also recommend the City consider adopting a travel policy similar to that detailed in Kentucky state government's regulation, 200 KAR 2:006. We further recommend the developed travel reimbursement form be submitted for approval by appropriate management and a City Council Committee or Council representative be delegated the responsibility to review and approve the Mayor's travel reimbursement requests. To minimize and control costs, we recommend the travel expense policy define allowable costs related to lodging, meals, entertainment, personal mileage reimbursement, rental cars, and airfare. We suggest overnight travel status be required for any reimbursement other than mileage. In addition, the policy should establish a required distance to be traveled from an employee's or City Council member's work area for an overnight stay to be

authorized. The travel expense policy should state the documentation requirements for the reimbursement of each type of travel expenditure. The policy should provide examples of expenditures that are to be paid for by the employee, such as costs incurred by family members or the attendance at events not approved. This policy should explicitly state that expenses not in compliance with the travel expense policy will not be reimbursed or paid by the City.

Finding 13: The current City Clerk-Treasurer did not provide evidence of a bond required by state law for officials that handles public money.

In response to inquiries made to determine the City's compliance with state law bonding requirements, auditors were informed that the current City Clerk-Treasurer was bonded May 2015; however, although requested, no documentation was provided to confirm the City Clerk/Treasurer was bonded. KRS 65.067 requires a bond for all officials or employees who handle public money. To protect City funds and comply with state law, those meeting the statutory requirements must be bonded. Compliance with this statute should be confirmed annually.

Recommendations: We recommend the City obtain documentation to determine whether the City Clerk-Treasurer is currently bonded. In addition, we recommend a review be performed to determine which City officers, officials, and employees handle public funds and should be bonded in compliance with KRS 65.067. Based on this determination, we recommend City officials work with the City attorney to determine the amount of the bond needed for each person and ensure a clear understanding of the bond terms and conditions. Finally, we recommend the City maintain the documentation for all City personnel covered by a bond.

Finding 14: In 2012, the former Mayor submitted a 1997 City ordinance to the Department of Insurance to increase the City's insurance premium tax from 5 percent to 10 percent after the City Council voted down this proposed increase in 2011.

To facilitate an increase in the City's insurance premium tax from five percent to 10 percent, the City's former Mayor provided a 15-year old ordinance to the Department of Insurance (DOI) in January 2012. The December 6, 2011 City Council meeting minutes document the former Mayor's motion to increase the insurance premium tax to 10 percent failed to be passed by the City Council. The meeting minutes do not document that the City Council was informed of a 1997

ordinance that raised the rate to 10 percent but was apparently never implemented. At a subsequent City Council meeting on February 7, 2012, it is documented in the City Council meeting minutes that a resident asked the former Mayor about the insurance premium tax increase. The minutes further document that the “[m]ayor stated we already had the ordinance in place so we proceeded with the ordinance.”

Recommendations: We recommend that the City work with DOI to further investigate this issue to ensure the legality of this tax increase and take whatever action, if any, is necessary to appropriately address. We further recommend the City Council review this issue to determine the desired City insurance premium tax rate to be established moving forward. This issue was referred to DOI to consider whether further investigation is warranted.

Additional Observations Made During the Examination Process

As previously stated, the examination period was primarily July 1, 2012 through December 31, 2014, which was during the administration of the former Mayor. Testing and other review procedures focused on the period under examination; however, the following observations involving City operations under the current administration were also made:

- The City continues to operate under the existing Personnel Policies & Procedures Handbook and has not revised or updated policies and procedures;
- Supporting documentation for financial records from January through August 2015 was reportedly stolen; however, according to the City’s Chief of Police no police report has been filed;
- Action has not been taken to ensure staff are trained to obtain a thorough understanding of the City’s accounting process and system;
- The hiring of two City employees with either a former or current personal relationship with the Mayor may impair objectivity in the supervision and oversight of these employees; and
- Throughout the examination process, auditors consistently experienced difficulty in contacting City officials and being provided with requested documentation.

Chapter 1

Introduction and Background

Impetus, Scope and Methodology

The West Buechel (City) City Council approved a resolution on January 6, 2015, requesting this office to conduct an examination of the City's finances and operations under the former City administration. To initiate this examination, auditors met with City officials on January 20, 2015, to discuss several issues and to request the initial documentation needed to address the City officials' concerns.

The purpose of this examination was not to provide an opinion on financial statements or activities, but to review specific concerns brought to the attention of this office regarding activities of the former City administration. Further, the examination will evaluate the processes and controls regarding these concerns and make recommendations to ensure appropriate controls exist within the City to provide strong oversight over financial operations. The examination period was July 1, 2012 through December 31, 2014, unless otherwise stated.

The examination was suspended on March 13, 2015, to allow the City to gather the necessary accounting information and documentation to address the areas of concern. According to current City officials, upon taking office, they had limited access to City records and other financial information and, at that time, the information and documentation requested could not be located or was not available. City officials worked to gather and gain access to various City records but were not able to readily determine whether financial information was complete, accurate, or available for review.

On August 6, 2015, our office informed the City that more than a reasonable time period had passed for the City to prepare for the examination and auditors would be on-site at the City on August 13, 2015, to initiate testing and other examination procedures. Upon our arrival, the City provided a few boxes and stacks of various documents and information from multiple years that were not labeled or organized for auditors to examine.

Auditors inventoried the various documents and items of information provided by the City. Except for an incomplete summary of payments made to City vendors, City officials did not provide any type of financial statement or ledger. The City was aware that the summary of vendor payments was not accurate due to known vendor payments missing from the report and no other reports or information was provided. In addition, the City was not able to provide the following information:

- Detailed staff information related to position and salary data. The only staff related information was provided by the City's payroll vendor. This information provided the amounts paid to individuals through the payroll vendor only. The employee's position titles, position descriptions, approved salary rates, or timesheets were not provided.
- Supporting documentation for expenditures in fiscal year (FY) 2013, FY 2014, and FY 2015, including invoices, purchase orders, applicable bidding documentation.
- List of any donations made by the City during FY 2013, FY 2014, and FY

Chapter 1

Introduction and Background

2015.

- A list of all vendor contracts maintained by the City during FY 2013, FY 2014, and FY 2015.
- Listing of all capital assets maintained by the City during FY 2013, FY 2014, and FY 2015.
- Listing of property owned by the City during FY 2013, FY 2014, and FY 2015.
- Listing of investments made by the City during FY 2013, FY 2014, and FY 2015.

Auditors were provided with the City's Personnel Policies & Procedures Handbook (Handbook). However, the Handbook section related to financial reporting/requirements was limited to approximately two pages and there were no procurement policies.

Auditors were informed the City had only one credit card used by the former Mayor. Credit card statements were missing; however, the City was able to obtain the statements from the credit card provider.

The City provided auditors with bank statements from nine different City bank accounts; however, several months of bank statements were missing and some of these accounts did not provide the canceled checks processed during the month. Given the lack of documentation for these accounts, auditors focused on examining the Operating Account and Payroll Account. The City then requested and provided all of the bank statements for these accounts for the period under review.

Background

The City is located in Jefferson County, Kentucky with a population of approximately 1,300 with a total land area of 0.6 square miles. It operates under an elected mayor-council form of government with six City Council members. The City provides public safety, public works, recreational, and community services to its residents. The primary revenue sources are property taxes, occupational taxes, net profit taxes, business license taxes, insurance premium taxes, bank franchise taxes, and municipal road aid.

According to the City's most recent financial statement audit as of June 30, 2014, total revenue in FY 2014 was \$1,649,862 with expenses of \$1,537,394, which resulted in excess revenue of \$112,432. For FY 2013, the City's revenue totaled \$1,579,409 with expenses of \$1,201,577, resulting in excess revenue of \$377,832.

The City's current Mayor took office in January 2015, but had also served a previous term as City Mayor from January 2003 until December 2006. The City's former Mayor originally took office in January 1995 and was re-elected to another term that ended in December 2002. After the current Mayor's original term ended in December 2006, the former Mayor was re-elected and served two more terms from January 2007 until December 2014.

Findings and Recommendations

Finding 1: The examination was severely limited due to significant missing accounting records and unreliable computer generated information from the City's accounting system.

Due to the lack of accounting records and information maintained by the City, the unreliable information generated from the City's accounting system, and the City's failure to implement fundamental financial operating processes and controls, the auditors' ability to perform a detailed examination was severely limited. It was determined the City lacks records and documentation to support expenditures known to have been incurred based on details of the City's bank accounts' that were provided. In addition, limited to no documentation was available to support the financial statements and other information provided in the City's annual audits. It could not be determined whether the financial documentation was ever maintained or was subsequently removed or deleted. Due to the lack of supporting documentation and missing data, only the random items of documentation provided by the City could be reviewed and City officials provided no assurance the information provided to auditors was complete or accurate. This situation indicates that a high fraud risk exists due to the lack of accountability established by the City.

Typically, a local government's full population of financial transactions is available to examine and trace to supporting documentation to determine whether the expenditure was appropriate, properly accounted for, and accurately reported. However, a complete report of City financial transactions was not available to examine due to missing transactions in the City's accounting system. Except for bank statements with some canceled checks, limited documentation, and a random stack of check request forms, very little supporting documentation was provided for auditors to review.

A summary of vendor payments was provided to the auditors; however, it was readily determined the list was incomplete and inaccurate because a review of canceled checks found several missing transactions. Also, the summary of vendor payments only included checks written by the City, not on-line transactions or automatic payments also made by the City. The City had significant on-line and automatic payments that were not included in the summary of vendor payments, so the report was of limited value in testing the City's expenditures.

According to City staff, checks should have two signatures; however, this is not a policy requirement and it appears any two employees or officials were authorized to sign a check. The City did not establish a written policy specifying certain positions in the City as one of the two signers authorized to sign a check. While a check may typically be processed regardless of the signature, the control requiring two signatures is meant to ensure two authorized employees of the City agree that the payment is necessary and appropriate.

Findings and Recommendations

While a substantive examination of all concerns involving the operation of the City could not be performed, the review of available information identified expenditures that provide no apparent benefit to the City and appear questionable or personal in nature, as discussed in several findings throughout the report. Policies and procedures were not established to properly control or address the City's financial operations. The written policies that did exist were vague and incomplete.

Recommendations We recommend the City, a member of the Kentucky League of Cities (KLC), contract with KLC or another firm having expertise in establishing written policies and controls designed to ensure a City operates in an efficient, effective, and professional manner to the benefit of the public it serves. We further recommend the development and implementation of policies and controls include:

- Training staff to ensure an understanding of the City's accounting process and system;
 - Recording and reporting of transactions and other related information consistently and accurately;
 - Requiring detailed documentation to be obtained and maintained to support of financial activity;
 - Maintaining financial and other related documents in a logical and secured manner to ensure documents are readily available;
 - Documenting and reporting records determined to be missing to ensure the issue is thoroughly investigated;
 - Requiring two signatures for checks and delegating authority to specific individuals to be responsible for signing checks; and
 - Establishing other financial related policies and controls to ensure the City consistently operates in an efficient, effective, and professional manner. For example, we recommend the City Council establish a policy detailing the process to report lost or missing financial information or records to the appropriate authorities.
-

Finding 2: Almost \$87,000 in charges with no supporting documentation were made on a credit card issued to the former Mayor.

The City's Operating Account was used to automatically pay the monthly balance of a credit card issued in the former Mayor's name without adhering to the City's Handbook policies regarding credit card purchases. The City's credit card policies require a monthly schedule of credit card transactions be developed that document which employee made the purchase, a brief description of the items purchased, the dollar amount of the items purchased, and the purpose of the purchase. No schedules documenting this information or supporting documentation was provided to auditors for the almost \$87,000 in purchases made on this credit card from April 2012 through December 2014. A review of credit card statements found approximately \$38,000 of these expenditures appeared personal in nature based on the type of purchase made and the lack of any supporting documentation identifying a related business purpose for the purchase. Significant expenditures were incurred on the credit card issued to the former Mayor without the City Council's oversight or review of whether the expenditures benefitted the City or were personal in nature.

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According to the City’s Handbook, “all city owned credit cards will be kept at city hall and no employee will be permitted to use a city credit card without prior consent of the Mayor or the Mayor’s designated agent. A summary schedule of credit card transactions will be created each month that includes the name of the employee who made the transaction, a brief description of the items purchased, the dollar amount of the items purchased, and the purpose of the purchase. The summary schedule will be reviewed and approved by the Mayor. If transactions are not approved, or are found to be personal in nature, the employee who made the purchase will be required to reimburse the city for any disallowed transactions.”

The City did not provide any summary schedules to document the purpose of the purchases, nor did any City Council meeting minutes document the use or review of a credit card. If the former Mayor was the primary user of the credit card, the City Council should have provided oversight of these expenses to determine if there were any disallowed transactions requiring a reimbursement to the City.

Auditors reviewed the credit card statements from April 2012 through December 2014. Some of these statements were found at City Hall, while any missing statements were requested from the credit card provider. Table 1 illustrates the amounts spent during this period.

Table 1: City Credit Card Charges by Fiscal Year

| Fiscal Year | Credit Card Amount |
|--------------------|---------------------------|
| FY 2012 * | \$825 |
| FY 2013 | \$28,594 |
| FY 2014 | \$46,194 |
| FY 2015 ** | \$11,288 |
| Total | \$86,901 |

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

* This year only consisted of April, May, and June, 2012.

** This year only consisted of July through December, 2014.

In reviewing credit card statements, charges were noted as questionable and appearing personal in nature if it seemed unlikely that a purchase from a particular vendor would be of benefit to the City and no documentation was provided identifying a business purpose for the expenditure. If the vendors were different but involved similar purchases, the credit card charges were aggregated as an expenditure type instead of a vendor. Table 2 documents the category and amount of expenditures identified.

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Table 2: Credit Card Charges that Appear Personal in Nature

| Vendor/Expenditure Type | Aggregate Amount |
|--------------------------------|-------------------------|
| Hotel Charges | \$7,553 |
| Cell Phone Payments | \$7,035 |
| Software Purchases | \$5,737 |
| QVC | \$3,855 |
| Kentucky Kingdom | \$3,417 |
| Restaurant Equipment | \$3,148 |
| Gas Purchases | \$1,676 |
| PayPal | \$1,615 |
| Food Purchases | \$1,171 |
| Car Rentals | \$1,109 |
| Home Shopping Network | \$379 |
| Lowes | \$318 |
| Jewelry | \$300 |
| Bath & Bodyworks | \$278 |
| Total | \$37,593 |

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

The concerns related to hotels, software, cell phones, gas, and car rentals are that there is no supporting documentation to establish how the expenses benefitted the City. Expenses for these types of items were also found being paid by checks and through automatic payments from the City’s Operating Account. These types of expenses could have been personal in nature but there was no oversight to review these expenses and determine if they should be reimbursed to the City. The City Council’s knowledge of credit card expenditures is not known because the City Council meeting minutes do not document any discussions related to this credit card.

Recommendations We recommend the City enforce the current credit card policy if the City continues to maintain a credit card. We also recommend the credit card policy be expanded to require all City employees and officials, including the Mayor and City Council members, comply with the policy. To improve oversight and transparency, we recommend the policy require the credit card transaction action summary and the credit card statement be provided monthly in the City Council members meeting packets for review and discussion at City Council meetings. We further recommend that this review and discussion be documented in the City Council meeting minutes.

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To facilitate providing this documentation, we recommend the City consider developing a credit card transaction form to record the information required by the credit card policy and the necessary approvals. Specifically, the form should document the name of the employee making the purchase; the purpose of the purchase; a description of the purchase including the quantity and dollar amount of the purchase, the date of the purchase, and the employee's name who preapproved the purchase.

We also recommend, in lieu of credit cards, the City consider the following:

- The use of purchasing cards that would allow the City to restrict the types of purchases that can be made on the card based on industry codes. Casinos, specialty retail outlets, and food and beverage establishments are examples of these restrictions. The amount spent on a single purchase can also be restricted through the use of a purchasing card.
- Reimburse employees' personal credit card charges when the use is necessary. Procedures and supporting documentation requirements should be developed to facilitate this type of reimbursement.

Finally, we recommend, if the use of credit cards is needed, the City implement the following oversight controls:

- A City Council member or committee of the City Council should be assigned to review, at a minimum, credit card statements of executives prior to payment.
 - Credit card charges should be supported by detailed receipts, documented business purpose, and supervisory approval. The employee should be responsible for the timely payment of any unsupported credit card charges or disallowed expenses.
 - Policies established by the City should ensure that all review procedures are performed in a timely manner to avoid late fee and finance charges.
-

**Finding 3:
Financial reporting provided by the former Mayor to the City Council was inconsistent, incomplete, and not adequate to monitor the City's financial activity.**

A review of a sample of monthly packets provided to City Council members by the former Mayor, as well as the available City Council meeting minutes, found that the City Council was not provided adequate financial information needed to fully understand or monitor the City's financial activities. The information provided to City Council members prior to a City Council meeting was inconsistent and incomplete with no reconciliation to actual bank statements. During the examination period, it was determined the City's financial activity included at least nine bank accounts, numerous automatic and online purchases, a credit card, and a fleet card account, yet the City Council meeting minutes do not document the presentation of specific financial reports, information, or any detailed discussions of the City's financial situation. KRS 91A.020 requires cities to maintain an accounting system and financial reports for disclosure of financial operations and to determine a city's compliance with statutory provisions.

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KRS 91A.020 addresses the need for cities to maintain complete accounting records. KRS 91A.020 (1) specifically requires the following:

Each city shall keep its accounting records and render financial reports in such a way as to:

- (a) Determine compliance with statutory provisions; and
- (b) Determine fairly and with full disclosure the financial operations of constituent funds and account groups of the city in conformity with generally accepted governmental accounting principles.

Related to financial information, one of the monthly packets reviewed included a spreadsheet of manual checks written during the period November 2, 2012 and November 29, 2012, and a copy of the Operating Account online register of payments for the period October 24, 2012 through November 27, 2012. A review of the checks listed on this spreadsheet found that of the 18 manual checks presented to the City Council, 11 were found in the corresponding monthly bank statement, three were identified as voided, three were found in later bank statements, and one check was not processed by the bank. The copy of the Operating Account online register of payments identified 23 bank generated checks and 17 transfers. Of the 23 bank generated checks, sixteen were found in the corresponding monthly bank statement, four were found in other bank statements, and three were never found on a bank statement. Of the 17 transfers, all were found on the corresponding monthly bank statement.

The actual monthly bank statement for November 2012 identified 34 checks totaling \$19,040, 43 transfers totaling \$98,315, and 11 deposits, credits, and interest totaling \$216,605. However, the City Council was not presented with the actual bank statement or specific statement related information to know actual activity or an ending balance. A reconciliation of the financial information provided to the actual bank statement was not presented.

The only financial information provided in the other monthly packet we reviewed was a copy of the Operating Account online register of payments. As with the other month, there was no actual bank statement or related information presented or discussed so that City Council members could be aware of the City's current financial condition.

The information provided to City Council members does not allow for a complete understanding of the City's Operating Account or other accounts. The City had at least nine bank accounts, credit card, a fleet card account, and a loan payable. Discussions related to these financial issues were not documented in City Council meeting minutes.

Findings and Recommendations

Recommendations We recommend that the City comply with KRS 91A.020 and maintain proper accounting records and present the City Council with complete and accurate financial reports. These reports should disclose sufficient financial information for City Council members to understand and discuss the City’s financial operations. We recommend the City conduct monthly reconciliations of all City bank accounts prior to the presentation of financial information to the City Council. We recommend the City Council determine specific reports and other financial information including budget-to-actual reports to be provided in City Council members’ monthly meeting packets, which assists in providing continuity and transparency.

**Finding 4:
According to City Council meeting minutes, the City has not passed a budget ordinance since May 2012 and the former Mayor did not provide quarterly budget to actual reports as required by KRS 91A.030(11).**

Based on information provided by City staff, City ordinances, and the available City Council meeting minutes, the City continues to operate under the budget ordinance passed by the City Council for FY 2013. In addition, a review of the available City Council meeting minutes and City Council member meeting packets found no indication that the former Mayor provided City Council members with financial reports comparing budget-to-actual revenues and expenditures. KRS 91A.030 requires each city to operate under an annual budget ordinance and provide quarterly budgetary comparisons for each governmental fund. The lack of detailed financial and budgetary information provided by the former Mayor appears to have resulted in a City Council not having sufficient information to be well informed or aware of the City’s financial condition. This lack of information and the inability to properly monitor the City’s financial activity can result in City officials making uninformed decisions or failing to take action that is in the best interests of its citizens.

According to KRS 91A.030(1), each city is required to “operate under an annual budget ordinance adopted and administered in accordance with the provisions of this section. Notwithstanding any other provision of law, no city shall expend any moneys from any governmental or proprietary fund, except in accordance with a budget ordinance adopted pursuant to this section.” According to KRS 91A.030(11), the executive authority of the city is responsible for “the preparation and submission to the legislative body of operating statements which shall include budgetary comparisons of each governmental fund for which an annual budget has been adopted. These reports shall be submitted not less than once every three (3) months in each fiscal year.”

Given that the City last passed a budget ordinance on May 1, 2012 for FY 2013, the FY 2013 budget ordinance has continued to remain in effect through FY 2016. No efforts to implement or monitor the City’s budget were documented in the City Council meeting minutes. The City’s most recent audited financial statements for FY 2014 provided a budget-to-actual report and identified specific budget line items in which actual expenditures exceeded the budgeted amount. Based on the documentation provided to the auditors, it appears the City Council members were not notified of these budgetary issues.

Findings and Recommendations

Recommendations We recommend the City comply with KRS 91A.030 and pass a budget ordinance each fiscal year. In order to properly plan and monitor the City’s financial activity, revenue and expenditures must be budgeted and consistently monitored. As recommended in Finding 3, City Council members should receive in meeting packets at least quarterly, a budget-to-actual financial report and other necessary financial reports to strengthen monitoring of the City’s financial activity. The budget categories or line items should provide transparency and sufficient detail to allow City Council members to accurately identify the types of expenditures attributed to each budget item. Further, if expenditures occur at an unexpected rate, additional detail should be requested to ensure expenditures are reasonable and necessary.

Finally, we recommend the City develop and implement policies and controls to ensure financial activity is consistently recorded and reported in the City’s accounting system, which increases transparency and disclosure.

Finding 5: The City purchased property paying at least \$364,000 in FY 2013 having questionable or no public benefit.

On December 21, 2012, the City paid \$238,812, net of fees, taxes, and allowances, to purchase a building, known as the TEM Building, and, on June 25, 2013, purchased six lots, located near City Hall, for \$125,497 in addition to any unknown associated costs. The City entered into a loan with KLC Kentucky Bond Corporation dated July 31, 2012, to purchase the TEM Building, though the City’s Operating Account had a balance of \$1,491,685 in unrestricted funds available for use at the time. In contrast, the six lots located near City Hall were purchased using funds from the Operating Account.

City Council meeting minutes document very little about these purchases, so it is not clear whether the City Council members approved these two purchases or understood how the City was funding these purchases. Additionally, information provided does not disclose whether these properties were ever independently appraised prior to the purchases. While the City had no established procurement policies, the use of taxpayer funds to purchase property and the method of financing the purchase should be approved by the City Council. All information related to these purchases should have been disclosed and discussed with the City Council prior to incurring significant expenses.

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According to the September 29, 2011 City Council meeting minutes, the former Mayor informed the City Council that the City was looking at the TEM Building “for the stationing of the maintenance garage.” After the former Mayor informed the City Council the asking price was “\$230,000.00 with \$25,000.00 tax adjustment over an approximate ten year period of time,” a City Council member asked where the money would come from for this purchase. The former Mayor stated that the building would be paid by grants acquired by the City’s Economic Development Commission. The former Mayor then stated the City could lease the building for \$2,000 per month with the option to buy until the City acquired funds through these grants. The former Mayor explained that the maintenance department and the economic development commission could both be housed in this building. The City Council voted on leasing the building, with the former Mayor breaking the tie to pass the motion. The City entered into a lease of the building on October 15, 2011.

The City leased the building from October 15, 2011 until the City purchased the building on December 21, 2012. A review of the City’s financial statement audit for FY 2013 found that the City entered into an agreement with the KLC Kentucky Bond Corporation to finance the acquisition of the TEM Building to be used as a maintenance garage. According to the FY 2013 financial statement audit, the note payable had an initial principal balance of \$260,000 and matures on January 1, 2027.

After contacting KLC to inquire about the financing agreement, KLC provided the auditors with a copy of the application for participation in the KLC Kentucky Bond Corporation Financing Program (KBCFP), the financing agreement, and the request for disbursement documentation for the City. The application for participation in the financing program is dated June 6, 2012, and lists the intended use as purchasing a building “for programs and maintenance garage.”

According to the financing agreement, dated July 31, 2012, the City has agreed to pay back a total of \$323,711 over the duration of the loan: principal of \$260,000, interest of \$51,834, and expenses of \$11,877. The financing agreement has a stated duration of 15 years with a schedule of 175 payments in total.

The financing agreement also included Ordinance 241 to support the opinion of the City’s counsel that the agreement was properly authorized. According to Ordinance 241 presented in the lease agreement, the Ordinance had its first reading on May 1, 2012 and the second reading on June 4, 2012, with the following purpose:

AN ORDINANCE APPROVING A LEASE FOR THE FINANCING OF A PROJECT; PROVIDING FOR THE PAYMENT AND SECURITY OF THE LEASE; CREATING A SINKING FUND; AND AUTHORIZING THE EXECUTION OF VARIOUS DOCUMENTS RELATED TO SUCH LEASE.

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After reviewing the financing agreement, the auditors again read the City Council meeting minutes to search for additional information about this ordinance, the decision to purchase this building, and incur a note payable given the City had funds available for the purchase. No mention of purchasing the TEM Building was found, nor was there any discussion of a financing agreement.

The date documented as the first reading for Ordinance 241 is May 1, 2012 and the second reading was June 4, 2012. A review of the City Council meeting minutes for May 1, 2012, documents no mention of Ordinance 241. The next regular meeting, held on the first Tuesday of each month, would have been June 5, 2012. Although requested, the City could not provide the meeting minutes for June 5, 2012; however, the financing agreement states that the second reading for Ordinance 241 occurred on June 4, 2012.

Meeting minutes record a discussion of Ordinance 241 in a special meeting held on June 19, 2012. The documented minutes state that the purpose of Ordinance 241 was to allow the former Mayor the authority to have the City join the “KLC bond pool.” According to the minutes, the City Attorney explained that “being in this bond pool would allow us to receive the lowest interest rate possible.” The Ordinance passed with a vote of five members in favor. However, according to the financing agreement, Ordinance 241 had already passed on June 4, 2012. Additionally, the meeting minutes did not mention the TEM Building, a financing agreement, or any purchase at all related to the adoption of Ordinance 241.

Auditors requested Ordinance 241 from the City but it was not provided. Therefore, we were unable to compare the ordinance received from KLC to the ordinance on file with the City.

The Request for Disbursement form signed by the former Mayor, requested by auditors and provided by KLC, states the City requested a disbursement of \$246,735 from KBCFP on November 15, 2012. According to this document, the City purchased the building at a stated contract sales price of \$244,000 plus \$2,735 in associated fees, insurances, and taxes. On December 6, 2012, a wire transfer is documented as received on the City’s Operating Account bank statement for \$246,735. The disbursement request of \$246,735 does not agree with the final \$238,812 purchase price paid by the City because the City received a price reduction due to the allowance for previous building lease payments.

KLC provided auditors with documents that confirmed the \$246,735 was the first and only payment associated with this loan made to the City. A KLC representative stated that the City should contact the company to let them know that no further payments would be needed for the project so that future payments could be reduced.

Findings and Recommendations

In addition, no evidence was found of any economic development activity that could be attributed to an Economic Development Commission discussed in the City Council meeting minutes related to the TEM Building. Currently, the TEM Building's garage does contain maintenance equipment and other property, which is discussed further in Finding 6.

Regarding the purchase of the six lots in close proximity to City Hall, the former Mayor informed the City Council at the March 5, 2013 meeting that she made an offer on these properties the previous February. Then, in the April 2, 2013 minutes, the former Mayor informed the City Council that the City will purchase the properties. Auditors found no evidence that the City Council voted on the purchase of these properties in the City Council meeting minutes. The May 14, 2013 meeting minutes state the owner of the six lots was getting the property ready and would pay for the needed demolition of any existing structures on the property.

While the purchase price of the property was not documented in the City Council meeting minutes, auditors found a \$125,497 canceled check dated June 25, 2013, was provided to the property owner. Also identified was an additional canceled check for \$10,250 dated September 27, 2013, paid to an excavator for demolition on this property. It appears the City, and not the property owner as the City Council was previously informed, paid for the demolition.

Recommendations

We recommend the City adopt procurement policies requiring disclosure to and authorization by the City Council prior to purchasing and financing a property above a determined amount. We also recommend bond, loan, or other financing agreements above a determined amount be presented to the City Council for review and authorization. The resulting action taken by the City Council should be documented in the meeting minutes. This disclosure provides transparency and an opportunity for the City Council to discuss the need and approval for the purchase. We further recommend the City have an appraisal performed by a qualified third party to ensure a clear understanding of the value of any property being considered for purchase.

We recommend the City address the use of these properties to ensure they provide the best use and benefit to the City. Further, an evaluation should be performed to determine whether it is in the best interests of the City to retain or sell the properties.

We also recommend that the City notify the Kentucky Bond Corporation that no further funds will be requested for the property purchase, referred to as a project, to ensure the City minimizes the amount required to be repaid. We recommend the City perform an analysis to determine whether it is in the City's best interest to retire the loan balance early or to follow the established payment schedule, which continues to accrue interest.

Findings and Recommendations

**Finding 6:
Business records
related to two
private companies
associated with the
former Mayor, two
computers with
missing hard
drives, and
property of
unknown
ownership were
found in the City's
TEM Building.**

An examination of the contents of the TEM Building was made in an attempt to determine how the property may have been used by the City. Auditors found file cabinets containing business documentation related to two different companies associated with the former Mayor, two computers with missing hard drives, and property of unknown ownership. Due to the current administration's concerns regarding the reason for the former Mayor to have an office in the TEM Building in addition to the office in City Hall, City officials stated an effort was made to secure the TEM Building so the contents of the building could be reviewed without any items being tampered with or removed. These efforts were unsuccessful as the building suffered water damage from burst pipes in March 2015, which resulted in extensive repairs. In addition, City maintenance equipment was stored in the building so staff retained keys to the building after the locks were changed. The City was not able to provide auditors with any inventory listing or purchasing documentation, which made it impossible to determine the property that should have been onsite and the ownership of several seemingly random and unnecessary items of property. However, the removal of hard drives from two on-site computers demonstrates action may have been taken to prevent the computers' contents from being identified. According to the current Mayor, the two on-site computers were functional prior to securing the building.

Upon entering the TEM Building, auditors observed a large office copier and printer, along with other items that did not appear to be City-oriented. Certain file cabinets contained multiple stacks of personal documents relating to non-City businesses of the former Mayor. These personal documents included tax returns, certifications for non-City business staff, immunization records, licenses, employment applications, business letterheads, meeting notes, and property notations. In addition to the City's maintenance equipment, the garage in the TEM Building contained items that included used refrigerators, several desks, lamps, chairs, couches, a paper shredder, two televisions, and decorative pillows. It is unclear whether these items were purchased by the former Mayor using City funds, were personal items, or were in the building when the property was purchased.

In an attempt to confirm whether the two newest computers found in the building were City equipment, auditors recorded the serial numbers and discovered the computers' hard drives were missing. While not readily noticeable when viewing the computers, the computers weighed less than expected. As a result, the cover was taken off the computer to reveal the hard drives were missing. Based on observations, the removal of the hard drives may have been an effort to prevent the computers' contents from being identified. In addition, auditors could not confirm whether the computers were City property because the City did not provide an inventory list or supporting documentation related to computer purchases.

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Recommendations We recommend the City take steps to inventory all of the City's assets, including all property contained in the TEM Building. We recommend City employees evaluate these items and keep those that provide a benefit to the City, while disposing of other items as surplus property. If records are located that document the computers in the TEM building were purchased by the City, we recommend further investigation be performed to determine whether the hard drives for these computers were removed for an inappropriate purpose.

**Finding 7:
Although a total
could not be
determined, a
review of the
City's Operating
Account identified
questionable
checks and
expenditures.**

A review of the City's Operating Account revealed excessive and questionable uses of City funds although a total amount could not be determined. Given that complete financial statements, actual expenditures, and supporting documentation could not be provided by the City, a review was performed of the Operating Account bank statements and processed checks were categorized by the type of expenditure activity. The review identified several questionable types of expenditures and expenditure amounts that appeared excessive. In addition to checks written from the Operating Account, many on-line and automatic payments were made from this account; however, on many occasions, it was difficult to determine the purpose of the automatic withdrawals. The majority of the amount of the City's expenditures are made from the Operating Account given automatic payments from this account include transactions to pay the City's monthly payroll and credit card account balances.

Based on City Council meeting minutes, City Council members are not provided information regarding the activity within the Operating Account nor how these expenditures relate to the City's budget. The City Council members must have a clear understanding of the City's actual expenditure activity to ensure proper oversight and use of funds. Further, many of the expenditures identified from the City's Operating Account bank statement were not recorded in the City's accounting system at the time of the auditor's review and appear to have either never been recorded or were subsequently deleted. These expenses should be budgeted for and recorded in City's accounting system to ensure transparency, appropriate disclosure, and reporting.

To evaluate the City's Operating Account financial activity, auditors scheduled the monthly bank statement activity for the period June 2012 through December 2014. This information is presented in the following table:

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Table 3: Operating Account Bank Statement Schedule

| Date Ending | Checks | Automatic Withdrawals/ Transfers/ Charges | Total Deductions | Deposits | Ending Balance |
|--------------------------------|----------------------|--|-------------------------|--------------------|-----------------------|
| June 29, 2012 | (\$115,948) | (\$18,229) | (\$134,177) | \$1,038,217 | \$1,430,818 |
| July 31, 2012 | (\$124,913) | (\$51,720) | (\$176,633) | \$237,500 | \$1,491,685 |
| August 31, 2012 | (\$22,273) | (\$81,797) | (\$104,070) | \$133,158 | \$1,520,772 |
| September 28, 2012 | (\$18,218) | (\$117,863) | (\$136,080) | \$11,082 | \$1,395,775 |
| October 31, 2012 | (\$19,402) | (\$65,798) | (\$85,200) | \$276,795 | \$1,587,369 |
| November 30, 2012 | (\$19,040) | (\$98,315) | (\$117,355) | \$216,605 | \$1,686,619 |
| December 31, 2012 | (\$251,768) | (\$90,063) | (\$341,831) | \$284,893 | \$1,629,680 |
| January 31, 2013 | (\$45,567) | (\$102,967) | (\$148,534) | \$130,077 | \$1,611,224 |
| February 28, 2013 | (\$8,231) | (\$91,901) | (\$100,131) | \$348,937 | \$1,860,030 |
| March 29, 2013 | (\$15,677) | (\$70,182) | (\$85,859) | \$10,010 | \$1,784,180 |
| April 30, 2013 | (\$25,731) | (\$74,924) | (\$100,654) | \$81,337 | \$1,764,863 |
| May 31, 2013 | (\$40,894) | (\$79,335) | (\$120,229) | \$239,971 | \$1,884,606 |
| June 28, 2013 | (\$215,414) | (\$79,667) | (\$295,081) | \$45,720 | \$1,635,245 |
| July 31, 2013 | (\$38,291) | (\$84,463) | (\$122,754) | \$67,714 | \$1,580,205 |
| August 30, 2013 | (\$152,703) | (\$90,012) | (\$242,714) | \$206,946 | \$1,544,437 |
| September 30, 2013 | (\$66,764) | (\$73,837) | (\$140,601) | \$127,743 | \$1,531,579 |
| October 31, 2013 | (\$58,603) | (\$92,548) | (\$151,150) | \$263,918 | \$1,644,346 |
| November 29, 2013 | (\$33,774) | (\$77,781) | (\$111,556) | \$205,664 | \$1,738,454 |
| December 31, 2013 | (\$31,500) | (\$82,226) | (\$113,727) | \$80,251 | \$1,704,978 |
| January 31, 2014 | (\$42,116) | (\$87,684) | (\$129,799) | \$136,732 | \$1,711,911 |
| February 28, 2014 | (\$44,529) | (\$75,210) | (\$119,739) | \$180,300 | \$1,772,471 |
| March 31, 2014 | (\$31,412) | (\$76,034) | (\$107,445) | \$32,099 | \$1,697,125 |
| April 30, 2014 | (\$65,708) | (\$123,444) | (\$189,152) | \$257,974 | \$1,765,947 |
| May 30, 2014 | (\$55,225) | (\$100,200) | (\$155,425) | \$147,641 | \$1,758,164 |
| June 30, 2014 | (\$47,852) | (\$78,924) | (\$126,776) | \$35,721 | \$1,667,109 |
| July 31, 2014 | (\$165,120) | (\$118,070) | (\$283,189) | \$121,564 | \$1,505,483 |
| August 29, 2014 | (\$48,581) | (\$86,257) | (\$134,838) | \$195,183 | \$1,565,829 |
| September 30, 2014 | (\$151,385) | (\$85,120) | (\$236,505) | \$24,310 | \$1,353,633 |
| October 31, 2014 | (\$52,077) | (\$98,271) | (\$150,348) | \$293,087 | \$1,496,373 |
| November 28, 2014 | (\$77,746) | (\$82,655) | (\$160,401) | \$242,963 | \$1,578,935 |
| December 31, 2014 | (\$41,570) | (\$110,375) | (\$151,945) | \$106,367 | \$1,533,358 |
| Sum Total | (\$2,128,028) | (\$2,645,869) | (\$4,773,897) | \$5,780,477 | |
| Average Monthly Balance | | | | | \$1,576,039 |

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

The schedule of the City's Operating Account's monthly financial activity demonstrates significant fluctuations in account deposits and deductions. Monthly Operating Accounting deposits ranged from \$1,038,217 to \$10,010 and deductions ranged from \$341,831 to \$85,200. Considering these fluctuations do not provide a reasonable baseline in activity, inappropriate or excessive expenses are difficult to detect without reviewing adequate documentation for each transaction.

An analysis of the account, over this time period, found the City's total deposits were approximately \$1 million greater than total deductions and the average monthly Operating Account balance exceeded \$1.5 million. The City's revenue was more than sufficient to offset the City's operating expenses.

For this same period, a review was performed of the Operating Account's canceled checks and transactions were categorized to estimate the use of City funds per expenditure type. The checks written by the City could be read; however, it was difficult reading the date and vendor name on bank generated checks due to the copy's small, blurred print. For each check, however, the typed dollar amount on the check was clearly visible so the check amount could consistently be determined. As a result, a number of checks totaling over \$142,000 could not be specifically classified and are indentified in Table 4 in the category "Illegible." Table 4 illustrates the results of categorizing expenditures from the City's Operating Account:

Chapter 2 Findings and Recommendations

Table 4: Breakdown of Canceled Check Information by Category and Fiscal Year

| Expenditure Category | FY12 * | FY13 | FY14 | FY15 ** | Total |
|---------------------------------|------------------|------------------|------------------|------------------|--------------------|
| Insurance (KLC & Others) | \$960 | \$90,508 | \$137,694 | \$178,006 | \$407,167 |
| Kentucky Local Gov. Trust | | | \$214,767 | \$94,857 | \$309,624 |
| Vehicle Purchases & Accessories | \$99,504 | \$76,158 | \$96,132 | \$2,712 | \$274,505 |
| TEM Building | \$6,000 | \$242,336 | | | \$248,336 |
| Illegible | \$6,075 | \$28,768 | \$52,117 | \$57,264 | \$144,224 |
| Property Purchased (Six Lots) | | \$125,524 | | | \$125,524 |
| Contract Labor | \$315 | \$37,008 | \$31,311 | \$46,616 | \$115,250 |
| Fleet Card | \$1,478 | \$36,738 | \$31,071 | \$17,490 | \$86,777 |
| Information Technology Services | \$10,057 | \$29,438 | \$20,991 | \$13,897 | \$74,383 |
| Police | \$1,881 | \$36,591 | \$15,049 | \$3,222 | \$56,743 |
| Vehicle Repairs | \$1,100 | \$8,756 | \$28,688 | \$7,686 | \$46,230 |
| Security Services | \$12,540 | \$3,420 | \$4,016 | \$21,148 | \$41,124 |
| Attorney | \$2,000 | \$16,540 | \$12,335 | \$7,000 | \$37,875 |
| Uniforms | \$502 | \$300 | \$14,133 | \$11,578 | \$26,513 |
| Tax Refunds | | \$17,793 | \$2,653 | \$205 | \$20,651 |
| Building Maintenance | \$353 | \$7,717 | \$7,788 | \$4,743 | \$20,601 |
| CPA Audit Services | | \$8,940 | | \$7,275 | \$16,215 |
| Miscellaneous | \$30 | \$4,833 | \$3,408 | \$3,257 | \$11,528 |
| Police Air Conditioning Unit | | | | \$9,788 | \$9,788 |
| Utilities | \$779 | \$4,108 | \$1,885 | \$2,927 | \$9,700 |
| Employee Reimbursements | \$119 | \$3,887 | \$3,285 | \$1,927 | \$9,217 |
| Per Diem | | \$2,832 | \$2,550 | \$2,225 | \$7,607 |
| Community Center | | \$3,270 | \$3,977 | | \$7,247 |
| Grocery | \$37 | \$2,429 | \$2,190 | \$1,372 | \$6,028 |
| Festival | | \$453 | \$1,558 | \$2,114 | \$4,125 |
| Hotels | | \$765 | \$1,104 | \$1,156 | \$3,025 |
| Vehicle Wash | | | \$1,426 | \$1,395 | \$2,821 |
| Restaurants | \$25 | \$2,503 | \$25 | | \$2,553 |
| Dues | | \$1,048 | \$788 | \$70 | \$1,906 |
| Petty Cash | \$80 | \$990 | \$245 | | \$1,315 |
| Employee Gas Reimbursements | \$18 | \$764 | \$472 | \$15 | \$1,270 |
| Donations | | \$929 | \$119 | \$100 | \$1,148 |
| Office Supplies | \$57 | \$786 | | \$187 | \$1,030 |
| Christmas | | \$261 | | \$563 | \$824 |
| Auto Rental | | \$704 | | | \$704 |
| Kentucky Amusement Park | | | \$600 | | \$600 |
| Cash | | \$431 | | | \$431 |
| Grand Total | \$143,910 | \$797,529 | \$692,373 | \$500,794 | \$2,134,607 |

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

* This year only consisted of June 2012.

** This year only consisted of July through December, 2014.

Table 4 clearly demonstrates that insurance costs are the highest expenditure category in the Operating Account for checks written by the City. In addition, the checks written to the “Kentucky Local Gov. Trust” appear to be related to the City’s health insurance. The third highest expenditure category was for vehicle and vehicle accessory purchases. The expenditure amount for this purpose appeared to be excessive for a City with this population; however, it is not known what was purchased or how much was budgeted for this purpose.

Expenditures totaling \$115,250 for contract labor, which included checks written to individuals for cleaning services, also seemed questionable and excessive given the City did not appear to have written service agreements. Checks totaling \$26,513 for uniform allowance or reimbursements also appeared to be a greater expense than anticipated for the City’s police officers and public works employees.

During the expenditure analysis of more than 1,200 canceled checks, specific transactions appear questionable or appear to violate the procurement procedures required by the City’s Handbook. The following are examples of transactions identified of potentially questionable and inappropriate transactions:

- Although an excavation company was paid \$10,250 for the demolition on the six lots near City Hall acquired by the City in June 2013, a person apparently not associated with the excavation company was paid \$2,000 and \$1,000 on June 28, 2013, and a \$1,000 check dated November 22, 2013, for the purpose of “clean up fillin.”
- Checks were written directly to hotels, yet in most instances the location of the hotel is unknown and the City provided no supporting documentation for the expense to identify the need and purpose for the expenditure. On August 24, 2012, a check for \$764.88 was written to a hotel, while another hotel was paid \$1,104.24 on May 2, 2014. A Louisville hotel was paid \$847.56 by check on October 3, 2014, which is unreasonable given that the hotel is approximately 10 miles from City Hall. Another hotel was paid \$308 on October 22, 2014. In addition, the City used the credit card to pay hotel expenses.
- On November 1, 2012, a check for \$329 with “BBT” as the payee had “child support” written on the check memo line. The check appeared to be a cashier’s check and was only signed by one of the City’s former clerks.
- A check was written to an auto body repair center in the amount of \$16,236.52 for repairs to one police car.

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The City's Handbook states that "[p]ublic funds must be spent in such a manner as to be beneficial to the public and not predominately personal in nature." Specifically, the City prohibits the use of City funds for expenditures that benefit one person or a small number of persons. The Handbook also prohibits the use of City funds "to provide gifts, awards, prizes, remembrances, parties, or any other type of special recognition to one person or a small group of persons which has no overall value to the community as a whole." However, the following checks are examples of expenditures that appear to violate this policy.

- Two gift cards were purchased for unknown uses on June 30, 2014. One gift card was for \$375 and the other was for \$500.
- A car rental company was issued a check for \$527.20 on August 21, 2012, for a car rental for one of the City's former clerks.
- A check was issued annually in December for \$100 to a maintenance worker who was not a City employee, but an employee of the cleaning service provider.
- Several checks were written to local restaurants, but the largest individual check identified to a restaurant was for \$1,497.90 on December 21, 2012.
- A blank check was issued to Wal-Mart on July 21, 2013 with a check request form that states "food for Rose" as the purpose of the purchase. According to the bank statement, the check amount was \$47.70.
- A check was written to a Kentucky amusement park on June 18, 2014 for \$599.50 to purchase 10 tickets.
- Checks were issued annually for \$100 to the City's Public Works staff with statements on the memo lines such as Santa Claus and Christmas.
- A check was written to an auto body paint company for \$1,600.13 for a former City Council member's car repairs.

The City's Handbook also states that "[a]ll labor done on behalf of the city by non-employee persons must be supported by a written agreement which specifies the terms and conditions of the work to be done and the terms of the payment." However, the following checks were found that appear to violate this policy.

- Non-employees of the City were issued checks that totaled approximately \$600 for cleaning the TEM building; yet no written agreements were provided to support these expenditures.
- Five checks were written to a staff employee's sons for a total amount of \$230. This staff person either signed or endorsed all four checks.
- A family member of a former clerk received at least two checks totaling \$200, which stated on the check memo lines for "fish tank maintenance." The checks were written on September 12, 2012 and June 24, 2013.
- A non-employee of the City received a check for \$600 on February 12, 2014, with the memo line stating "city website."
- A non-employee received a check for \$1,500 on May 22, 2013, with nothing written on the memo line.

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- A non-employee was issued a check for \$50 for “cleaning brush” on May 7, 2014.

Related to conflicts of interest, the City’s Handbook states that the City “shall not contract with nor purchase services from employees outside the terms of normal employment conditions.” However, the following checks were found that appear to violate this policy.

- A public works employee was issued a check for \$600 on June 21, 2013 for “repair work on van.”
- A public works employee was issued a check for \$50 for “cleaning brush” on May 7, 2014.
- A Public Works employee was paid \$210 by check for “cutting trees.”

Recommendations

We recommend that the City maintain the documentation needed to support City expenditures and other financial activity. We also recommend this documentation be maintained electronically so the information can be easily accessed and available if the paper copy of the documentation cannot be located. Maintaining documentation electronically should assist in providing timely expenditure and other information to City officials, management, City Council members, and others.

We further recommend a reconciliation of the City’s Operating and other account bank statements to the transactions recorded in the accounting system be performed monthly to properly oversee the City’s financial activity. Bank reconciliations should be available to assist in answering potential questions asked by City Council members. To ensure proper segregation of duties, the bank account reconciliations should be performed by someone other than the employee responsible for recording the financial activity into the City’s account system. We recommend any questionable activity identified during the bank account reconciliations be investigated and reported to the Mayor and at City Council meetings.

We further recommend the City comply with the policies established in the City’s Handbook related to allowable expenditures and review these policies at least annually to determine whether any modifications are necessary to strengthen the policy and internal controls. Finally, as recommend in Finding 1, a policy should be developed to delegate authority to specific individuals to be responsible for signing checks and require two signatures.

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Findings and Recommendations

**Finding 8:
Manual checks
totaling over
\$22,000 from the
City’s Payroll
Account included
salary payments
not reported as
taxable income
and checks totaling
\$7,200 for
unknown
purposes.**

The City outsourced its payroll accounting to a vendor but issued additional manual checks that were not included in an employee’s taxable income. Based on Payroll Account bank statements for the period June 2012 through January 2015, manual checks totaling \$22,361 were written. Two \$2,500 checks were written for cash and another two checks totaling \$2,200 were written to the former Mayor. In addition, checks were written to non-employees that appear to have provided ad hoc services for the City.

In order for an employee’s taxable income to be complete and accurately reported, the income must be recorded through the City’s payroll accounting system because the vendor generates the City employees’ W-2 tax forms from the payroll accounting system. While there may be instances when a manual check is needed if an error is made or an employee was left out of payroll, this was never the reason documented on the canceled check memo. Further, in this situation, an adjustment would have to be recorded in the City’s payroll accounting system maintained by the vendor. Also, the Payroll Account should be used to track employee costs and not for ad hoc or miscellaneous payments for services provided. Besides the canceled checks, there was rarely any additional supporting documentation to determine the necessity of the payment, the number of hours worked, the rate of pay, or whether any services were actually provided. The following table illustrates the number of checks and the total dollar amount for each fiscal year reviewed:

Table 5: Summary of Manual Checks Written From City’s Payroll Account

| Fiscal Year | Number of Manual Checks | Total Check Amounts |
|--------------------|--------------------------------|----------------------------|
| FY 2012 * | 3 | \$ 1,285 |
| FY 2013 | 25 | \$11,867 |
| FY 2014 | 25 | \$ 6,110 |
| FY 2015 ** | 24 | \$ 3,099 |
| Total | 77 | \$22,361 |

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

* This year only consisted of June 2012.

** This year only consisted of July through January 2015.

Most of these checks were documented as “payroll” or the memo line indicates the check was related to the employees’ salary yet these checks would not have been included in the employees’ taxable income. The following are specific instances that appear questionable related to this issue.

- A City employee was issued a check on June 13, 2014, for \$286 with a documented purpose of “vacation days.” A check request form was attached that documents that the employee is asking that no taxes be withheld. This employee should have received regular pay while on vacation, so it appears an additional payment should not be necessary.

Findings and Recommendations

- The same employee received two checks five days apart on November 7, 2013 and November 12, 2013, for the same amount of \$592.13. One check's memo says "one week vacation" and the second check says "vacation." Without supporting documentation, this may have been duplicate checks, but, if not, the employee received over \$1,184 for additional, apparently non-taxed income.
- In March 2014, a City Public Works employee and police officer were both issued a check for \$400 with a stated purpose of "installs-4 weeks."
- A City office staff employee was paid \$140 with no taxes withheld for "office work-TEM." This income should have been included in the employee's taxable income; however, it also appears this work would be part of the staff's general job responsibilities.

Other significant checks did not appear to be related to payroll. The following are specific instances of questionable manual checks written from the Payroll Account:

- With no stated purpose, a check to the former Mayor for \$2,000 was written on July 19, 2012, and, on June 26, 2014, a check for \$200 was written to the former Mayor.
- On December 13, 2012 a \$2,500 check for "Cash" was written with no stated purpose in the memo line. On the next day, December 14, 2012, another check for \$2,500 for "Cash" was written but the memo line stated "Police."

According to the City's Handbook, the "city shall not contract with nor purchase services from employees outside the terms of normal employment conditions." However, a Public Works employee received a \$100 check in July 2012 with the word "Labor" on the memo line. This same employee also received a check for \$750 on November 21, 2012 for "chain saw use."

The City's handbook also requires all "labor done on behalf of the City by non-employees must be supported by a written agreement which specifies the terms and conditions of the work to be done and the terms of payment." Similar to issues found with the Operating Account, no agreement was provided to support the following payments:

- An individual, not an employee, was paid \$60 for "TEM Cleaning" on three different occasions from the Payroll Account. This account should only be used for payroll related purposes. This individual was sporadically paid from the Payroll and Operating Accounts for this same type of work.
- Another individual was paid eight checks that totaled \$3,262 for "office work" but was not a City employee, and this income would not apparently have been reported as taxable income by the City.
- Another individual was paid \$36.44 for "service of fish tank." This should have been paid out of the Operating Account as a service provided and not considered payroll.

Findings and Recommendations

Recommendations We recommend the City's Payroll Account solely be used to pay salary related expenditures. We also recommend the City refrain from improperly compensating employees for vacation leave as the employee already receives accrued vacation leave. We recommend the City discontinue the practice of writing checks for cash.

We further recommend all compensation be properly reported as taxable income. If manual checks are needed, this information should be provided to the payroll accounting vendor to ensure necessary accounting adjustments are made.

We also recommend strengthening internal controls by designating a City Council Committee Chair or member to be a required signatory for all checks written to the Mayor. Monthly Payroll and other bank account reconciliations should be conducted and available for the City Council's monthly meetings to assist in responding to questions raised by City Council members.

Finding 9: The City used Operating Account funds to open at least two bank accounts that appear unwarranted and were not available to City Council for review.

The City maintains at least two bank accounts, the Buechel Festival and Christmas Fund Accounts, which appear unnecessary and not available for review by the City Council. The funds used to open each of these bank accounts originated from the City's Operating Account, which is held at the same bank. Based on a review of the information provided to the City Council, these bank accounts were not disclosed to the City Council. It appears the only bank accounts disclosed to the City Council are the City's Operating and Road Aid Accounts. Therefore, these two bank accounts were under the sole discretion of the Mayor without the City Council having the opportunity to oversee or approve the establishment of the bank accounts and the use of the accounts' funds.

Regarding the Buechel Festival Account, the City did appear to organize an annual fall festival called various names throughout the years. The festival for 2012 was known as the Clock Festival because the former Mayor was interested in establishing a City clock. In the City Council meeting minutes dated September 6, 2011, the former Mayor states the festival would be a fundraising event with no money from the City's Operating Account used to offset festival costs. According to the same City Council meeting minutes, based on the former Mayor's research, the clock would cost \$12,000 and the chimes would cost \$9,000.

From the bank statements the City provided for review, it appears that the Buechel Festival Account was opened on August 24, 2012. Based on a review of the bank statements provided, a \$50,000 transfer of funds was made from the Operating Account on September 27, 2012, to the Buechel Festival Account. From October 22, 2012 to November 12, 2012, \$2,119 from the Buechel Festival Account was expended for gift cards, 22 checks totaling \$8,904.99 were processed, two transfers to the Operating Account totaling \$1,066.06 were made, and two bank charges totaling \$48.18 were paid. However, only five deposits totaling \$1,806 were made into the Buechel Festival Account. The withdrawals and deposits during this time left a balance of \$43,027 in the account. The balance in the Buechel Festival account as of August 31, 2015, is \$35,716. This analysis is based on the limited information provided for auditor's review.

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The Operating Account was also used for festival expenses even though a specific account, established with Operating Account funds, was initiated for this event. A review of processed checks from the Operating Account found checks documented as being related to festival expenditures. During calendar year 2012, a total of \$1,318 was documented as being for festival related expenditures. In 2013 and 2014, there was a total of \$1,622 and \$2,716 respectively, which was documented as festival related expenditures that were paid by the Operating Account and not the Festival Account.

Regarding the City's Christmas Fund Account, City staff stated that it was used for the purpose of providing charitable benefits to less fortunate families within the City. The items provided, according to City staff, were food items, warm clothing, outer wear and toys for children. In the City Council meeting minutes for fiscal years 2012, 2013, 2014, and 2015, the City Council and Mayor discuss "Christmas baskets" but it is never clear in the meeting minutes the contents to be included in the baskets, the source of funds, the amount of funds needed to provide the items for the baskets, or the names of those receiving "Christmas baskets."

The City provided limited documentation pertaining to the City's Christmas Fund Account. The first activity, according to the documentation provided, was a counter deposit of \$1,000. There is no documentation available regarding the source of the funds. This account incurred monthly service charges of approximately \$20. From the statements provided, there was a \$950 check processed on this account; however, no canceled check documentation was attached to the bank statement to indicate the payee on the check or the purpose of the check. On December 12, 2012, a \$50 remote deposit was made and a deposit of \$100 from the Operating Account was made on March 5, 2013. Based on the bank statement provided by the City from September 28, 2012 through April 30, 2013, plus statements for December 31, 2013 and November 28, 2014, the only other account activity was the \$20 monthly service charges discussed above. The balance in the Christmas Fund account as of November 28, 2014, was \$208.05 and \$148.05 on August 31, 2015. Auditors were not provided all the statements for this account, but the \$60 decline in the account balance was likely be due to a monthly inactive account fee of \$7.50 from November 2014 through August 2015.

Even with a dedicated Christmas Fund, Christmas expenses were also paid from the Operating Account. During the period reviewed, the Operating Account had canceled checks totaling \$1,289 that had a documented purpose of "Christmas." However, it is not known what items were purchased, the purpose of the expenditure, or whether the expenditures were related to the Christmas baskets provided by the City for families in need.

Findings and Recommendations

The need for these accounts was not documented. While there may be a need to have a separate account to ensure that funds are not comingled, these situations do not appear to meet this criterion since the Operating Account and funds from other accounts were apparently used for similar purposes. In addition, it does not appear these accounts or the use of funds in these accounts were discussed with the City Council to determine how the funds should be used. Because these accounts were apparently reviewed by only one person, the former Mayor, the risk of improper use of City funds is increased. Also, bank charges are being levied on these accounts that are serving no real purpose to the City.

Recommendations

We recommend the City ensure that proper oversight be implemented for all bank accounts under the City control. As recommended in Findings 7 and 8, monthly bank account reconciliations should be performed by an employee independent of the person entering transactions activity into the City’s accounting system. Further, these reconciliations should be provided to appropriate City management and to the City Council members to discuss or question during City Council meetings. Also, as previously recommended in Finding 7, City management and the City Council should be provided monthly financial statements for review to strengthen the oversight of the City’s financial activity. In addition, we recommend the City Council discuss the need for multiple bank accounts.

**Finding 10:
Evidence identified
three loans made
to City officials;
however, the total
number and
amount of loans
could not be
determined.**

As auditors reviewed the random and haphazard documents provided by the City, various items of documentation that loans were provided to the former Mayor, Chief of Police, and a clerk were identified. The evidence of a loan made to the former Mayor was a report from the payroll accounting vendor indicating loan payments were deducted from the former Mayor’s salary. In addition, other questionable payments made to the former Mayor were identified. Regarding the Chief of Police, a canceled check was found that stated “Loan” on the memo line. The loan to the clerk was found during a review of the Check Request Forms that documented the City made a loan to the former clerk. A canceled check was also found during the time period and for the amount on the Check Request Form.

The City’s Handbook prohibits “[e]xpenditures made specifically to benefit one person or a small number of persons which has no overall value to the community as a whole.” However, considering the state of the documentation provided, we could not determine the total extent of loans made by the City to other employees.

Because of reports related to loans paid to the former Mayor and Chief of Police, a payroll report was requested by the auditors from the City's payroll accounting vendor. The vendor was only able to provide this information for the period August 2013 to January 2015. In that time period, the former Mayor had payroll deductions totaling \$500 under the code "ADVANCE" and \$732 coded as "LOAN." While the amount deducted from the former Mayor's paychecks for this period is known, this does not provide any documentation as to how much was actually advanced or loaned. As noted in Finding 8, two checks for \$2,200 from the Payroll Account had the former Mayor as the payee and two checks payable to cash for \$2,500 each were also identified, but there were no documented purposes for these checks.

According to a City employee, the former Mayor instructed various amounts to be deducted from her paycheck in an attempt to reimburse the City for items purchased from the City's credit card for personal use. However, due to the lack of controls and documentation related to credit cards, it is not known which purchases were considered personal or whether the former Mayor was the actual person incurring the credit card charge.

In our review of canceled checks from the Payroll Account, a check to the Chief of Police dated October 11, 2013, in the amount of \$1,000 was found with a memo line documentation of "Loan." The payroll report for the period August 2013 to January 2015, from the City's payroll accounting vendor documented payroll deductions coded as "LOAN" totaled \$980.73.

From reviewing a stack of Check Request Forms, one check request form was found with the stated purpose for "emergency surgery will be payed back through payroll weekly." This Check Request Form was dated March 21, 2014 in the amount of \$200 payable to a clerk employee. The form was signed "approved by" the former Mayor. In conjunction with this form, a canceled check was found from the Payroll Account dated March 21, 2014 for \$200 to this employee. This check had authorizing signatures of both the former Mayor and the clerk employee requesting the loan.

Recommendations We recommend the City implement controls to prevent loans from being provided to City staff or officials to ensure public funds are not used for personal needs. As stated in the City's handbook, public funds should not be used to benefit one person or a small number of persons without a value to the community as a whole. For loans that have been made, we recommend the City ensure all loans made to City official or employees are fully repaid.

Findings and Recommendations

We further recommend strengthening internal controls over the reporting of questionable activity by the City Council establishing an independent process to receive, analyze, and ensure investigation and resolution of issues involving questionable activity or other concerns. The process to report such issues should be available to employees, business associates, and the general public. An advertised email or postal address to receive concerns would allow the City Council to receive this information.

Finding 11: The City’s operating and human resource policies do not adequately address financial controls and reporting necessary to professionally manage the City’s financial operations.

While the City provided a policy Handbook, first revised in April 1993 and later revised in October 2007, the City’s financial management and human resource (HR) policies are not properly updated or complete to adequately address the City’s needs. A review of the City’s policy Handbook found crucial financial areas and procedures were not addressed. Further, it was determined that compliance with existing policies and procedures was either nonexistent or minimal. Based on the lack of compliance to established policies or procedures and that the Handbook was last revised approximately eight years ago during the previous administration, it appears there was a lack of awareness of the current Handbook policies.

While the City’s population of approximately 1,300 may be considered small, the City’s most recent financial statement audit, June 30, 2014, reported revenue of \$1,649,862. The financial operations of the City do not appear to have been managed adequately or professionally, nor were adequate financial controls, personnel policies, and position descriptions, or qualifications implemented or followed.

The current Handbook contains approximately two pages of general operating policies and procedures that discuss the proper use of public funds. No policies or procedures existed regarding general procurement policies, bidding requirements, financial procedures, such as reconciliations or expenditure approvals, or for other fundamental operating areas.

The primary area addressed by the City’s policy Handbook regarding expenditures was the requirement that “a check request form must be filled out and approved by the Mayor or the Mayor’s designated agent prior to the check being issued. A receipt for the purchase must be presented as soon as reasonably possible after the transaction is completed. Under no circumstances will blank checks be signed and issued to an employee prior to a purchase being made.” However, based on the check request forms found during the examination, the form was rarely complete, was not supported by any documentation, and blank checks were found several times scattered throughout the information the City provided to auditors.

Without established and documented financial accounting policies and procedures, expenditures could be paid by the City multiple times, controls do not exist to ensure revenue, employee reimbursements, expenditures and other financial operations are properly recorded and legitimate, and expenditures are not reconciled monthly to each of the City's bank accounts. For example, an employee could purchase fuel for a vehicle with a credit card or fleet card, be reimbursed for the expenditure, and also receive a mileage reimbursement. Employee reimbursements should only be made if a receipt for purchase can be presented, which shows the original method of payment. In addition, the City had a credit card issued by a hardware store, yet the City's bank credit card was used multiple times to purchase several items from this hardware store. Without a process in place, including requiring a receipt to support purchases, verifying the purchases were necessary and made on behalf of the City, it cannot be determined whether the purchases were business related or personal in nature.

Having no bidding policies or other established procurement requirements needlessly increases the risk that services or other purchases are not transparent, the City does not receive the best value, detailed terms and conditions for services are omitted, and conflicts of interests exist. The City has not established a threshold or a process for contract or purchase amounts to be presented to the City Council for discussion and approval, or whether the City's Mayor will make all contracting and purchasing decisions. The City's lack of procurement policies, controls, and processes provides no safeguards to detect whether a contractor charged an unreasonable amount for a service, whether payment was made for a service that was not fully provided, or an item was purchased well above the retail value. Further, the possibility exists that management or the City Council would not be informed of these actions.

Without proper procedures related to cash management, expense approvals, or requirements to perform monthly reconciliations and reporting, the City is not adequately or transparently accounting for and controlling public funds. The City currently uses a commercial software product to maintain its accounting system but it does not appear that controls have been established by the City to reconcile the system to actual bank statements. Examination procedures identified evidence that significant transactions were deleted from the accounting system.

In addition, the City's policy Handbook does not address controls or procedures for the City's petty cash system. In reviewing the City's Operating and Payroll Accounts over approximately two and a half years, the City processed 17 checks for a total of \$6,746 for cash or petty cash. There was no evidence of receipts to support the expenditure and use of petty cash funds.

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Further, the City has not updated personnel position descriptions to ensure professional and qualified staff is hired for management and other positions. Without ensuring staff meet at least minimal requirements established to perform specific job duties, the City continues to needlessly increase the risk that the financial and other operations of the City are performed in an uncontrolled, careless, and haphazard manner that does not adequately serve its citizens.

Recommendations We recommend the City review and update its financial policies and procedures. As recommended in Finding 1, the City, a member of the KLC, should contract with KLC or another firm having expertise in establishing written policies and controls designed to ensure a City operates in an efficient, effective, and professional manner to the benefit of the public it serves. In addition to the policy areas recommended in Finding 1, we also recommend the City address general procurement policies, bidding requirements, basic financial procedures such as reconciliations, expense approvals, and the need for a petty cash policy. The City should also update its position descriptions that include education and experience requirements to ensure qualified staff are consistently hired. The development and implementation of other financial related policies and controls should also be considered to ensure the City consistently operates in an efficient, effective, and professional manner.

Finding 12: The City's travel reimbursement policy is undefined, vague, and requires no documentation to support a request for reimbursement.

The City's Handbook includes a travel reimbursement policy that does not define criteria for travel status yet provides the amount of \$50 to be reimbursed for any type of travel. This policy does not assist the City in controlling travel costs and protecting public funds from unnecessary reimbursements. In its current state, the policy does not provide criteria to determine what constitutes travel status, establish the process to request and approve travel, identify allowable travel expenses, or have a requirement to provide supporting documentation for any travel expenses.

The City's entire travel reimbursement policy contains the following instructions/requirements:

1. If a city employee is authorized by the Mayor to travel out of town on city business, the city will pay a per diem of fifty dollars (\$50.00) for each day or portion of a day, in excess of six (6) hours, for food and incidental expenses incurred by the employee if the travel is within the state of Kentucky. If the travel is outside the state, the per diem will be seventy-five dollars (\$75.00) per day.

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2. An employee may request the per diem in advance upon appropriate notification to the Mayor of the number of days the employee will be out of town. If the employee does not stay the number of days for which a per diem expense check was written, reimbursement to the city will be required within five (5) days of the employee's return. If the travel extends for additional days beyond those for which the advance was given, the employee must request reimbursement and receive approval from the Mayor before reimbursement is made for the additional time.
3. Registration and hotel accommodations will be paid by the city directly to the charging entity.
4. Travel expenses may be paid by the city in advance directly to the provider or, if the employee uses their own vehicle, they may be reimbursed at the mileage rate allowed for federal tax purposes after submitting the expense reimbursement form and receiving approval by the Mayor.

Based on our examination of monthly Operating Account bank statements, canceled checks totaling \$7,532 were found with the check's memo line documenting the purpose as a per diem reimbursement. From the large number of checks with round dollar amounts, it appears that employees are primarily claiming the \$50 amount per day, no matter the travel distance. This allows for City officials and staff to receive \$50 even if the travel required is minimal. For example, one check found in our review was written to a local hotel for \$847.56, yet there is no apparent reason for the City to pay for a hotel stay and per diem within the official or staffs' area of residence.

Currently, no requirements exist regarding the number of miles one must travel or the requirement of an overnight stay in order to qualify for a per diem reimbursement. Under current policy, an employee could travel in metro Louisville area within their normal work hours and still qualify for a per diem reimbursement. Additionally, there are no guidelines as to how the daily per diem works related to mileage or meal reimbursement. An employee could receive the daily per diem, mileage reimbursement, and turn in restaurant receipts for meal reimbursement. Further, the current travel reimbursement requirements only address employees, yet several City Council members were paid per diem reimbursements based on our review of canceled checks.

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Recommendations We recommend the City travel policy specifies what constitutes travel status, when documentation is required, and clearly state the expenses covered by the established per diem amount to prevent the duplication of reimbursements. In addition, the City should also create a travel reimbursement form to document the travel information such as the time period the City official or employee was in travel status, the travel location, and the reason for the travel. We also recommend the City consider adopting a travel policy similar to that detailed in Kentucky state government’s regulation, 200 KAR 2:006. We further recommend the developed travel reimbursement form be submitted for approval by appropriate management and a City Council Committee or Council representative be delegated the responsibility to review and approve the Mayor’s travel reimbursement requests.

To minimize and control costs, we recommend the travel expense policy define allowable costs related to lodging, meals, entertainment, personal mileage reimbursement, rental cars, and airfare. We suggest overnight travel status be required for any reimbursement other than mileage. In addition, the policy should establish a required distance to be traveled from an employee’s or City Council member’s work area for an overnight stay to be authorized. The travel expense policy should state the documentation requirements for the reimbursement of each type of travel expenditure. The policy should provide examples of expenditures that are to be paid for by the employee, such as costs incurred by family members or the attendance at events not approved. This policy should explicitly state that expenses not in compliance with the travel expense policy will not be reimbursed or paid by the City.

Finding 13: The current City Clerk-Treasurer did not provide evidence of a bond required by state law for officials that handles public money.

In response to inquiries made to determine the City’s compliance with state law bonding requirements, auditors were informed that the current City Clerk-Treasurer was bonded May 2015; however, although requested, no documentation was provided to confirm the City Clerk/Treasurer was bonded. KRS 65.067 requires a bond for all officials or employees who handle public money. To protect City funds and comply with state law, those meeting the statutory requirements must be bonded. Compliance with this statute should be confirmed annually.

Specifically, KRS 65.067 establishes the following requirements related to bonding:

- (1) All officers, officials, and employees of cities, counties, urban-county governments, charter county governments, a regional wastewater commission, and special districts who handle public funds in the execution of their duties shall give a good and sufficient bond to the local governing body for the faithful and honest performance of his or her duties and as security for all money coming into that person's hands or under that person's control. The bond amount shall be based upon the maximum amount of public funds the officer, official, or employee handles at any given time during a fiscal year cycle. The local governing body shall pay the cost of the bond.

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- (2) Elected officials who post bond as required by statute, and employees of their offices covered by a blanket or umbrella bond, shall be deemed to have complied with subsection (1) of this section.

According to the City's Handbook, the position descriptions for the City Clerk-Treasurer, Assistant City Clerk, and all police officers require the employee to be bonded. Maintenance staff are the only City employees not required to meet bonding requirements.

With annual City revenues exceeding \$1.5 million, the failure to ensure all required employees are bonded needlessly places public funds at risk. The City has not developed a process for public funds to be protected by ensuring all officers, officials, and employees that handle the City's funds, including the Mayor are bonded.

Recommendations

We recommend the City obtain documentation to determine whether the City Clerk-Treasurer is currently bonded. In addition, we recommend a review be performed to determine which City officers, officials, and employees handle public funds and should be bonded in compliance with KRS 65.067. Based on this determination, we recommend City officials work with the City attorney to determine the amount of the bond needed for each person and ensure a clear understanding of the bond terms and conditions. Finally, we recommend the City maintain the documentation for all City personnel covered by a bond.

Finding 14: In 2012, the former Mayor submitted a 1997 City ordinance to the Department of Insurance to increase the City's insurance premium tax from 5 percent to 10 percent after the City Council voted down this proposed increase in 2011.

To facilitate an increase in the City's insurance premium tax from five percent to 10 percent, the City's former Mayor provided a 15-year old ordinance to the Department of Insurance (DOI) in January 2012. The December 6, 2011 City Council meeting minutes document the former Mayor's motion to increase the insurance premium tax to 10 percent failed to be passed by the City Council. The meeting minutes do not document that the City Council was informed of a 1997 ordinance that raised the rate to 10 percent but was apparently never implemented. At a subsequent City Council meeting on February 7, 2012, it is documented in the City Council meeting minutes that a resident asked the former Mayor about the insurance premium tax increase. The minutes further document that the "[m]ayor stated we already had the ordinance in place so we proceeded with the ordinance."

According to the City's financial statement audit for FY 2011, City revenue from the insurance premium tax was \$80,632. The City's most recent financial statement audit for FY 2014 reported insurance premium tax revenue of \$244,998, which is an increase of \$164,366 since the tax was increased to 10 percent during FY 2012.

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A review of City ordinances found two different versions of Ordinance 162 in 1997 on file at the City, with both ordinances increasing the insurance premium tax from five percent to 10 percent. Although the number, date, and signatures of the two ordinances are the same, a review of the two ordinances identified differences in wording, formatting, and print style indicating they were created at different times. In addition, the title of the ordinance submitted to DOI in January 2012 authorizing an increase in the insurance premium tax is “AN AMMENDED (sic) ORDINANCE RELATED TO LICENSE FEES IMPOSED UPON EACH INSURANCE COMPANY.” It is not known why two ordinances having the same number, signatures, and date, with one identified as amended, would both be on file with the City.

Auditors contacted a DOI representative responsible for addressing municipal insurance premium tax issues who confirmed that the City’s insurance premium tax was five percent since 1986 until an increase in the tax in 2012. It is unclear why this tax was not increased in 1997 or whether Ordinance 162 was originally submitted to DOI.

Considering the modifications made to the original ordinance used to authorize an increase in the insurance premium tax 15 years later, information regarding this issue was provided to DOI to determine whether further investigation by DOI is warranted. The investigation could address the length of time since Ordinance 162 series 1997 was passed with no resulting action taken to increase the insurance premium tax until 2012, when increasing the tax was clearly not supported by the City Council in a meeting held on December 6, 2011.

Recommendations We recommend that the City work with DOI to further investigate this issue to ensure the legality of this tax increase and take whatever action, if any, is necessary to appropriately address. We further recommend the City Council review this issue to determine the desired City insurance premium tax rate to be established moving forward. This issue was referred to DOI to consider whether further investigation is warranted.

Additional Observations Made During the Examination Process

As previously stated, the examination period was primarily July 1, 2012 through December 31, 2014, which was during the administration of the former Mayor. Testing and other review procedures focused on the period under examination; however, the following observations involving City operations under the current administration were also made:

- The City continues to operate under the existing Personnel Policies & Procedures Handbook and has not revised or updated policies and procedures;
- Supporting documentation for financial records from January through August 2015 was reportedly stolen; however, according to the City’s Chief of Police no police report has been filed;

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- Action has not been taken to ensure staff are trained to obtain a thorough understanding of the City’s accounting process and system;
- The hiring of two City employees with either a former or current personal relationship with the Mayor may impair objectivity in the supervision and oversight of these employees; and
- Throughout the examination process, auditors consistently experienced difficulty in contacting City officials and being provided with requested documentation.

The recommendations made in this report will assist the current City administration and City Council in addressing several of the observations noted above.

The City did not respond to the examination report, although the City was provided an opportunity to have a response included in the report.