



Auditor of Public Accounts  
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## **Auditor Mike Harmon Announces Findings of Special Examination of the City of Irvine**

*Results of examination being referred to Attorney General, Department of Revenue, and IRS*

**FRANKFORT, Ky. (December 8, 2016)** – Mike Harmon, Kentucky Auditor of Public Accounts, today announced the results of a special examination of the city of Irvine in Estill County. The findings in the examination will be referred to the Office of Attorney General (OAG), Internal Revenue Service (IRS), and the Kentucky Department of Revenue to determine whether additional investigation is needed.

“The conclusion we came away with is the city has a poor operating environment in which actions of the mayor, city clerk, and city council members have contributed to numerous questions regarding the city’s finances, personnel practices, and other related issues,” Auditor Harmon said in releasing the report. “Ongoing disagreements and confusion over who is responsible for supervision of the city’s operations created a leadership vacuum, allowing financial decisions to be made without proper review or oversight and increasing the opportunity for waste, fraud or abuse to take place.”

The special examination of Irvine, which came about from anonymous complaints to the APA’s TIPS line, and a formal request by Irvine Mayor W. J. Noland to conduct a review, contained seven findings:

- The city of Irvine’s operating environment is not conducive to proper management of the city’s functions primarily because there is a great deal of friction within the city’s management. The city clerk and city council bypassed the mayor’s executive authority on key decisions, and in many cases the city was noncompliant with state law and local ordinances on issues like budgetary reports. In addition, the city has no policy manual on administrative and financial activities.

- There were disagreements between the mayor and city council on who has authority over matters such as the hiring and dismissal of employees, and professional service contractors like external CPA firms.
- Financial information presented to the city council was minimal, inconsistent and insufficient to allow members to get an accurate understanding of the city's financial situation.
- The city had numerous errors on tax withholdings for federal and state taxes for employees and contractors, and failed to submit tax payments on time and in the correct amount to the IRS and the Kentucky Department of Revenue. Because of those failures, the city was charged nearly \$18,000 in penalties and interest by the IRS and Kentucky Department of Revenue between 2010 and September 2015.
- Due to a lack of segregation of duties, the city clerk often performed financial duties without any review by another responsible official. For example, the city clerk approved a raise for a city employee without the mayor's signature, and the city clerk opened and closed bank accounts without any review or approval by the mayor.
- There was a lack of documentation on disbursements from the city's bank accounts. Our office examined 302 transactions from those accounts over a three-year period, and discovered 84 percent, or 253 transactions, lacked information such as invoices or receipts, and no evidence that anyone outside the city clerk had reviewed invoices or determined whether the expenditure was for valid purposes for the city. Auditors also found \$5,090 in petty cash withdrawals without any supporting receipts.
- We also discovered fund transfers to the city's payroll account were not enough to cover the amount paid to employees, leading to bank charges of \$3,311 in overdraft fees, returned deposits, fees for providing paper bank statements over and above the electronic statements provided, and other fees charged to correct errors from the deposit of funds. Our office also found an instance where the city had reimbursed a local grocery store after a city employee cashed their payroll check and it bounced because of insufficient funds in the city's account.
- The city paid bonuses to city employees in violation of Section 3 of the Kentucky Constitution. When the city was advised in a prior audit that bonuses are not permissible, the city changed its methodology and began purchasing and distributing gift cards to employees. We discovered a check written for \$1,650 in Fiscal Year 2014 made out to "Christmas Bonus."
- Auditors identified \$4,441 in questionable expenditures for gift cards and gift certificates for employees, flowers and gifts sent to city employees, elected officials and their families, and meal purchases. We also found the city clerk reimbursed herself \$504 in July 2015 for four years of meal allowance expenses without any supporting documentation.

"Due to the lack of supporting documentation for expenditures and other examples cited in our examination report, we are referring this to the Attorney General's office for them to determine if there has been any criminal wrongdoing within the city of Irvine," added Auditor Harmon. "The amount of missing or incomplete documentation in many areas was concerning enough that we felt it appropriate for law enforcement to take a closer look."

The full examination report is available for review on our website at [www.auditor.ky.gov](http://www.auditor.ky.gov).

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