EXAMINATION OF CERTAIN FINANCIAL TRANSACTIONS, POLICIES, AND PROCEDURES OF THE KENTUCKY LEAGUE OF CITIES, INC.

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List of abbreviations/acronyms used in this report

APA	Auditor of Public Accounts
CERS	County Employees Retirement System
CFO	Chief Financial Officer
Compensation Program	Key Executive Compensation Enhancement Program
HR Director	KLC's Director of Human Resources
IT	Information Technology
KDOI	Kentucky Department of Insurance
KLC	Kentucky League of Cities, Inc.
KLCIA	KLC Insurance Agency
KLCIS	KLC Insurance Services
KLCMFC	KLC Municipal Finance Corporation
KLCPFC	KLC Premium Financing Company
KLCURT	KLC Unemployment Compensation Reimbursement Trust
KLCWCT	KLC's Worker's Compensation Trust
KRS	Kentucky Revised Statute
NADA	National Automobile Dealership Association
NewCities	NewCities Institute
NLC	National League of Cities
NLC-RISC	National League of Cities Risk Information Sharing Consortium
PSS	Partnership for Successful Schools
TPA	Third Party Administrator
VOIP	Voice Over Internet Protocol

CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

December 17, 2009

Hon. Michael Miller, President
Board of Directors
Kentucky League of Cities, Inc.
333 Broadway Street
Jackson, Kentucky 41339

RE: Examination of Certain Financial Transactions, Policies, and Procedures of the Kentucky League of Cities, Inc.

Dear Mayor Miller:

We have completed our examination of certain expenditures, policies, procedures, and management practices of the Kentucky League of Cities, Inc. (KLC). The report identifies 30 findings and offers over 140 recommendations to strengthen the management and oversight of KLC to ensure its financial resources are used for the maximum benefit of its member cities.

Examination procedures included interviews of the current and three former KLC Board Presidents, other board members, as well as KLC management and staff. In conjunction with a review of applicable KLC policies and procedures, a review of credit card expenses, employee reimbursements, and direct payments was conducted to determine whether expenditures were appropriate. The scope of our examination encompasses records and information for the period July 1, 2006 through June 30, 2009, unless otherwise specified. The objectives developed by the APA for this examination include:

- Examine all credit card expenses, employee and board member reimbursements, and other expenses paid directly by KLC and its various programs;
- Determine whether expenditures were excessive or unusual;
- Review KLC policies and procedures; and,
- Report findings and recommendations related to these and other matters identified during the examination.

It is not the intent of this examination to report on the operations of the insurance component of KLC, as the Department of Insurance has regulatory authority to audit self-insurance funds.

The Auditor of Public Accounts requests a report from the KLC Board on the implementation of audit 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,

Crit Luallen
Auditor of Public Accounts

Examination of Certain Financial Transactions, Policies, and Procedures of the Kentucky League of Cities, Inc.

Examination Objectives

On July 1, 2009, the Auditor of Public Accounts (APA) informed the Kentucky League of Cities, Inc. (KLC) that an independent examination would be conducted on certain policies, financial transactions, and other activities of KLC and its affiliate funds, programs, and organizations. This examination was in response to reports and concerns presented to the APA regarding certain financial transactions of KLC. The objectives developed by the APA for this examination included:

- Examine all credit card expenses, employee and board member reimbursements, and other expenses paid directly by KLC and its various programs;
- Determine whether expenditures were excessive or unusual;
- Review KLC policies and procedures; and,
- Report findings and recommendations related to these and other matters identified during the examination.

It is not the intent of this examination to report on the operations of the insurance component of KLC, as the Kentucky Department of Insurance has regulatory authority to audit self insurance funds.

The scope of the examination encompasses records and information for the period July 1, 2006 through June 30, 2009, unless otherwise specified.

Background

KLC was formed in 1927 when 12 Kentucky cities assembled to address common legislative issues and to benefit from the economies of cooperative purchasing. KLC currently operates as a non-stock, non-profit corporation exempt from federal income tax under section 115 of the Internal Revenue Code. KLC has grown to include 382 member cities and has significantly expanded its services. Member cities receive core services from KLC and can purchase additional services through KLC's affiliated organizations. The services provided by KLC and its affiliates include insurance coverage, insurance loss control and employee benefits, policy development and research, training and education, and legislative advocacy as well as financial, legal, and information technology services. The following describes these entities and the services each provides to the city members:

KLC Insurance Services (KLCIS)

KLCIS was established for the purpose of creating and operating various self-insurance and/or third-party insurance coverage to protect policyholders from public liability exposures. KLCIS provides a complete line of competitive insurance to municipalities and agencies. In providing this insurance, KLCIS administers the KLC Worker's Compensation Trust (KLCWCT) and the KLC Unemployment Compensation Reimbursement Trust (KLCURT).

KLC Municipal Finance Corporation (KLCMFC)

KLCMFC was formed for the purpose of issuing tax-exempt bonds to finance or refinance member city projects. The corporation was established as an agent of the City of Danville that issued tax-exempt bonds so that the proceeds could be pooled and loaned to member cities. The corporation is only authorized to pay reasonable compensation for services rendered.

KLC Funding Trust

KLC formed KLC Funding Trust through an interlocal cooperative agreement to oversee a combination of many separate bond pools but primarily it serves the same function as KLCMFC. These funds are made available to cities for financing municipal public projects all across Kentucky. These projects include the construction of parks, fire stations, city halls, water and sewer systems, and other infrastructure. This program offers Kentucky cities low, tax-free interest rates with reduced issuance fees compared to the loan rates that the cities would be able to obtain as individual entities.

NewCities Institute

NewCities Institute was established as a 501(c)(3) non-profit corporation with a separate board to research, study, educate, and innovate communities about civic engagement. The stated purposes of NewCities Institute include improving local governance through the distribution of information and better communication between all levels of government, supporting activities to improve educational opportunities, and bringing the public and private sectors together in forums to enhance the quality of life in local communities.

KLC Insurance Agency, Inc. (KLCIA)
KLCIA was incorporated as a Kentucky for-profit agency to transact business as an insurance agency. KLCIA sells health, life, and bonding insurance to municipalities in the Commonwealth of Kentucky and markets the insurance services offered by KLCIS. KLCIS pays a commission to KLCIA for member accounts marketed or serviced by KLCIA.

KLC Premium Financing Company, Inc. (KLCPFC)
KLCPFC is another subsidiary of KLC that was incorporated as a Kentucky for-profit corporation, to finance insurance premiums for member cities that purchase property, liability, and workers compensation insurance through KLCIS. KLC is its sole stockholder.

Financial Information

In fiscal year 2008, 87 percent of KLC revenue came from the administrative fees and commissions paid by the insurance and financial programs administered by KLC staff. The remaining revenue sources of membership dues, interest, and conference revenue, account for only 13 percent of KLC's total revenue. From fiscal year 1998 to fiscal year 2008, KLC's revenues increased 155 percent from $4.3 million to $11 million. The significant increases in KLC revenue resulted from an increased amount of administrative fees paid by KLCIS and its related insurance trust programs, KLCWCT and KLCURT, and the commissions earned by the KLC insurance agency subsidiary KLCIA.

In fiscal year 2008, salaries, retirement, employee benefits, and payroll taxes accounted for 72 percent of KLC total expenditures. From fiscal year 1998 to fiscal year 2008, KLC's expenditures increased 202 percent from $3.9 million to $11.8 million. KLC's total assets increased 354 percent from fiscal year 1998 until fiscal year 2008, due primarily to the purchase of an office building and other investments.

Findings and Recommendations

Finding 1: The KLC Executive Board did not provide effective leadership and governance over its financial resources to the ultimate benefit of its member cities.
While the insurance and financing programs under the KLC umbrella increasingly brought in additional revenue to KLC, the Executive Board's lack of oversight allowed KLC's Executive Staff to spend additional funds, in many instances, for their primary benefit, rather than providing additional benefits to Kentucky's cities and communities. The financial growth of KLC could have allowed greater services to its member cities or reduced its member's fees or the insurance premiums charged to those cities and governmental entities that purchased insurance through KLC.
Recommendations: We recommend KLC reshape its mission to clearly reflect its purpose to efficiently and effectively serve member cities, to meet its member's reasonable expectations, and to provide the greatest benefit possible for the use of its public funds. We recommend KLC's Executive Board develop policies that provide specific guidance to staff members on the proper use of KLC financial resources for necessary and appropriate expenditures

Finding 2: KLC Executive Board had not adopted a compensation administration policy with definitive guidelines.
KLC Executive Staff salaries increased significantly between 2002 and 2009, with a 93 percent increase. The top ten employee salaries increased 25 percent between FY 2006 and FY 2009. KLC salary increases were based on the recommendations of an outside consultant whose recommendations were accepted and approved by the Budget and Audit Committee without an evaluation of performance or a comparison to local and regional salaries. KLC's Employee Handbook Policy for "salary adjustments" allowed KLC Executive Staff latitude and control over salary administration that resulted in substantial salary increases for Executive Staff and other KLC employees. Only the Executive Board members who were on the Budget and Audit Committee were informed of the Executive salary data recommended by the consultant. The other Executive Board members only saw the budget's one-line item for "Salaries."
Recommendations: We recommend the Executive Board evaluate current staff compensation amounts. We recommend the Executive Board review and approve a formal compensation policy that includes factors relating to the employees' performance. We also recommend the Executive Board select and approve the compensation consulting firm and ensure future compensation decisions are based on KLC's financial resources and regional economic conditions.

Finding 3: Bonus and loans made to KLC staff cost over one-half million dollars with questionable benefit to KLC.
KLC provided $533,998 to six employees in the form of a bonus, contribution, and forgivable loans for the purpose of rewarding loyalty and incenting continued employment with KLC. Those funds were used primarily by the employee to purchase five years of service or "Airtime" in the CERS. Participants in this program who purchased "Airtime" received significant lifetime incremental pension benefits of up to $514,571. It is not clear that the Executive Board gave adequate

consideration to the significant financial impact of such a program on KLC or the substantial personal benefit to the participating employees.

Recommendations: We recommend the KLC Executive Board review the entire compensation program to ensure all employee compensation and additional rewards are in the best interest of KLC and are approved by the Executive Board prior to being implemented. The Executive Board should evaluate compensation and retirement packages for all employees, require measurable individual performance goals, and implement a documented employee performance evaluation process.

Finding 4: KLC Executive Staff represented that employee loans and a bonus were repaid because KLC Executive Staff did not receive salary increases suggested by a consultant.

In October 2004, the incoming KLC President questioned the amount of compensation that Executive Staff received through salary, forgivable loans, and a bonus. In response, KLC Executive Staff decided to offset the consultant recommended salary increases by either the net bonus amount for the Executive Director/CEO and the annual loan amounts forgiven for the Deputy Executive Director and Chief Insurance Services Officer. Even with offsets to their recommended salary increases, KLC Executive Staff experienced salary increases of 21 percent, 15 percent, and 13 percent. Executive Board meeting minutes do not document the Executive Board's approval of the "repayment" method determined by the Executive Staff; nor do Executive Board meeting minutes document a discussion of this issue.

Recommendations: We recommend the Executive Board require, and KLC General Counsel provide, affirmation that all contracts and agreements are in compliance with documented actions taken by the Executive Board. We also recommend that any repayment methodology be established and approved by the Executive Board. Further, we recommend the Executive Board meeting minutes document board action and approval of any employee loan bonus, as well as the related terms and conditions.

Finding 5: **KLC Executive Staff extended, forgave, and granted loans without Executive Board authorization.**

The Compensation Program approved by the KLC Executive Board states that if the employee is terminated or leaves KLC voluntarily before the loan is fully repaid, "the balance due on the note becomes payable." However, the former General Counsel resigned his position October 31, 2005 and KLC Executive Staff forgave a loan balance of $21,230 without his fulfilling the original loan requirements specified in the Compensation Program. The former Director of Finance and Administration received a $47,000 forgivable loan under the Compensation Program. After retiring on October 1, 2006, KLC Executive Staff and the former Director of Finance and Administration entered into an employment agreement that included an additional loan of $17,300 to be added to the remaining forgivable loan balance of $11,569. In FY 2008 and FY 2009, KLC Executive Staff contributed a total $35,600 to the Director of Policy Development's Section 457 retirement account even though he was not eligible for a forgivable loan according to the approved Compensation Program. There was no documentation that the Executive Staff obtained approval from the Executive Board for the loan forgiveness subsequent to termination, the extension and forgiveness of a loan subsequent to retirement, nor the contribution to an employee's Section 457 retirement account.

Recommendations: The KLC Executive Director/CEO and other Executive Staff should comply with the Board approved Compensation Program and associated resolution. The initiation of any loans or other compensation enhancements and related terms should receive prior approval by the Executive Board and periodic reporting on all compensation enhancements should be provided to the Executive Board.

Finding 6: KLC Executive Staff altered a Compensation Program loan agreement without board approval and did not comply with the terms of the resulting employment agreement.

The former Director of Finance and Administration retired on October 1, 2006, and was rehired by KLC on November 1, 2006 as a Senior Accounting Analyst. The former Director of Finance and Administration's existing unforgiven loan amount of $11,569 was combined with a new loan amount of $17,300 for a new loan of $28,869. Per the employment agreement, repayment of the new loan was required over a 30-month term. However, according to KLC Executive Staff, that was "not the intent" and the loan was forgiven. Approval from the Executive Board to alter or amend the original loan was not documented.

Recommendations: We recommend the KLC General Counsel review all contracts for completeness and accuracy. We further recommend KLC Executive Staff ensure that approval of the Executive Board is obtained when the terms of an agreement alters or supersedes the terms of the board approved Compensation Program. We recommend the Executive Board review all employment agreements and ensure the employees comply with the approved terms and conditions of the agreements.

Finding 7: Discrepancies between the board-approved Compensation Program and the corresponding Promissory Notes and Loan Agreements impacted the accuracy of income reported.

The Compensation Program indicates that KLC should supplement the salaries of participating employees to offset any tax or interest costs associated with the forgivable loan and that the employee should pay interest to KLC through payroll deductions. However, the Promissory Note only states that interest is payable through payroll deductions without any mention of salary supplements. The Loan Agreement does not contain any language related to payroll deductions or salary supplements. These discrepancies are significant because neither the salary supplements nor payroll deductions were actually executed by KLC. Instead, the amount of the annual loan principle and any added taxes or interest were reported on the employee's W-2 form as "Other" non-cash income. In years 2005 through 2007, forgiven interest was not included on the W-2 tax forms for the Deputy Executive director, Chief Insurance Services Officer, and the former General Counsel.

Recommendations: We recommend that KLC's Executive Board ensure that the terms of any policy or program adopted by the board are complied with by KLC staff. We also recommend KLC staff ensure that all terms and conditions of contractual agreements are enforced and the related financial transactions are accounted for properly. We also recommend the KLC Executive Board direct the CFO to determine the additional amount of compensation that should have been reported on the loan participants W-2. These amounts should be reported to the Executive Board so that a decision as to amending the participants W-2 can be made.

Finding 8: KLC's Executive Board had not adopted a policy governing the purchase of vehicles.

Between April 2007 and December 2008, KLC Executive Staff authorized and purchased vehicles totaling $314,738 for KLC employees' use with no discussion or approval by the Executive Board. Clear guidelines were not established to identify who was eligible to use the vehicles and for what purposes. The vehicles were for both personal and business usage yet in certain instances the mileage related to personal mileage could not be determined.

Recommendations: The Executive Board should oversee a comprehensive analysis of KLC ground transportation needs to determine the most efficient and cost effective methods of addressing the organization's needs. If the board determines vehicles should be retained, then a policy that addresses the acquisition, utilization, and maintenance of KLC-owned vehicles should be implemented.

Finding 9: KLC sold a vehicle at less than fair market value to an Executive Staff member.

KLC's lack of a replacement policy for its fleet vehicles allowed the Deputy Executive Director to purchase his assigned vehicle for less than market value. Even without a policy or Executive Board approval, vehicles were replaced approximately every three years. When KLC Executive Staff decided to replace a 2005 Volvo XC90 SUV assigned to the Deputy Executive Director, a dealership offered a $9,000 trade-in on the purchase of a new vehicle. Instead of requiring the employee to pay fair market value, KLC allowed the Deputy Executive Director to purchase the vehicle for the trade-in offer of $9,000. During the year prior to this purchase, this vehicle had received new tires, brakes, and maintenance services costing KLC $1,903.

Recommendations: We recommend the KLC Executive Board establish and require compliance with a policy that details the process to be followed when KLC replaces or disposes vehicles. This policy should require that vehicle purchases and replacements should be reported to the Executive Board. All supporting documentation related to the valuation, sale, and transfer of vehicles should be maintained by the CFO.

Finding 10: KLC had no credit card policy to control over one million dollars that was charged on cards issued to employees.

Twenty-six credit cards were issued to KLC staff members without the KLC Executive Board establishing a policy for the use of the cards or the review and approval of credit card expenditures. In addition, the Board was not involved in the review or approval of KLC's executive staff's $523,261 credit card expenditures that accounted for 50 percent of the $1,046,702 of total credit card expenditures. Numerous expenditures made via credit card had no supporting documentation and/or lacked any business purpose.

Recommendations: We recommend KLC Executive Board strengthen its credit card policies by establishing procedures that:

- Provide examples of unallowable expenses;
- Specify when prior approval of certain expenditures is required;
- Limit the types of purchases made by credit card;
- Require supervisory approval;
- Address employees' responsibilities for reimbursing unsupported expenses;
- Require the Executive Director/CEO to review and approve credit card expenses of Executive Staff members;

- Require the KLC President or other designee of the Executive Board to review and approve credit card expenses made by the Executive Director/CEO; and
- Limit the number of staff assigned credit cards.

Finding 11: KLC's travel and entertainment expense policies were insufficient to prevent excessive spending.
During the examination period, travel and entertainment expenses for all employees totaled over $1.3 million. The lack of controls to monitor credit card and reimbursement expenditures created an environment in which excessive and unsupported purchases were allowed. The policy for these expenditures that were in effect during our review period did not provide specific guidance or review procedures that would limit excessive and unreasonable travel and entertainment expenses.
Recommendations: The KLC Executive Board must strengthen its "Travel and Meeting Expense Reimbursement Policy" established in August 2009, to require the Executive Director/CEO to provide financial oversight of staff travel and entertainment expenses, require periodic reports of travel-related expenses to the Executive Board, provide specific parameters for allowable meal and entertainment expenses, prohibit the payment of spousal travel; and include parameters to limit the number of employees attending each conference/training event.

Finding 12: KLC's budget and financial information does not provide a breakdown of the projected or actual expenses associated with its affiliated organizations.
The actual costs incurred by KLC to operate each of its affiliated organizations were not presented to the KLC Executive Board or the affiliate boards. While KLC charges an administrative fee from each affiliate organizations, this fee was not based entirely on actual costs. Each organization's administrative agreement had a different method for determining the administration fee paid to KLC. A cost allocation was performed by the CFO in coordination with KLC Executive Staff, but this method was not based on a written, approved policy nor was it presented in the budgets to the applicable boards or in audited financial statements. Accordingly, members of KLC's Executive Board, as well as members of its other affiliated boards, were not informed of actual costs incurred to operate their respective organizations.
Recommendations: We recommend that KLC's Executive Board and affiliate boards, to enhance transparency, approve a cost allocation method to be used in determining the actual cost of operating the affiliated organizations. When budgets are approved, a detailed breakdown of the projected expenses of each affiliate should be provided to the KLC Executive Board and the affiliate boards to ensure an adequate understanding of actual operating expenses. In addition, the KLC Executive Board should reimburse NewCities based on actual costs incurred for providing staff and services instead of making an in-kind contribution for these costs.

Finding 13: Policies for ethical behavior were weak or nonexistent for board members, officers, and staff.
Receipt of public funds to operate KLC requires that KLC board members, officers, and staff be accountable to the public for their actions and comply with standards of ethical conduct. The KLC Employee Handbook included minimal requirements for the conduct of employees, but did not address many other areas of conduct, nor did it extend such standards to board members. The new work conduct policies adopted August 19, 2009, allow improper exceptions, do not provide enough direction or specificity, and do not address many of the areas of conduct required for employees and board members to be accountable and ethical in their decision-making for KLC.
Recommendations: We recommend KLC strengthen its work conduct policies for "Conflicts of Interest" and "Gifts" and further develop and implement a comprehensive code of ethics including other standards of conduct. We further recommend that KLC adopt a code of ethics for its Board of Directors, Executive Board, and for the trustees of its various affiliated boards, that include guidance regarding the acceptance of gifts and gratuities, provides for specific direction regarding conflicts of interest and solicitation, and includes a comprehensive code of ethics with additional standards of conduct. Finally, we recommend once the new comprehensive code of ethics is implemented, KLC should provide initial training on the code, as well as an annual review, for all staff and board members.

Finding 14: Numerous conflicts of interest existed that contributed to the appearance of, if not actual, improprieties by certain KLC board members and staff.
Several instances of specific conflict of interest situations were identified that may have contributed to unfair business practices and poor quality services. It is impossible to determine if the vendors KLC used provided the best services to KLC members when the staff allowed friendships or other relationships to potentially provide favoritism and influence independent decision-making. KLC board members and employees should be independent and impartial in the actions they undertake and decisions they are called on to render, ascertaining that such actions and

decisions are based on the best interests of KLC members and policyholders.

Recommendations: We recommend the KLC Executive Board, within its comprehensive code of ethics, provide standards of conduct for conflicts of interest that prohibit employees and all affiliated board members from involvement in discussions or decisions of certain issues that cause a conflict between their personal interests and their duties for KLC. Employees or board members who abstain from involvement in discussions or decisions, should not be present during such discussions and the abstention should be documented.

Finding 15: Ineffective policies for the acceptance of gifts resulted in personal benefits and the appearance of, if not actual, inappropriate relationships with vendors.

KLC's standards of conduct for solicitation and acceptance of gifts and gratuities by board members and staff were not effective in preventing numerous conflicts of interest. Executive Staff members received personal benefits that resulted in the appearance of, if not actual, inappropriate relationships with vendors. Without a strong policy regarding solicitation and acceptance of gifts, conflicts for employees and board members/trustees may allow subjective decisions to be made that are not in the best interests of KLC members or policyholders.

Recommendations: We recommend KLC strengthen its gifts policy within its code of ethics by adopting a standard of conduct for the solicitation and acceptance of gifts and gratuities that would prohibit conflicts of interest for employees, as well as for Executive Staff and other board members and trustees. The effect of the policy should be that vendor decisions by employees, board members and trustees of KLC, and its affiliated programs, be made impartially and objectively in the best interest of KLC. Employees responsible for the selection and oversight of vendors should have limitations on the value of the gifts they may accept from vendors. Finally, the policy should address whether KLC, as an association of government entities, should solicit or accept gifts on behalf of KLC directly from its vendors.

Finding 16: KLC did not require its board members, trustees and Executive Staff to file statements of financial disclosure revealing potential conflicts of interest.

During the period of examination, KLC had no requirement for its board members or Executive Staff to file a statement of financial interests disclosure. Financial disclosure statements provide a means to determine whether officials responsible for the use of public funds possess any conflicts of interest or potential conflicts between their private interests and their employment duties. Lack of such disclosure tends to reduce public confidence in the integrity of those officers and employees responsible for spending monies obtained ultimately from taxpayers.

Recommendations: We recommend the KLC Executive Board implement a financial disclosure policy within its code of ethics that requires the board members and Executive Staff to annually file a financial interests disclosure statement by a specified date with the appropriate committee of the Executive Board. The policy should require an affirmative statement by the filer that he or she has no interest that would cause a conflict with his or her official duties. Sanctions for noncompliance with the filing requirement should also be detailed in the policy.

Finding 17: KLC had no whistleblower policies or procedures established to report ethical and other policy violations, or to investigate such potential violations, or to impose sanctions for violations.

During the period of examination, KLC had no whistleblower policy or procedure for employees or others to:

- report potential ethical and other policy misconduct (other than for sexual or nonsexual harassment) or concerns;
- follow-up and investigate any reported activity;
- determine whether an actual violation of policy or abuse existed; and,
- establish criteria for sanctions or disciplinary procedures.

Without a method for employees or other citizens to report potential violations of policy without fear of repercussion, abusive actions by employees and board members may exist that are never corrected.

Recommendations: We recommend that the Executive Board further strengthen its whistleblower reporting policy for suspected violations of any in-house policies by creating and documenting an independent process for receiving, analyzing, investigating and resolving such alleged violations. The process should include multiple avenues by which concerns may be expressed, such as a toll-free hotline, an e-mail address, and a postal address. The complaint procedures should ensure that the complaint does not have to be filed directly with an employee or board member about whom the complaint is lodged, nor should any employee or board member against whom a complaint is filed have any involvement in the resolution of the matter.

Finding 18: A procurement policy for the purchasing of goods and services was not established by KLC Executive Staff or the Executive Board.
KLC paid $63.7 million dollars to outside vendors, but did not have a sufficient procurement policy to ensure that the selection of these vendors and the services provided maximized benefits to KLC membership. KLC and its affiliated organizations did not have formal competitive bidding process for vendor selection. In the absence of an adequate procurement policy, KLC Executive Staff had the discretion of vendor selection, contract terms, and whether to disclose procurement details to respective boards.
Recommendations: The Executive Board should enact policies that establish the circumstances under which bids or competitive quotes must be secured in order to make a purchase. The policy should establish the criteria requiring board approval of contracts, including that all long term contracts must be presented to the appropriate board for full review and approval before a commitment is made to a vendor. Procurement policies should address purchasing approvals and purchasing methods required for the different types of services and products purchased to ensure proper monitoring and oversight of payments.

Finding 19: KLC board members and trustees received no formal orientation on their legal and fiduciary responsibilities.
No documentation was found indicating that KLC board members or the trustees of its affiliated insurance and financial organizations received formal orientation training on the purpose of the respective boards, their responsibilities as KLC representatives, as well as, their legal and fiduciary roles. Interviews of the current Executive Board president, as well as three former presidents and other board members, confirm no formal, detailed orientation was held during the period of review.
Recommendations: We recommend KLC provide an annual orientation training for new and returning board members/trustees to ensure their understanding of the KLC organization structure and policies, their responsibilities as board members, as well as their legal and fiduciary roles. The orientation should address ethical requirements of board members and staff and any significant policy changes adopted by KLC during the previous year.

Finding 20: The KLC board structure may impede oversight and accountability.
The 2009-2010 KLC Board of Directors consists of 59 members that according to KLC By-Laws have no decision-making authority, but act in an advisory capacity. Board level decision-making authority is vested in an eighteen member Executive Board. Because these eighteen members are city mayors or city managers, any void of governance may have been filled by KLC's Executive Staff. Although KLC succeeded in providing beneficial services to its members, our examination has identified various instances of Executive Staff benefiting from the void in board oversight and accountability.
Recommendations: We recommend that KLC's By-Laws be amended to provide for an alternative to decision-making solely by the Executive Board. We recommend that KLC consider renaming its Board of Directors to reflect their advisory role to avoid confusion that this board is not the governing body of KLC.

Finding 21: KLC allowed credit card expenses and reimbursement requests to be paid with no or inadequate supporting documentation.
Even though KLC had a credit card and reimbursement policy during our period of review, $266,374 in purchases had either an unclear business purpose, inadequate documentation or were excessive and $87,783 in purchases had no supporting documentation. Compliance with this policy was not enforced and KLC placed itself in a position for staff to abuse credit cards and employee reimbursements. Executive Staff made 64 percent of the unsupported credit card expenditures, and 59 percent of the unclear business purpose, inadequate documentation, or excessive credit card expenditures.
Recommendations: The Travel and Entertainment Expenses policy should be strengthened to explicitly state that expenses not supported by detailed, itemized receipts that verify a business purpose and are provided within a reasonable specified period will not be paid by KLC. All payments should be reviewed for appropriateness, reasonableness, and necessity, and to ascertain that adequate supporting documentation exists.

Finding 22: KLC spent over $430,000 on out-of-state travel with questionable benefit to KLC membership.
During the period of examination, KLC spent $431,354 for out-of-state travel costs associated with 162 trips. KLC staff and board members traveled out-of-state for a variety of conferences, meetings, training sessions, and conventions. While attendance at the various seminars, conferences and national gatherings can provide educational and networking opportunities, there is inadequate evidence that this level of out-of-state travel was justified by the benefits derived by Kentucky cities.
Recommendations: The Executive Board should establish a detailed policy to guide employee and board travel and address the scope of KLC's presence and representation. This policy should include consideration of the relevance of a national presence,

the amount of resources KLC should allocate to out-of-state activities, and the expected benefits of out-of state travel to the KLC membership. The Executive Board should receive reports of the cost and reasons for out-of-state trips, but spousal travel costs should be paid by KLC.

Finding 23: KLC spent over $56,000 on meals at local restaurants.
An examination of KLC credit card statements and employee reimbursements documented expenses in excess of $56,000 incurred for the purchase of local meals for KLC staff. It was acceptable practice to routinely expense lunches where only KLC employees were in attendance and to classify the expense as a "working lunch." The frequency of those lunches was excessive and did not have a supportable purpose and benefit. The expense related to local meals also includes over $28,000 spent at Azur, which is a restaurant co-owned by the spouse of the Executive Director/CEO.
Recommendations: The Executive Board should implement a policy to clearly define when it is appropriate for meals, including local meals, to be purchased on behalf of employees, board members, vendors, and guests. Employees not on travel status should pay for their own meals and subsequently be reimbursed after completing an established review and approval process. We further recommend the Executive Board establish policies as to the purchase of goods and services from vendors in which KLC employees, directors, and officers or their families have a financial interest.

Finding 24: KLC spent approximately $50,000 to purchase tickets for various events.
Tickets were purchased for a variety of events, including university football and basketball games, horse racing events, and a concert. There were no records maintained listing those individuals who used tickets for university football and basketball games costing over $17,000. The ticket purchases were not documented as being attributable to a specific marketing plan or having an identifiable business purpose. Without supporting documentation, it is questionable as to who actually benefited from the ticket purchases.
Recommendations: KLC should not allow the purchase of tickets solely for the entertainment of board members, staff, spouses, or guests. The expenditure of funds for sporting events and other entertainment venues should have a documented benefit detailing the expected benefit to KLC membership.

Finding 25: KLC had no policy governing expenditures for alcohol.
KLC purchased alcoholic beverages for KLC sponsored hospitality rooms during events such as their annual conference and other similar conferences. KLC also purchased or reimbursed employees for purchases of alcoholic beverages by the drink at restaurants and bars. During the examination period, specific purchases for alcohol totaled $12,349, but this did not include purchases of alcohol accompanying individual meals. A complete analysis of alcohol purchases could not be performed because of $354,158 in credit card and business expense reimbursement transactions either had no supporting documentation or lacked detailed receipts.
Recommendations: The Executive Board should ensure that effective processes and procedures are in place for executing and monitoring the newly adopted Alcohol Reimbursement Policy, including actions that will be taken in the event of non-compliance. Given the potential liability that could be incurred by KLC in the event of an alcohol related accident or incident, we recommend the Executive Board review the KLC policy regarding alcoholic beverages.

Finding 26: KLC Executive Staff did not inform the Executive Board of a harassment investigation that raised broader concerns involving an Executive Staff member.
KLC's Executive staff did not inform the Executive Board of a harassment investigation involving an Executive Staff member. KLC hired an independent law firm to perform an investigation of a complaint filed by a KLC employee, but the implementation of the law firm's recommendations were at the discretion of Executive Staff. In addition, broader concerns were raised regarding ethical and legal issues unrelated to the nonsexual harassment charges. The harassment policy, at a minimum, should include informing the Executive Board of harassment issues involving KLC Executive Staff.
Recommendations: The KLC Executive Board should have a policy to ensure they are informed of harassment complaints when preliminary internal investigations indicate that there is sufficient merit to the allegation. In addition, the Executive Board should be involved in the decision to hire an outside consultant and notified immediately when the complaint involves a member of KLC Executive Staff.

Finding 27: The insurance programs of KLC were not organizationally independent of the primary KLC member association activities.
Because the insurance programs of KLC were not organizationally independent of KLC member association activities, the Kentucky Department of Insurance (KDOI) requested on July 2, 2009, that KLC

implement a distinct and discernable separation between the activities of KLC and KLC's insurance programs. This separation was requested to assist in determining whether the purchase of insurance policies from KLC was in compliance with insurance regulations regarding illegal inducements. KLC's corrective action plan begins to address the concerns of KDOI, but further separation may be needed because the insurance program boards consist of several of the same members that serve as officers of the KLC Executive Board. Considering that the Chief Insurance Services Officer organizationally reports to KLC's Executive Director/CEO as well as the Deputy Executive Director, there is an appearance that KLC's Executive Director/CEO is also directing the insurance program activities, as well as membership services.

Recommendations: We recommend KDOI review the information presented in this report for its use in KDOI's oversight of KLCIS. We further recommend the KLC Executive Board determine whether further segregation between KLC and KLCIS is warranted.

Finding 28: KLC subsidized NewCities through in-kind contributions and cash totaling $7,239,378 over an eight-year period with few quantifiable results.

NewCities Institute, a separate non-profit corporation formed to "research, study, educate, and innovate communities about civic engagement," contracts with municipalities, educational, and other non-profit groups to facilitate meetings and provide guidance to help recognize opportunities for projects that may improve the local standard of living. In eight years of operations, NewCities has incurred a cumulative net operating loss of $603,507. This loss occurred even though it received $6,789,378 of in-kind support from KLC and received an additional net cash contribution of $450,000.

Recommendations: The KLC Executive Board must reassess its future commitment to the mission of NewCities to determine if continued support is the best use of KLC resources. The Executive Board must determine whether a $7.2 million outlay to NewCities over the last eight years represents a responsible and acceptable use of member-provided resources. If the commitment with NewCities is continued, the following recommendations should be implemented:

- Limit engagement activities to in-state municipalities
- Improve financial reporting
- Consider additional board membership from the KLC membership
- Review the in-kind contributed services for accuracy and appropriateness

Finding 29: Income related to personal use of vehicles was not accurately reported in executives' W-2 wages.

KLC provided Executive Staff with organization-owned vehicles that were used for personal as well as business purposes. Executive Staff members were expected to submit mileage logs at year-end to document each employee's personal use of the automobile in order to calculate the amount of personal income to be added on the employee's W-2. In some cases mileage logs were not submitted and in other instances the personal use amount was miscalculated.

Recommendations: We recommend that KLC staff, in consultation with the IRS, amend any previously issued W-2s to appropriately reflect the non-cash fringe income that should have been reported for each of the employees who were provided the personal use of a vehicle. We also recommend that KLC staff assigned vehicle submit timely mileage records. KLC staff responsible for calculating the personal income should be properly trained and understand the methodology of the calculation. These calculations should be reviewed and approved by supervisory or other designated staff.

Finding 30: Weak internal controls identified at KLC did not provide a sufficient review process prior to making a payment.

KLC did not establish a formal process to ensure a thorough and consistent review and approval was performed prior to making a payment. Without proper guidance, the accounting staff was placed in the position of paying expenses without supporting documentation, which could lead to inappropriate expenditures.

Recommendations: The KLC Executive Board should ensure a procedures manual is developed to address the security of the accounting system, proper lines of authority for review/approval of expenditures, the types of allowable expenses, required supporting documentation, and requirements regarding expenditure payments. This manual should also include required procedures for reviewing payments and checks.

Chapter 1

Introduction and Background

Scope

On July 1, 2009, the Auditor of Public Accounts (APA) informed the Kentucky League of Cities, Inc. (KLC) that an independent examination would be conducted on certain policies, financial transactions, and other activities of KLC and its affiliate funds, programs, and organizations. This examination was in response to reports and concerns presented to the APA regarding certain financial transactions of KLC. The objectives developed by the APA for this examination included:

- Examine all credit card expenses, employee and board member reimbursements, and other expenses paid directly by KLC and its various programs;
- Determine whether expenditures were excessive or unusual;
- Review KLC policies and procedures; and,
- Report findings and recommendations related to these and other matters identified during the examination.

The scope of the examination encompasses records and information for the period July 1, 2006 through June 30, 2009, unless otherwise specified. It is not the intent of this examination to report on the operations of the insurance component of KLC, as the Kentucky Department of Insurance (KDOI) has regulatory authority to audit self insurance funds.

KLC is subject to this examination because it is funded through membership dues, administrative fees and commissions from its insurance and financing programs, interest on loans, and other payments, which ultimately are provided by the taxpayers of KLC's member cities. Also, KLC employees participate in the public County Employees Retirement System (CERS). The APA has the responsibility to ensure that public funds are spent in the best interests of the taxpayers. KLC's Executive Board and other affiliated boards primarily are elected or appointed officials of Kentucky cities. It is in that capacity that they serve as board members. As public officials and KLC board members, their responsibilities also are to act in the best interests of their cities and the citizens they serve. As an overarching guiding principle, the decisions and actions of KLC board members, and the standards to which they are held, should be consistent with those to which they are held as public officials.

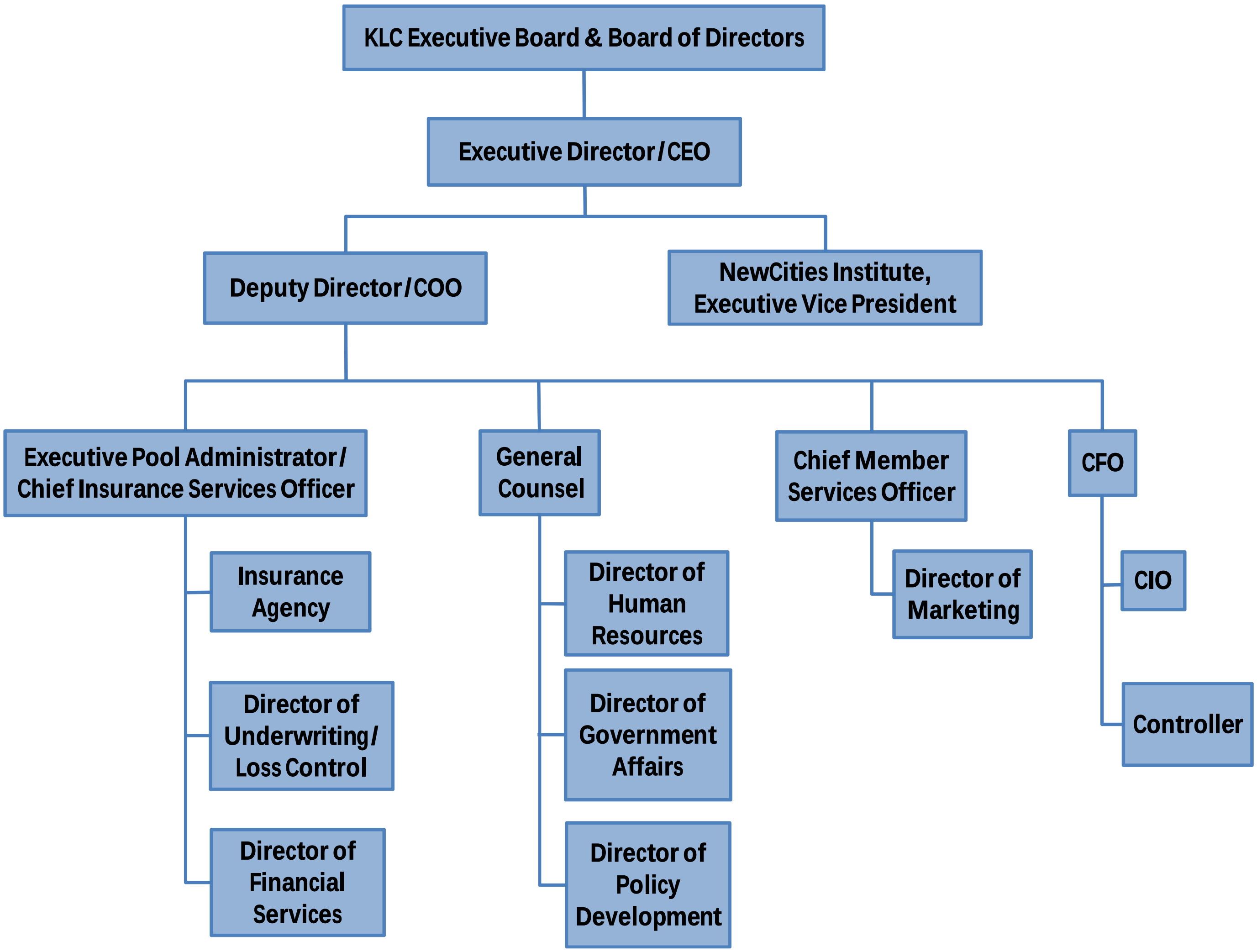
KLC Background

KLC was formed in 1927 when 12 Kentucky cities assembled to address common legislative issues and to benefit from the economies of cooperative purchasing. KLC currently operates as a non-stock, non-profit corporation exempt from federal income tax under section 115 of the Internal Revenue Code. In September 1998, the Internal Revenue Service ruled that all income derived by KLC is excludable from gross income under section 115 because the members of KLC must be legally incorporated city governments; KLC, according to its By-Laws and Articles of Incorporation, "is organized and operated exclusively to carry out essential governmental functions for and on behalf of its members;" and KLC's income accrues to the benefit of KLC's member cities.

Since 1927, KLC has grown to include 382 member cities and has significantly expanded its services. From fiscal year (FY) 1998 to FY 2008, KLC's revenues increased 155 percent from $4.3 million to $11 million, while expenditures increased 202 percent from $3.9 million to $11.8 million. It has a staff of approximately 80 employees, who serve as staff for KLC and six active, affiliated organizations operating under this one organization. Member cities receive core services from KLC and additional services through KLC's affiliated organizations. These services include insurance coverage, insurance loss control and employee benefits, policy development and research, training and education, and legislative advocacy as well as financial, legal, and information technology services. KLC's main offices are located at 100 East Vine Street in Lexington, Kentucky, with a satellite office in Frankfort.

The KLC Executive Director/CEO is authorized by KLC's corporate By-Laws to manage and administer the affairs of KLC under the general supervision of the KLC Executive Board. Other responsibilities of this position include planning and directing KLC activities and services and establishing employment positions within the framework of the annual budget. The following organizational chart illustrates the chain of command and the organization of KLC.

KLC Management Organization



Source: APA based on Information from KLC.

KLC Membership

According to KLC By-Laws, KLC shall be an instrumentality of its members and all property acquired by KLC shall be owned in the name of the corporation for the benefit of its members. This membership shall consist of only one class of member. Any legally incorporated and active city government in the Commonwealth of Kentucky may become a member of KLC upon the approval of its governing body and notification to the KLC Executive Director/CEO. The term “city” is defined to include consolidated local governments, unified local governments, urban county governments, and charter county governments. The KLC Executive Board may terminate the membership or membership privileges of any member for good cause. Annual membership dues and the terms and timing of membership dues are established by the Executive Board.

KLC Member Services

The core member services provided by KLC are legislative advocacy, legal services, training, education, policy development, research, technology, and online services.

Legislative Advocacy

KLC advocates for Kentucky cities at both state and federal levels. KLC officials meet year-round with local officials to listen and understand the issues that impact Kentucky cities, and KLC’s legislative team provides the following services:

- bill tracking and legislative analysis;
- coalition building;
- grassroots organizing; and,
- issue papers and General Session summaries.

Legal Services

KLC conducts trainings and develops articles on legal topics for all aspects of municipal and state governments. KLC legal staff members respond to members’ inquiries and requests for information regarding statutes and other legal issues to determine their affect on their city governments. Typical legal inquiries include questions concerning home rule, requests for sample ordinances, and requests to explain the difference between an executive order, a municipal order, and a resolution.

Training and Education

Through on-site seminars, training and workshops at the KLC annual convention, KLC provides city officials and employees with many continuing education opportunities, including:

- the Public Officials Essential Skills Institute;
- community Safety and Health Certificate Program;
- specialty certificate programs; and,
- other training sessions including the City Officials Academy and courses on technology and zoning.

KLC's Member Library has over 6,000 resources available for members, including over 800 books about Kentucky, municipal government, and professional development. The Member Library also has more than 300 safety training videos.

Policy Development and Research

KLC generates customized research reports, houses a variety of reference materials in the resource library, and provides one-on-one personal service to member cities and officials. Some of the information topics for which research is requested relates to city classifications, financial reporting, property tax rates, and city employee salaries. KLC produces numerous white papers and publications about policy matters that can assist local leaders.

Technology and Online Services

KLC is available to advise cities on a variety of technology applications that can improve the effectiveness and efficiency of local government services. KLC provides technology assistance related to high speed internet access, website development, voice over internet protocol (VOIP) telephone system, internet auctions of surplus property, and advice on electronic government software applications.

KLC Board Administration

KLC By-Laws establish a Board of Directors and an Executive Board with responsibilities to benefit KLC members. Board officers and appointees are primarily elected and appointed officials of member cities. The KLC Executive Director/CEO is an officer of the Executive Board, as well as a KLC employee. The Executive Board has primary oversight, while the Board of Directors functions mainly as an advisory group. KLC has also established the following standing committees to serve as advisory committees to the Executive Board and the membership:

1. Legislative Committee – Its purpose is to promote participation by KLC members in the KLC legislative policy development process and lobbying efforts.
2. Nominating Committee – Responsible for recommending a slate of nominees for KLC offices, Executive Board positions, and Board of Director positions. It consists of the KLC President (serves as chairman), immediate past president, another past president appointed by the current KLC President, two members of the Executive Board or Board of Directors appointed by the KLC President, and the Executive Director/CEO who serves as a non-voting member.
3. Budget and Audit Committee – Responsible for meeting and consulting with the Executive Director/CEO and other senior management staff on matters related to the annual budget and audit. This committee consists only of the KLC officers of the Executive Board. The committee also is responsible for reviewing the methodology and level of compensation for all KLC staff, including the KLC Executive Director/CEO.

4. Membership Services Committee – Responsible for communicating with the members regarding the viability of existing KLC programs and services, and determining the need for additional programs and services. It consists of the immediate past president and between eight and twelve additional members selected annually by the KLC President.

KLC Executive Board

According to the KLC By-Laws, the Executive Board's powers and authorities, in addition to the specific powers and authorities allowed to non-stock, non-profit corporations under KRS 273.171, include the following:

1. To establish and enforce policies, rules, regulations, standards, and procedures to govern the operation of KLC and the conduct of its members;
2. To authorize the employment of agents, service companies, persons, firms, associations, and corporations necessary and desirable for the sound and efficient operation of KLC;
3. To authorize the execution of contracts, leases, agreements, deeds, and other instruments necessary and desirable to fulfill the purposes of KLC;
4. To employ and establish the duties and responsibility of an Executive Director/CEO; and,
5. To delegate its authority, when necessary and appropriate, to the Executive Director/CEO.

The 18-member Executive Board of KLC consists of five officers, four regional directors, seven at-large directors with two of these director positions being the mayors of Lexington and Louisville, and two directors who are appointed city officials. The regional directors represent four defined regions of the Commonwealth. The officers include a President, First Vice President, Second Vice President, Immediate Past President, and the KLC Executive Director/CEO. All directors are elected or appointed officials of member cities in good standing, except for the Executive Director/CEO who is an employee of KLC. No two members of the Executive Board may be elected or appointed officials of the same city. In order to be eligible for nomination and election to the Executive Board, the person must be serving on the KLC Board of Directors.

Executive Board officers serve a one-year term, beginning at the conclusion of the annual convention and terminating at the conclusion of next succeeding convention. No person may be elected to serve consecutive terms in the same office. Each non-officer director serves a two-year term on the Executive Board. No director may be elected to serve more than two consecutive terms on the Executive Board but this limit does not apply to the representatives from Louisville and Lexington. The following is a list of the Executive Board members and their tenures as of the inception of our audit fieldwork.

Table 1: KLC Executive Board Members and Tenures as of July 1, 2009

Executive Board Member	Member City	Tenure
Mayor Glenn Caldwell	Williamstown	6 Years
Mayor Jerry Abramson	Louisville	6 Years
Mayor Connie Lawson	Richmond	5 Years
Mayor Bill Paxton	Paducah	5 Years
Mayor Mike Miller	Jackson	5 Years
City Manager Anthony Massey	Frankfort	4 Years
City Manager Bill Ed Cannon	Corbin	4 Years
Mayor Elaine Walker	Bowling Green	4 Years
Mayor Darrell Pickett	Glasgow	3 Years
Mayor Jim Newberry	Lexington	3 Years
Mayor Mary Pate	Beaver Dam	3 Years
Mayor Tom Rushing	Murray	3 Years
Mayor Susan Barto	Lyndon	3 Years
Mayor Roddy Harrison	Williamsburg	1 Year
Mayor Arthur Byrn	Mayfield	1 Year
Mayor Ed Burtner	Winchester	1 Year
Mayor Tom Bozarth	Midway	1 Year

Source: KLC.

The Executive Board meets at least four times each year upon the call of the President, or at a written request of a majority of the entire Board membership. One of the meetings of the Executive Board must be held during the annual convention.

KLC Board of Directors

The responsibilities of the Board of Directors, as set out in the KLC By-Laws are primarily advisory in nature. These include:

1. Recommend to the Executive Board a municipal legislative program for each regular session of the Kentucky General Assembly;
2. Review reports from and make reports to the Executive Board, KLC standing committees and task forces, and stateside entities studying issues of importance to Kentucky cities; and,
3. Serve as a training ground for KLC directors and officers and provide a forum to promote the development of city and state government leaders.

The 2009-2010 Board of Directors consists of 59 members but the number varies every year because any past KLC President and Executive Board members that currently hold an elected or appointed city office may serve on the Board of Directors. Specifically, the Board of Directors consists of all members of the KLC Executive Board, 16 regional directors, four at-large directors, one director representing Louisville, one director representing Lexington, selected representatives of the governmental organizations recognized but not represented by the Executive Board, any past presidents who currently hold an elected office, and any past Executive Board member that currently holds an elected or appointed city office.

The KLC Board of Directors meets at least two times each year. One of the meetings is to be held during the KLC annual conference and the timing of the other meeting is decided by the President.

Elections of the directors and officers take place during the KLC annual convention. The Nominating Committee considers suggestions for nominees from the Executive Board, the Board of Directors, and KLC members. The Nominating Committee will nominate only one candidate for each position. This slate of nominees is provided to each KLC member no later than ten days before the first day of the annual convention. If there are no additional nominations from the floor, the slate of directors proposed by the Nominating Committee will be elected by majority vote of the delegates present and voting. If there are additional nominations, those positions with more than one candidate will be removed from the slate and a separate election will be conducted.

Except for the Executive Director/CEO, the officers do not receive compensation for their services. All officers, including the Executive Director/CEO, may be reimbursed for expenses actually incurred in the performance of their duties. The Executive Board establishes a reimbursement policy for officers, Executive Board, and Board of Director members.

KLC Affiliates and Services

The core member services have been expanded to meet the needs of its members. In 1978, KLC created the state's first workers' compensation self-insured group program. Because cities could not find affordable insurance, KLC consolidated its self-insured programs in 1987 to provide insurance services to cities and other municipal units of government. After the expansion to insurance services, KLC established other affiliated programs to provide loss-control services, financing opportunities, and an employee benefits program. These additional services are provided through a combination of unincorporated funds, non-profit organizations, and for-profit corporations. KLC is the parent company that serves as an administrator for all of the affiliate programs through administrative agreements. All staff are employed directly by KLC regardless of the affiliated program which they serve.

The following is a timeline of the creation of the affiliated organizations that provide services under KLC:

1987 – KLC Insurance Services (KLCIS)
1989 – KLC Municipal Finance Corporation (KLCMFC)
1992 – KLC Funding Trust
1995 – KLC Insurance Agency (KLCIA)
2000 – NewCities Institute (NewCities)
2003 – KLC Premium Financing Company (KLCPFC)

These organizations were established using three different methods. KLCIS and the KLC Funding Trust were established as unincorporated, non-profit governmental organizations through interlocal cooperative agreements, pursuant to KRS 65.210 – 65.300, by participating member cities. KLCMFC and NewCities were established as non-profit Kentucky corporations. KLCIA and KLCPFC are “for profit” Kentucky corporations that are owned by KLC as sole shareholder, and are included as subsidiaries in KLC’s audited financial statements.

All of the staff associated with the affiliated organizations are employees of the parent KLC organization. Each organization operates through an administrative agreement with KLC whereby KLC provides all of the organizations’ operational, management, and administrative services. Each organization’s administrative agreement determines how KLC is reimbursed for these services. NewCities, however, receives these services free of cost and considers these services as in-kind contributed services that are treated as both revenue and expense on the NewCities financial statements. Of the affiliated organizations, NewCities is the only one that allows its board to be comprised of members that are not elected or appointed city officials. The following sections describe these entities and the services each provides to the city members.

KLC Insurance Services (KLCIS)

KLC Insurance Services was established in April 1987 for the purpose of creating and operating various self-insurance and/or third-party insurance coverage to protect policyholders from public liability exposures. KLCIS is an unincorporated, non-profit association voluntarily established by the participating cities under the authorization of the Kentucky Interlocal Cooperation Act, KRS 65.210 – 65.300. KLCIS has a Certificate of Filing from KDOI, but is exempt from most statutory requirements that commercial insurers must follow. Membership in KLCIS is limited to those cities and urban county governments within Kentucky that are members in good standing with KLC, and those cities’ governmental boards, agencies, authorities, commissions, and institutions that qualify as “public agencies” per KRS 65.230.

KLCIS provides a complete line of competitive insurance to municipalities and agencies. In providing this insurance, KLCIS administers the KLC Worker’s Compensation Trust (KLCWCT) and the KLC Unemployment Compensation Reimbursement Trust (KLCURT). The following is the number of policyholders for each type of insurance provided by KLCIS as of September 1, 2009:

- Unemployment - 315 policyholders
- Liability - 384 policyholders
- Property - 330 policyholders
- Worker's compensation - 399 policyholders

KLCIS is operated by a nine member Board of Trustees. All board members must represent cities that participate in at least one of the insurance programs. One member must be a non-elected official, another member must be the KLC President, one member must be the First Vice President of KLC, and the remaining members are appointed by the KLC Board of Directors from the ranks of elected officials of member cities.

KLCIS and KLCWCT pay KLC an administrative fee based on a percentage of earned premiums and KLCURT pays the administrative fee based on the number of full-time employees covered. These fees are meant to reimburse KLC for staff salaries, office rent, technology usage, marketing and communications, and administrative oversight. These three entities bring in operating revenues of approximately $35 million each year in premiums and unemployment participant deposits. The following table illustrates the operating revenues generated by each type of insurance fund.

Table 2: Operating Revenues Generated by KLC Insurance Services

Operating Revenue	FY 2006	FY 2007	FY 2008
KLCIS	$19,523,457	$20,004,675	$20,715,925
KLCWCT	13,585,112	14,155,775	14,131,163
KLCURT	1,040,985	1,042,510	995,971
Totals	**$34,149,554**	**$35,202,960**	**$35,843,059**

Source: Audited financial statements of the corresponding insurance fund.

Each member of KLCIS is provided loss control and risk management services. The following types of benefits are made available by KLCIS:

- specialized publications, policy samples, and training videos;
- mediation and alternative dispute resolution;
- KLCIS Safety Grants for safety equipment and training;
- property inventories and structure valuations;
- sample law enforcement operating policies;
- police simulation training for decision-making and use of weapons;
- annual safety conference for supervisors and work leaders; and,
- online safety and health training.

Chapter 1
Introduction and Background

KLC Municipal Finance Corporation

In 1989, KLC formed the KLC Municipal Finance Corporation (KLCMFC) for the purpose of issuing tax-exempt bonds to finance or refinance member city projects. The corporation was established as an agent of the City of Danville that issued, on KLCMFC's behalf, $152 million in tax-exempt bonds so that the proceeds could be pooled and loaned to member cities.

KLCMFC's Articles of Incorporation state that no part of the net earnings are to benefit or be distributed to the board of trustees, officers, or employees. The corporation is only authorized to pay reasonable compensation for services rendered. As administrator to the program, KLC receives an ongoing fee of .25 percent of the principal amount of outstanding bonds. The board of directors for this corporation is selected by the KLC Executive Board. For FY 2009, the KLCMFC Board consisted of four officers from the KLC Executive Board, three other directors that are city officials, and KLC's Chief Insurance Services Officer as the board secretary.

KLC Funding Trust

Due to subsequent changes in bond pool regulations, KLC formed KLC Funding Trust in 1992 through an interlocal cooperative agreement. The KLC Funding Trust oversees a combination of many separate bond pools but primarily it serves the same function as KLCMFC, and KLC receives the same administration fee of .25 percent on any outstanding loan balances made through this program. KLC Funding Trust is overseen by the same board that oversees KLCMFC.

These funds are made available to cities for financing municipal public projects all across Kentucky. These projects include the construction of parks, fire stations, city halls, water and sewer systems, and other infrastructure. This program offers Kentucky cities low, tax-free interest rates with reduced issuance fees compared to the loan rates that the cities would be able to obtain as individual entities.

NewCities Institute

In 2002, NewCities was established as a separate 501(c)(3) non-profit corporation to research, study, educate, and innovate communities about civic engagement. According to the NewCities' Articles of Incorporation, "[t]he corporation may receive contributions and fees, and shall distribute its funds for public, charitable and educational purposes." The stated purposes of NewCities include improving local governance through the distribution of information and better communication between all levels of government, supporting activities to improve educational opportunities, and bringing the public and private sectors together in forums to enhance the quality of life in local communities.

According to NewCities By-Laws, its business and affairs are to be managed by a board of directors consisting of no more than 25 members. The board should consist of the Executive Director/CEO of KLC, the President of KLC, one person appointed by the KLC Executive Board, and up to 22 persons appointed by the NewCities Board of Directors (up to 11 are appointed in a year ending in an even number and up to 11 are appointed in a year ending in an odd number). Therefore, except for the KLC President, the Directors of the NewCities Board are not required to be elected or appointed city officials, unlike the boards of the other affiliated organizations. Similarly, the NewCities directors are not paid compensation for their services, but they may be reimbursed for any expenses incurred.

NewCities generates revenue from grants, contributions, and engagement fees. NewCities may contract with municipalities, educational, or other non-profit groups to facilitate meetings and provide guidance in soliciting and training local residents to recognize opportunities for and encourage participation in projects that may improve the standard of living in those local or regional areas. NewCities charges an engagement fee for providing those services.

The majority of NewCities revenues has come from in-kind contributions from KLC. According to NewCities' audited financial statements, KLC has provided 82 percent, 89 percent, and 80 percent of NewCities' total funding for fiscal years 2006, 2007, and 2008 respectively. The following table illustrates NewCities' funding sources:

Table 3: Revenue for NewCities Institute

NewCities Revenue and Other Support	**FY 2006**	**FY 2007**	**FY 2008**
In-Kind Contributions from KLC, Inc.	$922,187	$1,140,450	$1,190,109
Contributions	33,367	105,083	160,814
Program	77,652	42,602	126,242
Interest and Other	19,085	19,132	14,449
Grants	96,376	37,877	0
Total Support and Revenues	**$1,148,667**	**$1,345,144**	**$1,491,614**

Source: NewCities audited financial statements.

In July 2008, the Kentucky Partnership for Successful Schools (PSS) merged with NewCities. Prior to the merger, PSS was primarily funded by grants from corporations and charitable foundations. PSS was formed in 1992 and provides "research, policy development, public information campaigns and has worked directly with schools and school districts to improve student achievement."

PSS promotes several existing educational programs and supports the development of additional educational programs. For example, the Kentucky Scholars program works with school districts to ensure course offerings are providing the knowledge base required for students to enter the workforce whether that is via college level work or trade school. The One 2 One programs train volunteers to assist and mentor students who are struggling with reading and math skills.

The merger of NewCities and PSS was promoted as an opportunity to improve student achievement, thereby improving Kentucky as a whole. PSS would assist NewCities in achieving its education mission and NewCities would provide access and experience with city leadership.

Chapter 1

Introduction and Background

KLC Insurance Agency, Inc.

The KLC Insurance Agency, Inc. (KLCIA) was incorporated as a Kentucky for-profit agency in December 1995 to transact business as an insurance agency. KLC is its sole stockholder, owning 100 percent of the outstanding common stock. KLCIA sells health, life, and bonding insurance to municipalities in the Commonwealth of Kentucky and markets the insurance services offered by KLCIS. KLCIS pays a commission to KLCIA for member accounts marketed or serviced by KLCIA. Commission expense paid to KLCIA by KLCIS was $1,073,462, $1,101,666, and $974,075 for the years ended June 30, 2006, 2007, and 2008, respectively.

The KLCIA Board of Directors is comprised of the KLC President as a non-voting member, the KLC First Vice-President, and three remaining directors appointed by the KLC Executive Board. For FY 2009, the KLCIA Board consisted of three officers from the KLC Executive Board (including the KLC Executive Director/CEO), two other directors from the Executive Board, one city official, and KLC's Chief Insurance Services Officer as the board secretary.

KLC Premium Financing Company, Inc.

The KLC Premium Finance Company, Inc. is another subsidiary of KLC that was incorporated as a Kentucky for-profit corporation in March 2003. This corporation was created to finance insurance premiums for member cities that purchase property, liability, and workers compensation insurance through KLCIS. KLC is its sole stockholder and contributed $200,000 in capital to KLCPFC at its inception.

The KLCPFC is governed by a board of directors consisting of the KLC President and First Vice President, who serve as non-voting members, and three (may be increased or decreased) remaining directors appointed by the Executive Board. For FY 2009, the KLCPFC Board consisted of the same board members as the KLCIA except that KLC's Chief Insurance Services Officer was not listed as the board secretary.

Financial Information

All financial statement information for KLC and its two subsidiaries, KLCIA and KLCPFC, is provided in the audited financial statements prepared each year for the KLC Board. KLC operates using a fiscal year period that begins July 1 and ends June 30. The most recent audit report was produced by the CPA firm, Mountjoy and Bressler, LLP, for FY 2008. This firm also conducted the audit for FY 2007.

The financial statement reports provide an accounting of the amount and sources of KLC revenue and the amount and types of expenses incurred during each year. Much of the following financial information was obtained through these audit reports. Mountjoy and Bressler have not yet issued audited financial information for FY 2009.

KLC Sources of Revenue

In FY 2008, 87 percent of KLC revenue came from the administrative fees and commissions paid by the insurance and financial programs administered by KLC staff. The remaining revenue sources of membership dues, interest, and conference revenue, account for only 13 percent of KLC's total revenue. The financial information for FY 1998 supports that KLC's revenue structure was similar with 81 percent of total revenues being generated by the KLC insurance and financial programs.

The following table compares the most recent revenue from FY 2008 to the revenue from FY 1998, demonstrating that the revenue has increased 155 percent from FY 1998 through FY 2008.

Table 4: KLC Revenue Source Comparison Between FY 1998 and FY 2008

Revenue Category	FY 1998	FY 2008	Increase/ (Decrease)	Percentage Increase/ (Decrease)
Administrative Fee – KLCIS	$794,874	*$3,765,466	$2,970,592	374%
Administrative Fee – KLCWCT	1,068,475	*2,184,535	1,116,060	104%
Administrative Fee – KLCUCRT	44,139	126,996	82,857	188%
Administrative Fee - KLCMFC	986,831	753,596	(233,235)	(24%)
Commissions (primarily from KLCIA)	612,628	2,774,549	2,161,921	353%
Member Dues	322,581	430,512	107,931	33%
Conference Income	297,810	280,825	(16,985)	(6%)
Premium Finance Revenue	0	189,427	189,427	N/A
Other Income	13,513	116,566	103,053	763%
Publication Income	17,716	8,620	(9,096)	(51%)
Net Investment (Non-Operating) Income	154,464	355,011	200,547	130%
Total Revenue	**$4,313,031**	**$10,986,103**	**$6,673,072**	**155%**

Source: Auditor of Public Accounts based on the audited financial statements prepared by an outside auditing firm for KLC and Subsidiaries. See Exhibit 1 for additional revenue information for fiscal years 1999 through 2007.
* Does not agree to the FY 2008 audited financial statements due to an error in those statements.

The significant increases in KLC revenue resulted from an increased amount of administrative fees paid by KLCIS and its related insurance trust programs, KLCWCT and KLCURT, and the commissions earned by the KLC insurance agency subsidiary KLCIA. KLCIS and KLCWCT pay the administrative fee based on a percentage of earned premiums and KLCURT pays the administrative fee based on the number of full time employees covered. KLCIA markets KLCIS insurance and other insurance products to the KLC member cities. Therefore, the increased revenue is a product of increased insurance premiums and increased marketing efforts of KLCIA.

KLC Expenditures

Since KLC provides, per service agreements, all of the personnel and administrative support for the affiliated organizations and subsidiaries, the expenses reported by KLC include all the operating costs associated with those organizations. In FY 2008, salaries, retirement, employee benefits, and payroll taxes accounted for 72 percent of KLC total expenditures. The 2008 $1,190,109 in-kind contribution to NewCities includes $960,000 of salary and benefits cost incurred by KLC on behalf of NewCities. Similar payroll-type expenditures in FY 1998 accounted for only 55 percent of total KLC expenditures, a smaller proportion of personnel costs.

For the period FY 1998 through FY 2008, KLC expenditures increased at a higher rate than revenues. In fact, a net loss was reported in FY 2008. Payroll costs experienced a significant increase and accounted for a larger percentage of total expenditures. The following table compares the most recent expenditures from FY 2008 to the expenditures from FY 1998, demonstrating how expenditures have increased 202 percent from FY 1998 through FY 2008.

Table 5: KLC Expense Comparison Between FY 1998 and FY 2008

KLC Expense Category	FY 1998	FY 2008	Increase/ (Decrease)	Percentage Increase/ (Decrease)
Salaries	$1,689,026	$5,245,487	$3,556,461	211%
In-kind Contributions to NewCities		*1,190,109	1,190,109	N/A
Retirement		996,843	996,843	N/A
Deferred Compensation	162,743		(162,743)	N/A
Employee Benefits	174,746	841,166	666,420	381%
Payroll Taxes	122,692	418,018	295,326	241%
Depreciation	146,758	593,276	446,518	304%
Travel	151,833	457,460	305,627	201%
Other Expenses	248,781	403,880	155,099	62%
Meetings	437,403	322,465	(114,938)	(26%)
Professional Services	263,366	318,870	55,504	21%
Office Supplies	69,013	104,878	35,865	52%
Legislative Services	80,429	98,338	17,909	22%
Telephones	95,100	90,750	(4,350)	(5%)
Dues	37,754	65,019	27,265	72%
Postage	50,993	54,075	3,082	6%
Bond Administration	40,361	28,345	(12,016)	(30%)
Publications	90,039	23,040	(66,999)	(74%)
Repair and Maintenance	43,966		(43,966)	N/A
KLCPFC Finance Expenses		89,995	89,995	N/A
Building Management		236,583	236,583	N/A
Program Development		202,453	202,453	N/A
Totals	**$3,905,003**	**$11,781,050**	**$7,876,047**	**202%**

Source: Auditor of Public Accounts based on the audited financial statements prepared by an outside auditing firm for KLC and Subsidiaries. See Exhibit 1 for additional expense information for fiscal years 1999 through 2007.
* Includes $960,365 of salary and benefits expense incurred by KLC on behalf of NewCities. The gross amount of the in-kind contribution was $1,315,109, which has been reduced by a $125,000 cash transfer from NewCities to KLC.

Other significant increases occurred in Depreciation and Travel expenses. Depreciation expense increased during this time period due to the purchase of an office building in January 2000. Travel expenditures include costs related to airfare, land transportation, lodging, and meals.

KLC Net Assets

In comparing total revenue and expenditures of KLC each year, revenues typically exceeded expenses until FY 2006. Due to timing and accounting methods, this difference does not necessarily indicate an actual surplus of funds or a lack of funds. According to the Management's Discussion and Analysis section of the audited financial statements for FY 2008, KLC earnings from investments decreased approximately 145 percent from the prior year due primarily to market conditions.

From FY 1998 until FY 2008, KLC total assets have increased significantly primarily due to the purchase of an office building and other investments. The following table illustrates the increased asset categories for KLC during this time period.

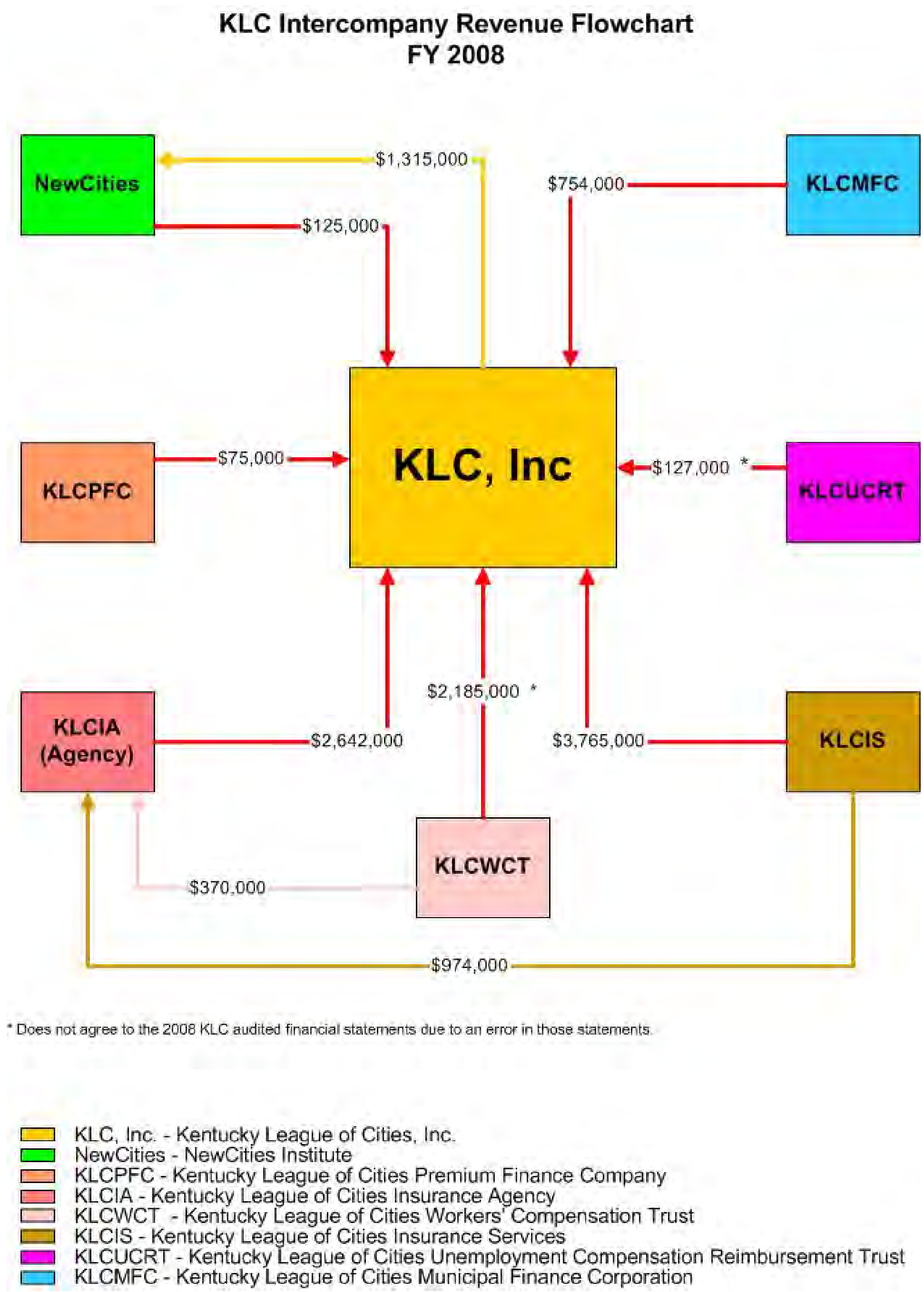
Table 6: KLC Assets Comparison Between FY 1998 and FY 2008

ASSETS (Does not include assets of affiliate programs)	**FY 1998**	**FY 2008**	**Increase/ (Decrease)**	**Percentage Increase/ (Decrease)**
Current Assets:				
Cash and Cash Equivalents	$1,246,929	$2,254,590	$1,007,661	81%
Accounts Receivable	469,312	255,236	(214,076)	(46%)
Investments	1,620,648	4,028,437	2,407,789	149%
Prepaid Expenses	46,293	307,383	261,090	564%
Deposits held by trustee for debt service		66,278	66,278	N/A
Premiums Receivable		173,422	173,422	N/A
Due from related parties, current portion		1,582,027	1,582,027	N/A
Total Current Assets	**$3,383,182**	**$8,667,373**	**$5,284,191**	**156%**
Fixed Assets:				
Land		674,175	674,175	N/A
Buildings		6,427,420	6,427,420	N/A
Furniture and Equipment	697,721	2,578,752	1,881,031	270%
Leasehold Improvements	439,738		(439,738)	N/A
Capital Improvements		4,096,331	4,096,331	N/A
Less: Accumulated Depreciation	(472,520)	(4,037,269)	(3,564,749)	754%
Total Fixed Assets	**$664,939**	**$9,739,409**	**$9,074,470**	**1,365%**
Other Assets:	10,125	0	(10,125)	N/A
Total Assets	**$4,058,246**	**$18,406,782**	**$14,348,536**	**354%**

Source: Auditor of Public Accounts based on the audited financial statements prepared by an outside auditing firm for KLC and Subsidiaries.

Cash Flow Between KLC and its Subsidiaries and Affiliated Organizations

The following chart demonstrates the flow of funds between KLC and the related entities that it administers. Most of these funds are administrative fees and commissions that were discussed previously. Others are the payments between the related entities as evidenced in the audited financial statements of those entities.



Source: APA based on Information from KLC.
KLC provided NewCities an in-kind contribution of $1,315,000.

Chapter 2
Analysis of Credit Card Expense and Reimbursement Transactions

Throughout the course of this examination, the APA requested and analyzed financial records maintained by KLC for the examination period of July 1, 2006 through June 30, 2009. KLC provided financial records including credit card statements, expense reimbursement documents, and internally prepared reports, such as a vendor check listing, as well as supporting documentation for transactions when available. Audit team members interviewed thirty KLC staff members in order to obtain further details related to specific transactions identified during the analysis of transactions. In response to questions posed by the audit team during the interview process, several KLC staff members provided copies of their work calendars or training schedules. Auditors compared the events noted on the calendars and schedules to certain transaction activity in an effort to confirm the purchases were business-related.

The scope of the analysis of all transactions identified on the credit card statements and expense reimbursement documents for the examination period included, but was not limited to, the following objectives:

- Analyze all credit card and reimbursement transactions for KLC staff members who possessed the means and authority to directly initiate purchases to determine whether these transactions had sufficient supporting documentation, a clear business purpose, and were not excessive in nature; and,
- Report findings and recommendations related to these and other matters as identified during the examination.

All transactions that did not meet the criteria of the objective above were classified into one of two categories: (1) transactions that had inadequate supporting documentation, had an unclear business purpose, or were excessive in nature; and (2) transactions with no supporting documentation. Transactions were classified as having inadequate supporting documentation when, based on the documentation provided, it could not be positively determined what was purchased or did not provide sufficient transaction detail. In several instances, non-itemized receipts, purchase orders, and emails were provided as supporting documentation, none of which could directly identify, with certainty, what was being purchased. Transactions were classified as being excessive or having an unclear business purpose when the purchase appeared to be excessive or unusual in nature or, given the type of supporting documentation provided, the appropriateness of the purchase could not be clearly linked to a business-related purpose. Finally, transactions were classified as having no supporting documentation when documentation was not available to justify the expense. In some instances, transactions lacking proper supporting documentation could be allowable; however, the lack of proper documentation made it impossible for the audit team to make such a determination.

For the purposes of this report, the APA summarized the results of this transaction analysis individually for the three KLC Executive Staff. The title of these Executive Staff positions are the Executive Director/CEO, the Deputy Executive Director, and the Chief Insurance Services Officer. In addition, the results of the analysis for all remaining staff members who initiated purchases are summarized.

Chapter 2
Analysis of Credit Card Expense and Reimbursement Transactions

The following schedules are provided in sets of four for each of the three individuals and collectively for the remaining staff members. Each set of schedules consists of: (1) a summary analysis of credit card transactions; (2) examples of credit card transactions that lacked documentation, business purpose, or that appeared excessive; (3) a summary analysis of reimbursements; and (4) examples of reimbursements that lacked documentation, business purpose, or that appeared excessive.

At the conclusion of this chapter, two tables are presented to provide a grand total summary of the analysis of credit card transactions and reimbursements for all relevant employees during the examination period.

Also, for each of the three individuals and the remaining staff members as a whole, appendices to this report provide a detailed listing, by fiscal year, of all transactions, from both credit cards and reimbursements, categorized as having no or insufficient documentation, presenting an unclear business purpose, or appearing excessive in nature.

Executive Director/CEO

As illustrated in Table 7, approximately 22.21 percent of the Executive Director/CEO's credit card transactions had no supporting documentation, inadequate documentation, an unclear business purpose, or was considered excessive. Examples provided in Table 8, demonstrate the types of credit card expenses that fell into each of these categories. The examples include charges for cosmetics, a $4,200 storytelling workshop in Colorado, and over $6,300 for extra hotel nights and registration fees in Louisville with no known business purpose. The entire listing of all credit card charges considered to have no supporting documentation, inadequate documentation, an unclear business purpose, or appears excessive can be found in Appendix 1.

Table 7: Summary Analysis of Credit Card Transactions for Executive Director/CEO

Fiscal Year	Total Credit Card Expenditures	Unclear Business Purpose, Inadequate Documentation, or Excessive	Percent of Total Credit Card Expenditures	No Supporting Documentation	Percent of Total Credit Card Expenditures
2007	$99,111.75	$2,639.58	2.66%	$20,131.36	20.31%
2008	$102,203.59	$17,356.76	16.98%	$9,472.46	9.27%
2009	$71,884.10	$8,278.68	11.52%	$2,791.14	3.88%
Totals	**$273,199.44**	**$28,275.02**	**10.35%**	**$32,394.96**	**11.86%**

Table 8: Examples of Credit Card Expenditures with an Unclear Business Purpose, Inadequate Documentation, Excessive, or No Supporting Documentation for Executive Director/CEO

Transaction Date	Vendor Name	Vendor Location	Expenditure Amount	Description
7/27/2006	Borders Books, Music, & Café	Unknown	$10.06	Newspaper & Pink Pussycats Notebook
9/6/2006	Walgreens	Tucson, AZ	$55.43	Cosmetics - make up, blush, eyeshadow, mascara, eye liner, and concealer

Transaction Date	Vendor Name	Vendor Location	Expenditure Amount	Description
10/8/2006	Joseph-Beth Booksellers	Lexington, KY	$7.16	2 magazines
11/13/2006	Images Model Agency	Lexington, KY	$95.00	Unknown; Note says TV Marketing & Image Consulting
12/24/2006	Leather Inc	Lexington, KY	$221.43	Unknown - No Receipt
1/2/2007	Amazon.com	Unknown	$31.04	Unknown - No Receipt
1/28/2007	Hyatt Regency	Washington, D.C.	$370.69	One Night Stay; No Purpose
2/17/2007	Surrey Hotel	New York, NY	$301.14	One Night Stay; Employee; No Purpose
2/17/2007	Surrey Hotel	New York, NY	$446.77	One Night Stay; Employee; No Purpose
6/6/2007	Hyatt Bellevue	Bellevue, WA	$437.23	One Night Stay; No Purpose
7/10/2007	Greater Louisville, Inc.	Louisville, KY	$6,336.00	Extra Hotel Nights/Registration Fees; No Purpose
7/12/2007	CSA Travel Protection	Unknown	$396.74	Travel Insurance; Employee; No Purpose
7/29/2007	The Grand Hotel	Mackinac Island, MI	$1,824.50	Four Nights Stay; Employee and Spouse (Other employee on same trip paid $517.18 per night)
9/1/2007	Doug Stevenson Story Theater International	Colorado Springs, CO	$4,200.00	Storytelling workshop
11/15/2007	Marriott	New Orleans, LA	$240.88	One Night Stay; Employee; No Purpose
11/19/2007	Hilton	New Orleans, LA	$1,016.67	Three Nights Stay; Employee; No purpose given
11/30/2007	Harry and David	Unknown	$244.28	Gifts for 4 Kentucky Mayors
11/30/2007	Residence Inn Marriott	Colorado Springs, CO	$327.36	Three Nights Stay; Employee; No purpose given
12/17/2007	Off Broadway Costumes	Lexington, KY	$40.28	Unknown - No Receipt
1/14/2008	Renaissance – St. Petersburg	St. Petersburg, FL	$380.82	Unknown; Receipt does not agree to credit card statement
1/20/2008	UV3 Topanga	Atlanta, GA	$5.35	Unknown
2/24/2008	The Fairmont Hotel	San Francisco, CA	$1,061.66	Lodging; Receipt does not agree to credit card statement
9/12/2008	21C Museum Hotel	Louisville, KY	$296.69	One Night Stay; Meals; No Purpose
9/24/2008	Delta Air Lines	Unknown	$551.50	Passenger Ticket; Employee; No Purpose
9/29/2008	Bigg Blue Martini	Lexington, KY	$12.48	Unknown - Meals; 1 Employee, 1 Companion
10/23/2008	Sweet Water Saloon	San Diego, CA	$29.00	Unknown - No Receipt
10/29/2008	boxofficetickets.com	Unknown	$438.00	2 Tickets to the Bluegrass Ball and 4 memberships for the Kentucky Society Membership Program - 2009 Memberships

Transaction Date	Vendor Name	Vendor Location	Expenditure Amount	Description
11/13/2008	Harry & David	Unknown	$241.72	Deluxe Holiday Gift Tower for 4 Executive Board Officers
11/26/2008	Delta Air Lines	West Palm Beach, FL	$716.50	Passenger Ticket; Employee; Purchased same flight plan for same employee twice
12/2/2008	Delta Air Lines	West Palm Beach, FL	$705.05	Passenger Ticket; Employee; Purchased same flight plan for same employee twice
2/6/2009	Hyatt Hotels	Unknown	$71.08	Unknown
2/18/2009	Delta Air Lines	Unknown	$501.40	Unknown

According to Table 9, approximately 93.73 percent of the Executive Director/CEO's expense reimbursements had no supporting documentation, inadequate documentation, an unclear business purpose, or was considered excessive. Table 10 provides examples of the types of reimbursements included in these categories. Of particular note is a $1,900 expense for Breeder's Cup tickets for the Executive Director/CEO, Deputy Executive Director, and their spouses. Also included is $1,000 for two people to attend a Derby Soiree and one night stay in New York for $449. All other reimbursements with no supporting documentation, inadequate documentation, an unclear business purpose, or considered excessive can be found at Appendix 1.

Table 9: Summary Analysis of Reimbursements for Executive Director/CEO

Fiscal Year	Total Reimbursements	Unclear Business Purpose, Inadequate Documentation, or Excessive	Percent of Total Reimbursements	No Supporting Documentation	Percent of Total Reimbursements
2007	$2,903.04	$2,820.04	97.14%	$83.00	2.86%
2008	$2,815.85	$2,658.78	94.42%	$33.08	1.17%
2009	$410.27	$116.23	28.33%	$33.72	8.22%
Total	**$6,129.16**	**$5,595.05**	**91.29%**	**$149.80**	**2.44%**

Note: 2007 exceeds total reimbursements because she netted off expenditures to what she owed to KLC. $2,418 is the actual amount of money she was paid back for reimbursement.

Table 10: Examples of Reimbursements with an Unclear Business Purpose, Inadequate Documentation, Excessive, or No Supporting Documentation for Executive Director/CEO

Transaction Date	Vendor Name	Vendor Location	Expenditure Amount	Description
8/4/2006	Unknown	Unknown	$78.00	Meal; Unknown Attendees
8/30/2006	Panera Bread	Lexington, KY	$2.63	Meal
9/6/2006	The Paradies Shops	Louisville, KY	$2.89	2 York Patties; 1 New York Times
11/6/2006	Churchill Downs	Louisville, KY	$1,900.00	4 tickets to the Breeder's Cup for Exec. Director and spouse and Deputy Exec. Director and spouse

Transaction Date	Vendor Name	Vendor Location	Expenditure Amount	Description
4/12/2007	Panera Bread	Lexington, KY	$0.94	Meal
4/22/2007	Faustos Food Palace	Key West, FL	$9.57	1 New York Times Sunday; Merit Ultra Light Round Box
8/3/2007	Unknown	Unknown	$17.08	Unknown
10/27/2007	Affimia Manhattan	New York, NY	$449.00	One Night Stay
5/1/2008	Derby Soiree	Meal	$1,000.00	Two Tickets to the Derby Soiree for Employee and Spouse

Deputy Executive Director

As noted in Table 11, approximately 39.82 percent of the Deputy Executive Director's credit card transactions reviewed had no supporting documentation, inadequate documentation, an unclear business purpose, or was considered excessive. Table 12 contains examples of expenditures placed in these categories. Examples include a stay in Mackinac Island in the amount of $2,004.96 for a four nights stay and five meals, a $1,240 charge at Charleston Place in Charleston, SC for a three nights stay, two meals, refreshments and spa charges. Also noted is a December 7, 2006 charge for meals in Reno, NV in the amount of $948.82 with an unknown purpose and for unknown attendees. The complete list of credit card expenses categorized as no supporting documentation, inadequate documentation, an unclear business purpose, or considered excessive can be found in Appendix 2.

Table 11: Summary Analysis of Credit Card Transactions for Deputy Executive Director

Fiscal Year	Total Credit Card Expenditures	Unclear Business Purpose, Inadequate Documentation, or Excessive	Percent of Total Credit Card Expenditures	No Supporting Documentation	Percent of Total Credit Card Expenditures
2007	$27,041.74	$8,301.81	30.70%	$2,205.49	8.16%
2008	$31,925.05	$11,618.69	36.39%	$2,878.06	9.02%
2009	$28,053.45	$8,682.28	30.95%	$961.85	3.43%
Totals	**$87,020.24**	**$28,602.78**	**32.87%**	**$6,045.40**	**6.95%**

Table 12: Examples of Credit Card Expenditures with an Unclear Business Purpose, Inadequate Documentation, Excessive, or No Supporting Documentation for Deputy Executive Director

Transaction Date	Vendor Name	Vendor Location	Expenditure Amount	Description
7/12/2006	Kroger	Shelbyville, KY	$35.10	Unknown- No Receipt
8/13/2006	University Club	Lexington, KY	$125.00	Green Fees; Carts
8/17/2006	Valentino's Ristorante	Nashville, TN	$306.11	Meal- Unknown Attendees
9/6/2006	Bellini's	Lexington, KY	$65.12	Meal- 3 Employees
9/7/2006	A La Lucie	Lexington, KY	$51.30	Meal- 4 Employees
9/13/2006	A La Lucie	Lexington, KY	$45.00	Meal- 3 Employees
10/12/2006	Charleston Place	Charleston, SC	$1,240.10	Three Night Stay; 2 Meals; Refreshments; Spa Charge ($53.25)

Transaction Date	Vendor Name	Vendor Location	Expenditure Amount	Description
11/20/2006	Marriott	Lexington, KY	$44.84	Meal- 2 Employees, 1 Spouse
12/7/2006	Beaujolais Bistro	Reno, NV	$948.82	Meal- Unknown Attendees
12/14/2006	Durango	Lexington, KY	$20.89	Meal- 2 Employees
12/14/2006	Durango	Lexington, KY	$69.04	Meal- 7 Employees
1/18/2007	Marriott	New Orleans, LA	$730.88	Three Night Stay and "Lobby Bar"; Unknown Purpose for Trip
3/29/2007	Shingle Creek Golf Club	Orlando, FL	$276.92	Four Twilight Green Fees
4/4/2007	Steak n Shake	Lexington, KY	$10.65	Meal
4/21/2007	Marriott	San Antonio, TX	$493.18	Three Night Stay; One Meal
5/18/2007	Morton's	San Juan, Puerto Rico	$410.28	Meal- Unknown Attendees
5/19/2007	Baru Restarante	San Juan, Puerto Rico	$316.90	Meal- Unknown Attendees
5/23/2007	Bellini's	Lexington, KY	$75.60	Meal- 2 Employees
5/24/2007	Bellini's	Lexington, KY	$59.32	Meal- 3 Employees
5/31/2007	Carbie Hilton	San Juan, Puerto Rico	$65.00	Unknown- No Receipt
7/10/2007	Jonathan's Gratz Park	Lexington, KY	$116.67	Meal- 9 Employees
7/29/2007	Grand Hotel	Mackinac Island, MI	$2,004.96	Four Night Stay- $517.18 per night; Five Meals
8/22/2007	Azur Restaurant & Patio	Lexington, KY	$822.90	Meal- KLCIS Dinner
8/30/2007	Vincenzos	Louisville, KY	$790.20	Meal- 5 Employees, 2 Board Members
9/6/2007	Bone's	Atlanta, GA	$375.80	Meal- 1 Employee, 2 Board Members
9/12/2007	Macaroni Grill	Louisville, KY	$755.30	Meal- Unknown Attendees
10/12/2007	BellSouth Home Internet Service	Unknown	$42.95	Monthly Internet Service
10/28/2007	Stockyards Restaurant	Nashville, TN	$602.45	Meal- 3 Employees, 2 Others
11/1/2007	Renaissance	Nashville, TN	$673.72	Three Night Stay; "Club Lounge"
11/14/2007	Galatoire's	New Orleans, LA	$1,157.32	Meal; Unknown Attendees
12/9/2007	Hotel Contessa	San Antonio, TX	$1,201.65	Five Night Stay and "Cork Bar"
4/18/2008	Turf Catering	Lexington, KY	$159.89	Keeneland
9/20/2008	Carmichael's Bookstore	Louisville, KY	$118.00	Four Books
11/17/2008	Marriott	New Orleans, LA	$1,409.41	Lodging; Phone Charge; Meals; Unknown Purpose for trip
5/7/2009	Vincenzo's	Louisville, KY	$1,161.55	Meal- 3 Employees, 7 Board Members, 4 Spouses, 1 Vendor

Chapter 2
Analysis of Credit Card Expense and Reimbursement Transactions

As noted in Table 13, approximately 36.67 percent of the Deputy Executive Director's expense reimbursements reviewed had no supporting documentation, inadequate documentation, an unclear business purpose, or was considered excessive. Table 14 contains examples of expenditures placed in these categories. Of note, is a $324 expense for six Kentucky Oaks tickets and a charge for UK season tickets in the amount of $1,404. The complete list of reimbursements categorized as no supporting documentation, inadequate documentation, an unclear business purpose, or considered excessive can be found in Appendix 2.

Table 13: Summary Analysis of Reimbursements for Deputy Executive Director

Fiscal Year	Total Reimbursements	Unclear Business Purpose, Inadequate Documentation, or Excessive	Percent of Total Reimbursements	No Supporting Documentation	Percent of Total Reimbursements
2007	$8,229.61	$3,061.28	37.20%	$4,008.79	48.71%
2008	$10,048.38	$0.00	0.00%	$0.00	0.00%
2009	$3,688.70	$912.50	24.74%	$72.00	1.95%
Total	**$21,966.69**	**$3,973.78**	**18.09%**	**$4,080.79**	**18.58%**

Table 14: Examples of Reimbursements with an Unclear Business Purpose, Inadequate Documentation, Excessive, or No Supporting Documentation for Deputy Executive Director

Transaction Date	Vendor Name	Vendor Location	Expenditure Amount	Description
7/21/2006	Unknown	Unknown	$8.79	Unknown Purchase
10/26/2006	Cash	Unknown	$4,000.00	Check made to cash used as documentation; Memo line says UK Basketball Tickets
11/17/2006	Churchill Downs	Louisville, KY	$324.00	6 Oaks Tickets- 2nd Floor Grandstand
2/21/2007	Panera Bread	Unknown	$14.80	Meal - 2 Attendees
4/2/2007	University of Kentucky Athletic Association	Lexington, KY	$1,404.00	UK Season Tickets

Chief Insurance Services Officer

As shown in Table 15, approximately 47.91 percent of the Chief Insurance Services Officer's credit card transactions reviewed had no supporting documentation, inadequate documentation, an unclear business purpose, or was considered excessive. All transactions fitting these categories can be found at Appendix 3. Examples are provided in Table 16 and include five meals each exceeding $1,000 with the highest over $4,200. In addition, the examples include a purchase for "golf supplies" totaling $858 with no business purpose or beneficiary noted.

Table 15: Summary Analysis of Credit Card Transactions for Chief Insurance Services Officer

Fiscal Year	Total Credit Card Expenditures	Unclear Business Purpose, Inadequate Documentation, or Excessive	Percent of Total Credit Card Expenditures	No Supporting Documentation	Percent of Total Credit Card Expenditures
2007	$67,952.45	$29,254.48	43.05%	$4,574.72	6.73%
2008	$46,546.68	$20,933.21	44.97%	$3,743.64	8.04%
2009	$48,541.77	$18,704.83	38.53%	$904.39	1.86%
Totals	**$163,040.90**	**$68,892.52**	**42.25%**	**$9,222.75**	**5.66%**

Table 16: Examples of Credit Card Expenditures with an Unclear Business Purpose, Inadequate Documentation, Excessive, or No Supporting Documentation for Chief Insurance Services Officer

Transaction Date	Vendor Name	Vendor Location	Expenditure Amount	Description
6/12/2006	Strip Club Diamond Cabaret	Las Vegas, NV	$80.00	Entertainment - 3 Employees, 1 Vendor
6/14/2006	Zingers	Las Vegas, NV	$45.55	Meal with Alcohol; 3 Employees
8/9/2006	Bellini's	Lexington, KY	$1,365.90	Meal - Unknown Attendees
8/17/2006	Tim Dudley Golf Sales	Bronston, KY	$858.00	Golf supplies
8/30/2006	Ticketmaster	Unknown	$202.45	Unknown- No Receipt
10/26/2006	Keeneland - Phoenix Room	Lexington, KY	$812.91	Entertainment - Unknown Attendees
10/26/2006	Keeneland - Phoenix Room	Lexington, KY	$323.22	Entertainment - Unknown Attendees
11/4/2006	Delaware North Companies	Austin, TX	$33.73	Unknown Purchase
3/14/2007	International Spy Museum	Washington, D.C.	$48.00	Entertainment - 3 Employees
4/19/2007	Lyndon B Johnson National Historic Park	Johnson City, TX	$51.00	Unknown Purchase; Finance Board Field Trip
4/21/2007	Liquor Barn	Lexington, KY	$297.51	Liquor ($96.79), Party Supplies, Food; Derby Party
5/6/2007	Amelia Island Resort	Amelia Island, FL	$1,140.08	Beach Club charges (4-$1,021.45); Multiple charges to the Amelia Inn ($115.10); M&Ms ($3.53)
5/11/2007	Azur Restaurant & Patio	Lexington, KY	$929.81	Meal - Unknown Attendees
5/13/2007	Azur Restaurant & Patio	Lexington, KY	$687.73	Meal - Unknown Attendees
6/7/2007	Azur Restaurant & Patio	Lexington, KY	$505.24	Meal - 4 Employees, 1 Spouse, 1 NLC Member
7/5/2007	Azur Restaurant & Patio	Lexington, KY	$41.07	Meal - 2 Employees, 1 Spouse, 1 Other
8/21/2007	Azur Restaurant & Patio	Lexington, KY	$2,343.78	Meal - Unknown Attendees; Retirement Party
11/5/2007	Bellini's	Lexington, KY	$110.22	Meal - 4 Employees, 1 Board Member Spouse
11/12/2007	Pat O'Briens Bar	New Orleans, LA	$18.00	Unknown- No Receipt
11/14/2007	LeBooze @ Royal Sonesta Hotel	New Orleans, LA	$18.00	Unknown Purchase

Transaction Date	Vendor Name	Vendor Location	Expenditure Amount	Description
12/12/2007	Azur Restaurant & Patio	Lexington, KY	$562.06	Meal - 3 Employees, 1 Spouse, 1 Other
2/6/2008	Azur Restaurant & Patio	Lexington, KY	$242.20	Meal - Unknown Attendees
2/6/2008	Azur Restaurant & Patio	Lexington, KY	$1,347.66	Meals - 5 Attendees; "Trustee Meeting"
3/13/2008	Hilton Hotel	Washington, D.C.	$12.66	Gift Shop Purchase; Local Phone charge
4/27/2008	USS Midway	San Diego, CA	$30.00	Two Adult General Admin; 1 Employee, 1 Vendor
5/1/2008	Hotel del Coronado - CA	San Diego, CA	$1,970.22	Five Night Stay- $304/night; Meals
6/4/2008	Generation Why	Unknown	$40.00	Unknown Purchase
8/8/2008	Galvin's	Georgetown, KY	$15.32	Unknown Purchase; Amount on receipt differs from credit card statement
9/6/2008	Kroger	Georgetown, KY	$54.52	Unknown- No Receipt
9/19/2008	Levy Golf	Chicago, IL	$32.50	Unknown Purchase- 2 Employees
12/12/2008	NTW	Georgetown, KY	$579.55	Tires; Handwritten note-Loss Control; No Vehicle Description on receipt
12/17/2008	Azur Restaurant & Patio	Lexington, KY	$2,568.71	Meal - 11 Attendees; Retirement Party; $424 Tip
4/10/2009	Best Buy	Fultondale, AL	$141.87	iPod Connecter, GPS case, GPS mount
5/6/2009	Jeff Ruby's Louisville	Louisville, KY	$4,236.20	Meals - Unknown Attendees; KLCIS Board Dinner
5/11/2009	A La Lucie	Lexington, KY	$81.37	Meal - 3 Employees, 1 Board Member Spouse, 1 Other

As highlighted in Table 17, approximately 42.18 percent of the reimbursements were classified as having inadequate documentation, an unclear business purpose, or appeared excessive. All the Chief Insurance Services Officer’s expense reimbursements reviewed had some form of supporting documentation. Featured in Table 18 are examples of these reimbursements, two of which are for football season tickets and related costs totaling over $1,800. The total of these two examples makes up the majority of reimbursements classified as having inadequate documentation, an unclear business purpose, or appeared excessive for this staff member. Appendix 3 contains the full listing of the reimbursements classified as such.

Table 17: Summary Analysis of Reimbursements for Chief Insurance Services Officer

Fiscal Year	Total Reimbursements	Unclear Business Purpose, Inadequate Documentation, or Excessive	Percent of Total Reimbursements	No Supporting Documentation	Percent of Total Reimbursements
2007	$2,935.50	$1,344.22	45.79%	$0.00	0.00%
2008	$1,955.93	$1,055.00	53.94%	$0.00	0.00%
2009	$796.27	$0.00	0.00%	$0.00	0.00%
Total	**$5,687.70**	**$2,399.22**	42.18%	**$0.00**	**0.00%**

Table 18: Examples of Reimbursements with an Unclear Business Purpose, Inadequate Documentation, Excessive, or No Supporting Documentation for Chief Insurance Services Officer

Transaction Date	Vendor Name	Vendor Location	Expenditure Amount	Description
9/15/2006	Larry's Detail Shop	Unknown	$140.00	Detail 2005 Avalon- Chief Insurance Services Officer
3/28/2007	UK Athletics Association	Lexington, KY	$852.00	UK Football Season Tickets, RV Parking, Processing Fee
11/17/2007	Unknown	New Orleans, LA	$75.00	New Orleans Entertainment
4/21/2008	UK Athletic Association	Lexington, KY	$980.00	UK Football Season Tickets

All Other Employees

As demonstrated in Table 19, 21.76 percent of all other KLC staffs' credit card transactions reviewed had no supporting documentation, inadequate documentation, an unclear business purpose, or was considered excessive. Appendix 4 contains all transactions classified in these categories and Table 20 provides examples. Included in the examples are a $585 retirement gift for an employee, two gaming systems, a $2,600 party at a baseball game, and 500 copies of the Executive Director/CEO's book.

Table 19: Summary Analysis of Credit Card Transactions for All Other Employees Issued Cards

Fiscal Year	Total Credit Card Expenditures	Unclear Business Purpose, Inadequate Documentation, or Excessive	Percent of Total Credit Card Expenditures	No Supporting Documentation	Percent of Total Credit Card Expenditures
2007	$198,927.81	$31,318.76	15.74%	$12,889.80	6.48%
2008	$157,613.64	$32,858.24	20.85%	$8,186.69	5.19%
2009	$166,900.35	$22,923.90	13.74%	$5,722.96	3.43%
Totals	**$523,441.80**	**$87,100.90**	**16.64%**	**$26,799.45**	**5.12%**

Table 20: Examples of Credit Card Expenditures with an Unclear Business Purpose, Inadequate Documentation, Excessive, or No Supporting Documentation for All Other Employees Issued Cards

Transaction Date	Vendor Name	Vendor Location	Expenditure Amount	Description
7/31/2006	Zoomania	Unknown	$5,394.00	Technology - Professional Widescreen Mini Camcorder Professional Kit
8/23/2006	Best Western Univ Inn	Moscow, IN	$445.49	Two Night Stay; Meals; Bar Bill- $56; Unknown purpose for trip
8/24/2006	21C Museum Hotel	Louisville, KY	$1,825.20	Hotel Room for Breeders Cup; Executive Director/CEO
9/1/2006	Liquor Barn	Lexington, KY	$174.95	5 Makers Mark VIP as gifts for "one of our big partners"
9/8/2006	Stucky's Beauty Salon	Morehead, KY	$214.12	Satchel, Duffel, & Travel Case; Gift for Board Member Spouse
9/11/2006	Liquor Barn	Lexington, KY	$1,451.09	Unknown- No Receipt
9/28/2006	HH Gregg	Lexington, KY	$953.86	MP3 Player, 2 LCD TV's, Clock Radio, DVD/VCR Combo
9/29/2006	Sam's Club	Lexington, KY	$779.27	30 Bottle wine cooler, 1 GB SD Card, HP Photosmart M425XI Digital Camera, 8" Portable DVD Player, 1700 PSI; Monte Carlo Night
10/2/2006	Walgreens	Lexington, KY	$10.98	Gift wrap; Board Member's Spouse gift
10/5/2006	Ashland The Henry Clay Estate	Lexington, KY	$136.89	Meal - 13 Attending; Spouses
10/5/2006	Ashland The Henry Clay Estate	Lexington, KY	$72.00	Tours - 12 Attending; Spouses
11/1/2006	Fifth Avenue Salon Inc	Louisville, KY	$349.00	Unknown- No Receipt
12/17/2006	Marriott Lexington	Lexington, KY	$896.00	Rooms for Board Members and Spouses for Board Meeting/Christmas Party
3/12/2007	Buca Washington DC	Washington, D.C.	$1,466.08	Meal - Unknown Attendees; Reception
5/7/2007	Sheraton Atlantic City	Atlantic City, NJ	$659.57	Five Night Stay; No Purpose
5/17/2007	Lexington Legends	Lexington, KY	$2,664.00	Party on Pepsi Deck
5/29/2007	B & H Photo & Video	Unknown	$352.20	Technology - Background Set
6/5/2007	Starway Transportation	Orlando, FL	$32.00	Luxury Cab ride when car has been rented
7/12/2007	Ky Medical Services	Unknown	$72.00	Medical record; No Purpose
7/18/2007	Cumberland Inn	Williamsburg, KY	$65.04	Receipt does not match Credit Card Statement; Says Employee Cancelled

Transaction Date	Vendor Name	Vendor Location	Expenditure Amount	Description
8/7/2007	Keeneland Association	Lexington, KY	$600.00	Reservation for Lexington & Kentucky Room During 2007 Keeneland Meet
9/27/2007	Amazon.com	Internet	$713.98	Two Nintendo Wii's
9/27/2007	Sam's Club	Lexington, KY	$1,250.84	Computer Monitor, Turkey Fryer, Camera, Phone, Wine Cooler; Prizes
10/3/2007	For Friends	Lexington, KY	$147.17	Unknown Purchase; Gift for Board Member's Spouse
10/8/2007	The Covington Group	Unknown	$3,373.25	500 copies of The Little Red Book of Everyday Heroes
10/9/2007	Sam's Club	Lexington, KY	$37.90	Unknown- No Receipt
10/9/2007	National City Bank	Lexington, KY	$1,000.00	Cash Advance to Purchase 2-$500 Visa Gift Cards
12/6/2007	Promo Direct	Unknown	$457.00	250 Light-up Shot Glasses
3/11/2008	Good Food Chapter	Lexington, KY	$9.30	Meal - Unknown Attendees
4/23/2008	Cheapside	Lexington, KY	$46.71	Meal - Unknown Attendees
6/2/2008	Columbia House Video Club	Unknown	$9.95	Unknown- No Receipt
8/11/2008	Jared	Lexington, KY	$585.65	Watch for Employee Retirement Gift
12/1/2008	Popcorn Papa	Unknown	$325.87	Holiday Gifts for Vendor
2/9/2009	Liquor Barn	Lexington, KY	$1,576.78	Liquor, wine, beer, sodas
4/8/2009	Walmart	Unknown	$94.59	Easter Egg Dyeing and Easter Candy

As highlighted in Table 21, approximately 6.06 percent of all other KLC staffs' expense reimbursements were classified as no documentation, inadequate documentation, unclear business purpose, or considered excessive. Table 22 contains examples of the reimbursement made to these staff members. Examples include over $3,000 for five gift cards intended for retirees, a $1,224 meal for three staff and five board members with a per person average of $153, and season ticket purchases for University of Kentucky basketball and football costing over $2,800.

Table 21: Summary Analysis of Reimbursements for All Other Employees Issued Cards

Fiscal Year	Total Reimbursements	Unclear Business Purpose, Inadequate Documentation, or Excessive	Percent of Total Reimbursements	No Supporting Documentation	Percent of Total Reimbursements
2007	$302,129.79	$17,858.26	5.91%	$2,040.91	0.68%
2008	$246,670.50	$15,788.07	6.40%	$3,444.91	1.40%
2009	$286,168.47	$7,888.86	2.76%	$3,604.39	1.26%
Total	**$834,968.76**	**$41,535.19**	**4.97%**	**$9,090.21**	**1.09%**

Table 22: Examples of Reimbursements with an Unclear Business Purpose, Inadequate Documentation, Excessive, or No Supporting Documentation for All Other Employees Issued Cards

Transaction Date	Vendor Name	Vendor Location	Expenditure Amount	Description
8/29/2006	UK Athletics Association	Lexington, KY	$802.00	Purchased 2 tickets for the season (18 games) @ $22/ticket; $10 processing fee
10/25/2006	Unknown	Unknown	$6.50	Unknown Purchase; Moe's is written on reimbursement form
3/10/2007	I Ricchi Inc.	Washington, D.C.	$1,224.85	Meal - 3 Employees, 5 Board Members
4/13/2007	UK Athletics Association	Lexington, KY	$909.00	2007 Football Tickets; Parking
4/23/2007	Insight Communications	Unknown	$34.95	Internet Service
4/24/2007	The Courier-Journal	Louisville, KY	$39.00	Newspaper Home Delivery; Weekend Service
10/12/2007	The Waterfront	Covington, KY	$111.00	Unknown Purchase
8/15/2008	AAA Allied Group	Unknown	$3,024.75	Five Gift Cards for Retirees
9/4/2008	UK Athletics Association	Lexington, KY	$1,132.00	2 UK Basketball season tickets
9/10/2008	Drinks & Valet	Unknown	$47.00	Meal- $30/ Other- $17

As seen in Table 23, KLC staff members used credit cards to make purchases totaling $1,046,702.38 during the examination period of July 1, 2006 through June 30, 2009. Of that three-year total, the APA categorized $212,871.22, or 20.34 percent, of total credit card transactions as having inadequate documentation, an unclear business purpose, or appearing excessive in nature and $74,462.56, or 7.11 percent, as having no documentation.

Table 23: Summary Analysis of All Credit Card Transactions

Fiscal Year	Total Credit Card Expenditures	Unclear Business Purpose, Inadequate Documentation, or Excessive	Percent of Total Credit Card Expenditures	No Supporting Documentation	Percent of Total Credit Card Expenditures
2007	$393,033.75	$71,514.63	18.20%	$39,801.37	10.13%
2008	$338,288.96	$82,766.90	24.47%	$24,280.85	7.18%
2009	$315,379.67	$58,589.69	18.58%	$10,380.34	3.29%
Total	**$1,046,702.38**	**$212,871.22**	**20.34%**	**$74,462.56**	**7.11%**

Table 24 demonstrates the history of reimbursements for all KLC staff members during the examination period. Of the $868,752.31 three-year total, the APA categorized $53,503.24, or 6.16 percent, of total reimbursements as having inadequate documentation, an unclear business purpose, or appearing excessive in nature and $13,320.80, or 1.53 percent, as having no documentation.

Table 24: Summary Analysis of All Reimbursements

Fiscal Year	Total Reimbursements	Unclear Business Purpose, Inadequate Documentation, or Excessive	Percent of Total Reimbursements	No Supporting Documentation	Percent of Total Reimbursements
2007	$316,197.94	$25,083.80	7.93%	$6,132.70	1.94%
2008	$261,490.66	$19,501.85	7.46%	$3,477.99	1.33%
2009	$291,063.71	$8,917.59	3.06%	$3,710.11	1.27%
Total	**$868,752.31**	**$53,503.24**	**6.16%**	**$13,320.80**	**1.53%**

Chapter 3
Findings and Recommendations

Introduction to Chapter 3 Findings and Recommendations

KLC, as with any organization, requires two integral elements of leadership. One is the elected leadership, which for KLC is the Executive Board, and the second is the Executive Staff leadership. Our review has revealed fundamental concerns with both components of KLC's leadership.

KLC's leadership lost sight of its fiduciary duty to the members of KLC and allowed KLC to operate without properly scrutinizing all financial activity. These deficiencies and excesses of KLC's leadership are made all the more significant by the public nature of the organization – its members are cities, its elected leaders are public officials, and its revenue originates from taxpayers. Until public scrutiny was applied, KLC leaders, elected and staff, neglected the standards of oversight, accountability, and trust that the organization should uphold.

The Executive Staff took advantage of the Executive Board's lack of oversight. The Executive Board's automatic acceptance of an outside consultant's compensation recommendations without considering additional factors is one example of their lack of oversight. The Executive Board's passive approach to compensation allowed Executive Staff compensation to increase by 29 percent between 2006 and 2008. Active enablement of the Executive Staff's opportunity to benefit itself included the Executive Board allowing staff to develop a plan to make loans to management that were forgiven in some instances without fulfilling the specified loan requirements.

This chapter presents the findings of this examination, including the following:

- Excessive Salaries and Benefits;
- Questionable Retirement Loans;
- Ineffective Policies and Practices;
- Weak Ethical Standards of Conduct, including Conflicts of Interest;
- Uncontrolled Spending for Travel, Alcohol, Meals, and Entertainment; and,
- Weaknesses in Accounting Controls.

As a result of the recent public scrutiny, the KLC Executive Board has taken steps to strengthen its policies and achieve greater accountability. Those actions have included adopting new policies for work conduct, credit card use, and travel, as well as updating its board member code of ethics, all of which can lead to stronger oversight. The recommendations in this examination should be used by the KLC Executive Board and Executive Staff to further strengthen the organization.

Chapter 3
Findings and Recommendations

Finding 1: The KLC Executive Board did not provide effective leadership and governance over its financial resources to the ultimate benefit of its member cities.

While the insurance and financing programs under the KLC umbrella increasingly brought in additional revenue to KLC, the Executive Board's lack of oversight allowed KLC's Executive Staff to spend additional funds, in many instances, for their primary benefit, rather than providing additional benefits to Kentucky's cities and communities. The financial growth of KLC could have allowed greater services to its member cities or reduced its member's fees or the insurance premiums charged to those cities and governmental entities that purchased insurance through KLC. Discretionary funds were used on many occasions to benefit Executive Staff instead of using its resources to benefit its member cities.

According to KLC's By-Laws, "KLC is organized and operated exclusively to carry out essential governmental functions for and on behalf of its members..." KLC's By-Laws further state that KLC will be an instrumentality of its members and all its resources shall be owned in the name of the corporation for the benefit of its members. According to KLC's website its mission states, "[t]he Kentucky League of Cities serves as the united voice of cities by supporting community innovation, effective leadership and quality governance." The webpage continues stating, "KLC's core values serve as the cultural foundation of the organization. They embody the spirit and collective conscience of KLC and its employees. Our core values describe how we fulfill our mission by representing the enduring ideals and principals that guide all of our actions." The extravagant expenditures discussed in this report do not support KLC's stated purpose or mission statement, but rather benefit the organization's staff instead of its member cities.

Clearly stated policies and procedures that are supported and enforced by board members and clearly communicated to staff should exist to control operating expenses and to prevent excessive and inappropriate spending. Monitoring procedures to ensure compliance with these policies should be developed by the board to demonstrate a strong board commitment for the effective use of funds. The monitoring procedures will reinforce compliance with the types of expenses that are appropriate and necessary for KLC to carry out its mission to member cities and protect policyholder accounts.

Recommendations

We recommend KLC reshape its mission to clearly reflect its purpose to efficiently and effectively serve member cities, to meet its member's reasonable expectations, and to provide the greatest benefit possible for the use of public funds. We recommend KLC's Executive Board develop policies that provide specific guidance to staff members on the proper use of KLC financial resources for necessary and appropriate expenditures. Procedures should be in place to review and monitor expenditures to ensure they are properly controlled. And moreover, the Executive Board should make it a priority to emphasize to the staff the importance of the proper use of publicly generated funds and to ensure such funds are used in the best interest of the cities served.

KLC's Executive Board should establish a tone at the top that ensures its resources will be used to increase the benefit to member cities. Excessive spending and inefficiencies should be aggressively and consistently opposed. This opposition should be voiced by the Executive Board leadership and communicated to KLC's staff to create and protect a new culture at KLC of greater accountability.

Finding 2: KLC Executive Board had not adopted a compensation administration policy with definitive guidelines.

KLC Executive Staff hired an outside consulting firm to perform a salary study and to recommend salary ranges for KLC employees. Three members present at a meeting of the Executive Board's Budget and Audit Committee received a presentation from the consultant and approved the recommendations unanimously. The outside consulting firm used national employment data based on for-profit and non-profit organizations. The salary recommendations made by the consulting firm were based on the staff's description of their job duties without consideration of the employees' experience or performance levels. In addition, salary data from the for-profit and non-profit insurance industry was used for determining the recommended salaries for KLC's top three executives, regardless of the Executive Staff's involvement in KLC's insurance program.

KLC's Employee Handbook policy for "salary adjustments" allowed KLC Executive Staff latitude and control over salary administration that resulted in substantial salary increases for Executive Staff and other KLC employees, with minimal Executive Board knowledge or oversight. KLC's Employee Handbook section, *Base Salary and Salary Adjustments*, states that the "base salary of each employee is determined in accordance with a compensation program adopted by KLC executive management." This policy further states that KLC "periodically adjusts base salaries and the salary ranges based upon professional market studies and pay analysis." The Executive Board's only input to or knowledge of the amount of annual salary increases was a line item approval of the total annual amount budgeted for "salaries."

As authorized by its own policy, KLC Executive Staff periodically hired an outside consultant specializing in employee benefits to perform a compensation study. In the absence of a policy stipulating when compensation studies were to be conducted, the Deputy Executive Director determined the frequency of the salary surveys.

KLC staff provided financial data and position descriptions to assist the consultant in arriving at salary adjustment recommendations. The consultant's proprietary database was compiled of national data encompassing both for-profit and non-profit organizations. There were no Kentucky associations included in the sampled salary data for this survey. In addition, the outside consultant did not consider the bonus and forgivable loans discussed in Finding 3 to be compensation because the consultant was not informed that the funds could be used for any purpose by the employee.

Each KLC staff member completed a position description to provide the consultant with information regarding the training, education, skills, and abilities required for his/her position to establish the consultant's salary recommendations. The position description did not provide the experience, education, or performance level of the employee that was currently in that position. Although the position descriptions were reviewed by the employee's supervisor, the self-reporting of the position descriptions could have resulted in salary increases not commensurate with the employees' skill or performance levels.

KLC did not conduct performance evaluations on which to base salary increases. Instead, KLC employed a "coaching" methodology whereby underperforming employees were "coached" by their supervisors to ensure achievement of acceptable levels of performance. No policy was in place that required documentation of coaching activities or retention of such documentation. The consultant informed us that a majority of non-profit organizations conduct performance evaluations.

The survey data used in the compensation study included insurance-based businesses to arrive at comparable salaries. According to a March 2009 memo from the outside consultant, the consultant "utilized survey sources from its national reference library and proprietary databases to find comparative market data for all KLC Executive positions by matching the essential responsibilities of each job. These data were found in other Non-profit and For-profit Insurance Agencies, Insurance Pools and General Non-profit organizations with operating budgets between $10 and $30 Million." Even though the salary survey compared the Executive Director/CEO's salary to salaries in the insurance industry, the Executive Director/CEO attended less than one third of the KLC insurance-related board meetings. According to staff interviews, the Executive Director/CEO had limited involvement with, and limited understanding of, KLC's insurance programs. The 2004 position description for the Executive Director/CEO stated that the person in this position should have a thorough knowledge of risk management policy, procedures, and operations. Though auditors made multiple requests, the 2008 position description for the Executive Director/CEO was not provided.

On occasion, the consultant made presentations to the Executive Board's Budget and Audit Committee regarding the study's methodology and compensation recommendations for Executive Staff. The Budget and Audit Committee routinely approved the consultant's study and recommendations without further analysis or adjustments. Based on interviews with the consultant, the salary recommendations should be weighed against other factors and judgment should be exercised in applying the results of the study before determining the executives' compensation.

It appears that the Budget and Audit Committee accepted the recommendations of the independent consultant with little or no attempt to bring the recommendations into a more regional and business-specific context. While using the consultant's recommendations as a resource, the Executive Board also must evaluate KLC compensation levels within the context of KLC's financial resources, the local, regional, and national scope of competitive salaries and individual performance against similar organizations.

Once the Budget and Audit Committee approved the consultant's recommendations, the Executive Staff salaries were immediately increased to the midpoint or above the recommended salary range. Other staff salaries were increased to the midpoint of the salary range usually over a two to four year time period based on the recommendations of their supervisor.

Only the Executive Board members that were on the Budget and Audit Committee were informed of Executive Staff salary data. While we were told that this information was available on request, detailed salary information was not provided to the Executive Board. The only salary information provided to the Executive Board was the one line item in the annual budget for "Salaries," which was a total of all KLC staff salaries.

As illustrated in the following table, KLC Executive Staff salaries increased significantly between 2002 and 2009 as noted in the chart below.

Table 25: KLC Executive Staff Wage Increases from 2002 through 2009

Position	**Gross Wages in 2002**	**Gross Wages in 2003**	**Gross Wages in 2004**	**Gross Wages in 2005**	**Gross Wages in 2006**	**Gross Wages in 2007**	**Gross Wages in 2008**	**Salary as of July 1, 2009**
Executive Director/CEO *	$170,248	$188,920	$205,894	$238,812	$248,483	$272,852	$307,044	$331,186
Percent Increase in Gross Wages		11%	9%	16%	4%	10%	13%	8%
Percent Increase to Date								**95%**
Deputy Executive Director *	$141,753	$153,247	$166,168	$185,109	$193,007	$204,266	$241,898	$255,258
Percent Increase in Gross Wages		8%	8%	11%	4%	6%	18%	6%
Percent Increase to Date								**80%**
Chief Insurance Services Officer *	$123,909	$133,720	$147,635	$173,623	$179,630	$188,031	$222,311	$238,867
Percent Increase in Gross Wages		8%	10%	18%	3%	5%	18%	7%
Percent Increase to Date								**93%**

Source: Auditor of Public Accounts based on wage and salary information provided by KLC.
* Gross wages – before deductions for CERS, etc., and excluding fringe, bonus or non-cash retirement loan.

The following table details the salaries and percentage increases for the thirty highest paid employees as of July 1, 2009. From FY 2006 to FY 2009, these salaries increased 20 percent. This table is sorted from the highest salary in FY 2009 to the lowest in descending groups of ten and indicates that increases for each group over the three-year period were 25 percent, 15 percent, and 14 percent, respectively. KLC had nineteen employee positions whose salaries are in excess of $100,000.

Table 26: KLC Salary and Salary Increases 2006 to 2008

	Salary in Effect for FY 2006	Salary in Effect for FY 2007	Salary in Effect for FY 2008	Salary in Effect for FY 2009	Increase from FY 2006 to FY 2009
1	$253,738	$286,351	$331,186	$331,186	31%
2	$201,231	$231,594	$255,258	$255,258	27%
3	$183,428	$209,253	$238,867	$238,867	30%
4	$149,111	$153,584	$174,200	$174,200	17%
5	$156,000	$160,680	$165,840	$165,840	6%
6	$110,000	$130,785	$145,528	$145,528	32%
7	$96,705	$111,370	$127,911	$141,111	46%
8	$108,126	$111,370	$122,705	$123,932	15%
9	$108,126	$111,370	$122,705	$123,932	15%
10	$88,312	$111,370	$122,705	$123,932	40%
Total	**$1,454,778**	**$1,617,727**	**$1,806,905**	**$1,823,786**	**25%**
11	$108,126	$111,370	$114,711	$115,858	7%
12	$108,126	$111,370	$114,711	$115,858	7%
13	$75,759	$94,836	$106,022	$115,507	52%
14	$110,522	$113,838	$113,838	$114,434	4%
15	$108,126	$111,370	$113,301	$114,434	6%
16	$108,126	$111,370	$111,370	$111,370	3%
17	$84,771	$94,836	$102,659	$110,434	30%
18	$90,000	$102,035	$107,636	$108,712	21%
19	$92,897	$103,527	$106,633	$107,699	16%
20	$72,133	$80,758	$86,927	$91,579	27%
Total	**$958,587**	**$1,035,310**	**$1,077,807**	**$1,105,887**	**15%**

Table 26: KLC Salary and Salary Increases 2006 to 2008 (continued)

	Salary in Effect for FY 2006	Salary in Effect for FY 2007	Salary in Effect for FY 2008	Salary in Effect for FY 2009	Increase from FY 2006 to FY 2009
21	$71,202	$80,758	$86,927	$91,579	29%
22	$81,076	$83,508	$85,996	$89,691	11%
23	$85,249	$85,249	$85,996	$86,856	2%
24	$67,735	$75,263	$80,171	$83,651	23%
25	$77,743	$80,075	$82,477	$83,302	7%
26	$77,743	$80,075	$82,477	$83,302	7%
27	$69,815	$76,334	$80,023	$82,237	18%
28	$64,293	$73,490	$78,071	$81,251	26%
29	$75,005	$77,255	$79,573	$80,368	7%
30	$63,855	$67,270	$70,970	$73,378	15%
Total	**$733,716**	**$779,276**	**$812,680**	**$835,614**	**14%**
Grand Total	**$3,147,081**	**$3,432,313**	**$3,697,392**	**$3,765,287**	**20%**

Source: Auditor of Public Accounts based on wage and salary information provided by KLC.

The APA conducted a survey to determine how KLC's Executive Staff salaries compare to other associations of public entities and a public insurance company within Kentucky. The following table reflects the responses to our survey regarding the salaries of Executive Directors and Deputy Executive Directors.

Table 27: Kentucky 2009-2010 Executive Compensation Comparison

Organization	Executive Director	Deputy Executive Director/Executive VP
Kentucky League of Cities [4]	$331,186	$255,258
Kentucky Employers' Mutual Insurance [4]	$286,650	$177,400
Kentucky Association of Counties [4]	$178,080[1]	$122,400[1]
Kentucky School Boards Association [4]	$130,000	$81,377
Kentucky Association of School Administrators	$125,000	$85,850
Kentucky County Clerks Association	$84,000[2]	N/A
Kentucky Sheriffs Associations	$82,026	N/A
Kentucky Magistrates and Commissioners Association	$78,072	N/A
Kentucky County Judge/Executive Association	$77,687[3]	N/A

Source: Auditor of Public Accounts based on information provided by the specified organization.
[1] 2008-2009 Compensation Amounts.
[2] Employed through a contractual agreement.
[3] Salary includes an annual $3,600 expense allowance.
[4] Includes administration of a self-insurance fund.
Note: The statutory maximum salary allowable for a county judge/executive for 2009 is $105,841.

Regarding city officials that KLC represents, the following table reflects the compensation of the mayors for Kentucky's two merged governments. The annual budget is also listed to illustrate the amount of funds managed by the respective mayors.

Table 28: 2009 Mayor Salaries for Kentucky's Two Largest Cities

Merged Government	Mayoral Salary	Merged Government Budget
Lexington	$120,574	$502,381,930
Louisville	$101,563	$712,474,200

Source: Auditor of Public Accounts based on the city's website.

The Executive Board has the responsibility to ensure that compensation for KLC Executive Staff members is commensurate with the qualifications and responsibilities of their positions. The Executive Board also must ensure that KLC's compensation policy for all KLC employees provides fair and equitable compensation in order to attract and retain skilled staff. These requirements should be weighed and evaluated in the context of the nature of the business and economic, professional, and geographic factors in determining appropriate compensation levels.

Recommendations

We recommend the Executive Board evaluate current staff compensation amounts. We recommend the Executive Board review and approve a formal compensation policy stating the goals of the policy and detailing the scope, process steps, timing, and responsibilities for determining all staff compensation. We further recommend that this compensation policy includes factors relating to the employees' performance, for KLC Executive Staff as well as other KLC staff.

The Executive Board should select and approve the consulting firm used to conduct the compensation study. The Executive Board should determine and approve the information and businesses included in the salary survey data. The information provided by the study should be used as an independent assessment as to whether KLC's salaries are in line with similar non-profit organizations, including a sampling of entities from within the Commonwealth of Kentucky. The Executive Board should also ensure that future compensation decisions are based on KLC's financial resources and related economic conditions.

If the "coaching" method is continued rather than performance evaluations, we recommend that the coaching sessions with employees be documented and retained to provide evidence of the issues discussed, the frequency of meetings, and whether any employee issues continued or were resolved.

Chapter 3
Findings and Recommendations

Introduction to findings related to compensation enhancements for KLC employees

On June 7, 2002, the KLC Executive Board approved a motion to create a committee for the purpose of making recommendations regarding a compensation enhancement program. The compensation review committee was comprised of the KLC Executive Board President and six other Executive Board members appointed by the Executive Board President. In addition, the approved motion requested KLC to set aside $400,000 in the 2001-2002 budget to fund this program.

At the August 14, 2002 KLC Executive Board meeting, the recommendations of the newly created Compensation Review Committee were presented to the Executive Board by the KLC Executive Director/CEO and the now former General Counsel. Following a discussion of the recommendations among board members, the Executive Board approved Resolution No. 1-2002 creating the Key Executive Compensation Enhancement Program (Compensation Program). (See Minutes, Resolution No. 1-2002, and the Compensation Program in Exhibits 2 through 4).

In general, the Compensation Program provided the opportunity for a bonus to the Executive Director/CEO and for eligible KLC staff to receive a low interest loan as an incentive to remain with KLC and to reward past loyalty and dedication. While the Compensation Program did not provide specific guidelines as to how the loan or bonus proceeds were to be used by the participants, the amount of the bonus or loan was to be based on an estimate of the cost to purchase five years of Nonqualified Service, or "Airtime," in County Employees Retirement System (CERS).

The principal amount of the loan was to be forgiven over a five-year period. The interest rate on the loans would be established at the "lowest rate acceptable under federal regulations" and paid to KLC through employee payroll deductions. Though the participants were to pay interest on the loans, the program called for participants' salaries to be supplemented during the term of the loan to offset the interest costs and the annual federal, state, or local tax costs associated with the bonus or with annual loan principal forgiveness.

Kentucky Revised Statute (KRS) 273.241 prohibited the KLC Executive Director, as an officer of KLC, from accepting a loan from KLC. Therefore, the Executive Director's loan was extended in the form of a "bonus."

All participants in the program except the Executive Director/CEO were required to execute a promissory note and loan agreement for the amount of the loan. Checks for the participants receiving lump-sum loans were issued on August 19, 2002. The Executive Director/CEO was issued an annual check in the net amount of $25,000 starting in August 2002. (See Exhibits 5 and 6).

While KLC has indicated that the Executive Director received $125,000 over five years, that disclosure by itself is misleading. The stated $25,000 annual bonus payments to the Executive Director were after-tax amounts. Over the five-year period the bonus was provided, KLC paid the Executive Director/CEO in annual amounts ranging from $43,000 to $45,576. KLC's actual total cash outlay for the five years of payments was $218,098.

The total cost of the Compensation Program to date is in excess of $520,000. The following table illustrates the KLC staff positions included in the Compensation Program and their loan or bonus amounts:

Table 29: Bonus and Incentive Payments to Select KLC Officials

KLC Position	Form of Payment	Date of Initial Payment	Net Amount of Loan	Cost to KLC
Executive Director/CEO	Bonus	August 2002	$125,000	$218,098
Deputy Executive Director	Loan	August 2002	89,000	89,000
Chief Insurance Services Officer	Loan	August 2002	58,000	58,000
Former General Counsel	Loan	August 2002	69,000	69,000
Former Director of Finance and Administration	Loan	August 2002	47,000	47,000
Senior Accounting Analyst	Loan	November 2006	17,300*	17,300
Director of Policy Development	Contribution	June 2008	35,600**	35,600
Totals			**$440,900**	**$533,998**

Source: Auditor of Public Accounts, based on information provided by KLC.
* An additional loan to the former Director of Finance and Administration per an August 2006 employment contract. The former Director retired and was rehired as Senior Accounting Analyst. The new loan was not considered by KLC part of the Compensation Program. See the Former Director of Finance and Administration analysis in Appendix 5.
** While not designated as being part of the Compensation Program the stated purpose of this "contribution" is for "purchasing time in the County Employees Retirement System" and thus the reason for being included in this review.

Finding 3: Bonus and loans made to KLC staff cost over one-half million dollars with questionable benefit to KLC members.

The Compensation Program was to provide an incentive to retain employees and to reward past loyalty and dedication. However, providing forgivable loans and bonuses as a means of incenting key employees proved to be extremely costly with questionable benefit to KLC. The introductory paragraph of the Compensation Program's resolution refers to the need to attract, retain, and reward key employees. It also states that it is typical for chief executive officers of associations and corporations to have employment contracts that contain provisions for severance compensation, performance evaluation, and incentive arrangements. While acknowledging that KLC has never used such a contractual arrangement, the program notes that there is a growing need to make changes to ensure KLC retains key employees.

Having stated the need and benefits to be derived from an employment contract that included all of the criteria noted above, KLC opted to provide forgivable loans or bonuses to key employees. The executed loan agreements with these participants allowed the funds to be used for any purpose, including the purchase of retirement service credit. Stipulating the need to retain employees while simultaneously loaning them the funds to enable earlier retirement seems contradictory.

It is not clear that the Executive Board gave adequate consideration to existing salary levels, performance criteria, responsibilities, and contributions of the stated key employee positions prior to approval of the program. Neither was there documentation that the Executive Board was aware of the overall financial impact to KLC or the significant lifetime pension benefit that would accrue to the participating employees. Nor does there appear to be consideration by the Executive Board of the significant value to the employees already participating in the public CERS, which requires a current employer match of 13.5 percent.

The following table lists the KLC staff positions who participated in the Compensation Program and the pension benefits derived from the purchase of “Airtime” in CERS. The “Incremental Monthly Pension Benefit” is the amount of additional monthly pension benefit resulting from the purchase of Airtime. The “Projected Total Monthly Pension Benefit” is the total monthly pension benefit that the employee would receive at age 65. The “Projected Lifetime Incremental Benefit of Purchase” was computed using the life expectancy table found in 103 KAR 2:005 and assuming the applicable annual retirement benefit adjustment. The projections in the table assume continued employment under CERS coverage until age 65 and no further salary increases. For comparison purposes, the CERS non-hazardous average monthly benefit amount provided to participants as of June 30, 2008, was $873.17.

Table 30: Pension Benefits for KLC Staff Receiving Loans and Bonuses

Compensation Program Participants	Compensation Program Amount provided Loan/Bonus	Date of Retirement Purchase	Projected Total Monthly Pension Benefit [2]	Incremental Monthly Pension Benefit from Purchase	Projected Lifetime Incremental Benefit of Purchase
Executive Director/CEO	$125,000 [3]	March 2003	$17,725	$2,220	$502,384
Deputy Executive Director	$89,000	January 2003	$16,357	$2,246	$508,267
Chief Insurance Services Officer	$58,000	No retirement credit was purchased			
Former General Counsel	$69,000	January 2002	$10,550	$1,419	$514,571
Former Director - Finance and Administration	$47,000	November 2002	$7,043	$1,187	$422,965
Director of Policy Development [1]	$35,600	September 2008	$5,731	$262	$59,290

Source: Auditor of Public Accounts based on information provided by CERS and KLC.
[1] - not an Executive Board approved participant in the program.
[2] - based on assumed retirement age of 65 with no further salary increases.
[3] - the net after tax amount of the bonus, the pre-tax cash outlay by KLC totaled $218,098.

If the Executive Director/CEO retires on January 1, 2010, her total projected monthly pension benefit would be $13,769 or $165,228 annually. The incremental monthly benefit from the purchase of 60 months of non-qualified service would be $1,915. The projected lifetime incremental benefit of the purchase would be $539,353.

The Compensation Program required a significant amount of KLC's financial resources in order to provide a substantial personal benefit to the participating employees. For additional analysis of each participant's loan or bonus, see Appendix 5.

Recommendations

We recommend the KLC Executive Board review the entire compensation structure to ensure all employee compensation and additional rewards are in the best interest of KLC. All recommended employee compensation enhancements should be approved by the Executive Board prior to being implemented.

The Executive Board should evaluate the existing compensation enhancement program to determine whether the program should be continued.

The Executive Board should evaluate compensation and retirement packages for employees with the goal of ensuring fair and equitable compensation that adequately rewards and retains the quality staff required for the various KLC operations. The Executive Board should require measurable performance goals and evidenced achievement as a basic criteria for any future incentive programs. This will require implementing a documented employee performance evaluation process.

Finding 4: KLC Executive Staff represented that employee loans and a bonus were repaid because KLC Executive Staff did not receive salary increases suggested by a consultant.

In October 2004, the incoming KLC President questioned the amount of compensation Executive Staff received through salary, loans, and a bonus. In response, KLC Executive Staff decided to offset their consultant recommended salary increases by the net bonus amount for the Executive Director/CEO and the annual loan amount forgiven for the Deputy Executive Director and Chief Insurance Services Officer. The bonus and loans were allowed for under the KLC Compensation Program approved by the Executive Board. This procedure to offset suggested salary increases was not documented or approved by the Executive Board and, according to the former KLC President, the Executive Board members did not understand this process or how it addressed the expressed concerns. Although the Executive Staff's actual salary approved by the Executive Board was not offset to repay the bonus or loans, the Executive Staff considered the bonus and loans repaid.

During the last 37 months of the 60-month bonus and loan program, the salaries suggested by an outside consultant's compensation study were reduced by the amount of the net bonus payment or the annual loan amount forgiven. For example, the base salary suggested by the consultant in 2004 for the Executive Director/CEO was $261,873. The suggested base salary of $261,873 was offset by $25,000 for a base salary of $236,873 in 2004. Therefore, according to KLC staff, the $25,000 was repaid. However, the total gross amount of the bonus, $43,000, was not paid back or recaptured by KLC in cash. Additionally, it is not clear why the bonus payments in 2005 and 2006 to the Executive Director/CEO were not simply stopped if the bonus was to be repaid.

This process was only applied to the Executive Director/CEO, Deputy Executive Director, and the Chief Insurance Services Officer. This procedure was not applied to the loans provided to the former General Counsel or the former Director of Finance and Administration. The loans to these individuals were forgiven as originally provided for in the loan agreements executed between KLC and these employees.

Table 31: Bonus and Incentive Payments to Select KLC Officials Reported to be "Repaid"

KLC Position	Form of Payment	Date of Initial Payment	Net Amount of Loan	Cost to KLC	Amount Reported to be "Repaid"
Executive Director/CEO	Bonus	August 2002	$125,000	$218,098	$79,167*
Deputy Executive Director	Loan	August 2002	89,000	89,000	56,367*
Chief Insurance Services Officer	Loan	August 2002	58,000	58,000	36,733*
Former General Counsel	Loan	August 2002	69,000	69,000	0
Former Director of Finance and Administration	Loan	August 2002	47,000	47,000	0
Senior Accounting Analyst	Loan	November 2006	17,300**	17,300	0
Director of Policy Development	Contribution	June 2008	35,600	35,600	0
Totals			**$440,900**	**$533,998**	**$172,267**

Source: Auditor of Public Accounts based on documentation and other information provided by KLC.
* Executive Staff reported amount "repaid" based on not receiving salary increases suggested by a consultant.
** An additional loan to the former Director of Finance and Administration per an August 2006 employment contract. The former Director retired and was rehired as Senior Accounting Analyst. The new loan was not considered by KLC part of the Compensation Program. See the Former Director of Finance and Administration analysis in Appendix 5.

Executive Board meeting minutes do not document the Executive Board's approval of the repayment method determined by the Executive Staff. Nor do Executive Board meeting minutes document a discussion of this issue.

For more details, see Appendix 5.

Recommendations

We recommend the Executive Board require, and KLC General Counsel provide, affirmation that all contracts and agreements are in compliance with documented actions taken by the Executive Board. We also recommend for any future programs where a loan or bonus repayment is intended, the Executive Board establish and approve a repayment methodology that is clearly stated and easily administered. Further, we recommend the Executive Board meeting minutes document board action and approval of loans, bonuses, and related terms and conditions including the approved method for any required repayment by the employee.

Finding 5: KLC Executive Staff extended, forgave, and granted loans without Executive Board authorization.

The Compensation Program approved by the KLC Executive Board states that if the employee is terminated or leaves KLC voluntarily before the loan is fully repaid, "the balance due on the note becomes payable." However, the actual Loan Agreements executed between KLC and each participant state that any loan balance at termination shall "become immediately due and payable to the holder of the Note, unless the League in its sole discretion informs the Borrower in writing otherwise." The phrase "unless the League in its sole discretion informs the Borrower in writing otherwise" is additional terminology in the Loan Agreement that is not specified in the Executive Board approved Compensation Program. By including this phrase in the loan agreements, KLC Executive Staff assumed the authority and granted rights to participants that were clearly not specified in the Compensation Program approved by the Executive Board.

The former General Counsel resigned his position October 31, 2005. In July 2005, the KLC Executive Director/CEO executed a professional services agreement with the former General Counsel to take effect on November 1, 2005. This agreement was for the former General Counsel to perform for KLC professional consulting services for a two-year period. However, the former General Counsel worked only eight months, through June 30, 2006, of the two-year agreement. A June 2006 addendum to this professional services agreement stated that KLC would forgive the former General Counsel's remaining loan balance, $21,230, without fulfilling the original loan requirements specified in the Compensation Program.

Regarding "program features and utilization," the Compensation Program states, "all recommendations will be submitted to the full Executive Board for final approval." However, there is no documentation that KLC Executive Staff obtained approval from the Executive Board to forgive the balance of the former General Counsel's loan as required by the Board approved Compensation Program. In addition, agreeing to forgive the balance of the loan is clearly at odds with the intended purpose of the Compensation Program to incent and reward employees who remain with KLC.

The former Director of Finance and Administration, who retired October 1, 2006, was a participant in the Compensation Program and was the recipient of a $47,000 forgivable loan under that program. In August 2006, KLC Executive Staff entered into an employment agreement that added $17,300 to the remaining loan balance of $11,569. The new loan balance was $28,869, and there was no documented approval by the Executive Board. For additional details see Finding 6.

In FY 2008, KLC Executive Staff entered into an agreement with the Director of Policy Development to contribute funds to the Director of Policy Development's Section 457 retirement account for the purpose of purchasing service credit in CERS. This employee was not eligible to participate in the Compensation Program because he did not meet the minimum 12-year service requirement. The funds were to be used for the purchase of service credit in CERS and did require a commitment for continued employment at KLC. This continued employment commitment was for the employee to agree to retire at such time as he becomes eligible for full retirement benefits, which is estimated to be in 2013. However, KLC had the option to waive this requirement, if determined to be in the best interest of KLC.

This contribution was not eligible to be made under the Board approved Compensation Program nor was there documentation that the Executive Staff obtained approval from the Executive Board. For more details, see Appendix 5.

Recommendations

The KLC Executive Director/CEO and other Executive Staff should comply with the Board approved Compensation Program and associated resolution. The initiation of any loans or other compensation enhancements and related terms should receive prior approval by the Executive Board. The Executive Board should periodically require a detailed reporting on all aspects of the Compensation Program or any other compensation enhancement provided to employees.

Finding 6: KLC Executive Staff altered a Compensation Program loan agreement without board approval and did not comply with the terms of the resulting employment agreement.

KLC Executive Staff altered an existing employee Compensation Program Loan Agreement without board approval and disregarded the terms and conditions of the new employment agreement. The former Director of Finance and Administration retired on October 1, 2006, and was rehired by KLC on November 1, 2006 as a Senior Accounting Analyst. The terms of her reemployment were detailed in an employment agreement that combined the employee's unforgiven balance of the Compensation Program loan with a new loan that was made as consideration for her to continue to work at least an additional thirty months. The existing unforgiven loan amount of $11,569 combined with the new loan amount of $17,300 totaled $28,869. This new loan amount was to be repaid over the 30-month term of the agreement ending in April 2009; however, it was not repaid. The employment agreement stated that it superseded all previous agreements. KLC Executive Staff did not obtain approval from the Executive Board to alter or amend the original Compensation Program Loan Agreement.

The new employment agreement required the loan to be repaid via bi-weekly payroll deductions for the loan principal and interest payments. However, KLC did not require a bi-weekly payroll deduction, but instead forgave the principal and interest payments. Although the agreement required the employee to repay the loan through payroll deductions, the principal and interest were actually forgiven and only included on the employee's W-2 as non-cash income. According to KLC Executive Staff, the executed legal agreement called for bi-weekly payments, but that "was not the intent" and the loan was always meant to be forgiven.

Although the terms of the employment agreement ended as of April 2009, the remaining balance of the loan was $2,443 as of June 30, 2009. Section 2.3 of the Employment Agreement stated the employee "shall agree to a bi-weekly payroll deduction in the amount set forth in Section 1.2. above, to be paid to KLC as repayment for the loan described in Section 1.2, above." Section 1.2 referenced in the employee agreement does not address an employee bi-weekly payroll deduction. (See Exhibit 9).

For more details, see Appendix 5.

Recommendations

We recommend the KLC General Counsel review all contracts to ensure they are complete and accurate. We further recommend the General Counsel periodically review the terms and conditions of contracts to ensure KLC enforces and is in compliance with the contracts terms and conditions. We further recommend KLC Executive Staff should ensure that approval of the Executive Board is obtained when the terms of an agreement alters or supersedes the terms of the board approved Compensation Program. We recommend the Executive Board review all employment agreements and ensure compliance with the approved terms and conditions of the agreement.

Finding 7: Discrepancies between the board-approved Compensation Program and the corresponding Promissory Notes and Loan Agreements impacted the accuracy of income reported.

The Promissory Notes and Loan Agreements with KLC employees did not completely reflect the terms of the Compensation Program that was explicitly approved by the Executive Board. The Compensation Program indicates that KLC should supplement the salaries of participating employees to offset any tax or interest costs associated with the forgivable loan and that the employee would pay interest to KLC through payroll deductions. While the Promissory Notes state that interest is payable through payroll deductions to KLC on a bi-weekly basis, there is no mention of supplementing the employee's salary to offset the cost to the employee. The Loan Agreements do not contain any language related to payroll deductions or salary supplements. These discrepancies are significant because neither the salary supplements or payroll deductions were actually executed by KLC. Instead, the amount of the annual loan principle and any supplements for taxes or interest were simply reported on the employee's W-2 form as "Other" non-cash income.

Reporting forgiven loan interest on the employee's W-2 tax form as non-cash compensation did not comply with the terms of the Compensation Program or the Promissory Note. Even though the actual Loan Agreement is silent on interest and the issue of payroll deductions, the Compensation Program's terms were explicitly approved by the Executive Board. Therefore, KLC Executive Staff should have complied with the terms of the Compensation Program.

While loan interest continued to be forgiven, this interest was not included on the W-2 tax form in years 2005 through 2007 for the Deputy Executive Director, Chief Insurance Services Officer, and the former General Counsel. By not reporting the forgiven interest income, the total income for these participants was understated. For more details, see Appendix 5.

When compiling the employee's W-2 tax form, KLC reported non-cash compensation in the amount of the forgiven annual loan principle plus the estimated tax liability. In order to truly offset the tax liability related to receiving the forgivable loan, the tax supplement should have been paid to the employee separately as a reimbursement. By increasing the employee's non-cash contribution with the tax supplement, the employee's taxable income was increased by the amount of the supplement meant to offset tax costs.

The discrepancies in the Promissory Notes and Loan Agreements could be because the terms of the Compensation Program had not yet been determined or approved when the Promissory Note and Loan Agreements were executed. The Executive Board approved the motion to establish a Compensation Committee at the June 7, 2002 Executive Board meeting and the Compensation Program was subsequently recommended to and approved by the Executive Board at the August 14, 2002 board meeting. However, all of the employee's Promissory Notes and Loan Agreements indicated an execution date of July 1, 2002, which was prior to the Executive Board's approval of the Compensation Program.

Recommendations

We recommend that KLC's Executive Board ensure that the terms of any policy or program adopted by the board are complied with by KLC staff. We also recommend KLC staff should comply with the terms approved by the Executive Board and ensure that all terms and conditions of contractual agreements are enforced and the accounting for each transaction is clearly disclosed. Further, we recommend that no Promissory Notes, Loan Agreements, or other transactions allowed for under the Compensation Program be executed without Executive Board approval. In addition, we recommend the KLC Executive Board direct the CFO to determine the additional amount of compensation that should have been reported on the participants W-2. The result of the CFO's analysis should be reported to the Executive Board and a decision made as to whether an amended W-2 is necessary.

Finding 8: KLC's Executive Board had not adopted a policy governing the purchase of vehicles.

KLC's Executive Staff, between April 2007 and December 2008, authorized and purchased vehicles totaling $314,738 for KLC employee use with no discussion or the approval by the Executive Board. In total, nine vehicles were purchased during the examination period without Executive Board approval.

KLC replaces its vehicle fleet approximately every three years. In December 2008, a KLC staff member obtained quotes for the purchase of five new vehicles for four executive staff and for one pool vehicle. The Executive Director/CEO stated that approval to purchase vehicles was granted by the Executive Board previously when the members approved the purchase of a vehicle for the Executive Director/CEO. The Executive Director/CEO also stated that this authority by the Executive Board extended to other executive and field staff company vehicle purchases. Consequently, neither the decision to purchase, nor the quotes obtained, were presented to the Executive Board for approval or discussion. The Executive Director/CEO and Executive Staff, without notification to or approval by the Executive Board implemented a vehicle replacement policy for the vehicles and determined the types of vehicles to purchase. Since April 2007, KLC paid approximately $250,000 for vehicles in addition to the $64,000 vehicle purchased for the Executive Director/CEO, as seen in Table 32.

Vehicles purchased for use by KLC staff were used for both personal and business related purposes and in certain instances the mileage related to personal mileage could not be determined. Employees did not consistently maintain mileage logs and certain executives did not record their mileage at all. Though some field staff maintained excellent mileage logs, others did not always record mileage appropriately and management did not review the records for completeness.

During our audit period, KLC purchased over $28,000 in gasoline without a formal policy regarding documentation of such purchases. Without maintaining proper fuel purchase documentation or mileage logs to differentiate between work and personal use of the vehicle, the personal benefit received cannot be properly accounted for.

Further, purchase and maintenance records for the vehicles were not always retained or available. Although KLC was responsible for the service and maintenance expense of the vehicles, it does not appear that anyone oversaw the documentation or retention of service records. We also noted that documentation related to the sale or trade-in of vehicles was not properly retained.

Table 32: KLC Vehicle Purchases

Employee	Vendor	Vehicle Type	Date Purchased	Amount
Executive Director/CEO	Don Jacobs	2007 BMW X5	8/6/2007	$64,083*
Chief Insurance Services Officer	Greens Toyota	2009 Toyota Avalon	12/3/2008	
Deputy Executive Director	Greens Toyota	2009 Toyota Avalon	12/3/2008	
Executive Vice-President, NewCities	Greens Toyota	2009 Toyota Avalon	12/3/2008	180,975
General Counsel	Greens Toyota	2009 Toyota Avalon	12/3/2008	
Pool Vehicle	Greens Toyota	2008 Toyota Sienna	12/3/2008	
Field Staff Vehicles	Paul Miller Ford	(3) 2007 Ford Freestyle	4/2/2007	69,680
Total				**$314,738**

Source: Auditor of Public Accounts based on information provided by KLC.
* $25,000 trade in allowance was applied to the cost of the vehicle.

Recommendations

We recommend the Executive Board oversee a comprehensive analysis of KLC ground transportation needs to determine the most efficient and cost effective methods of addressing the organization's needs. This analysis should specifically determine whether it is more efficient for KLC to own vehicles or to identify another method to address its transportation needs, such as establishing a vehicle allowance for certain employees or reimbursing employees for the number of miles driven for business purposes. If the board determines vehicles should be retained then the number, type, and cost of the vehicles should be determined by the board.

Further, if the board determines to continue to purchase vehicles, it should implement a policy that addresses the acquisition, utilization and maintenance of KLC-owned vehicles. The policy should require the Executive Board to approve vehicle purchases with action being properly documented in the Executive Board minutes. Clear guidelines should be established to identify who is eligible to use a vehicle and for what purposes (i.e. work-related, personal); the amount budgeted for vehicle use, the process to evaluate the need to purchase a replacement vehicle, policies regarding the purchase of gasoline or for vehicle allowances, and the employees' responsibility for assigned vehicles, including policies regarding maintenance and mileage records. Specific guidelines should address both personal and the business aspects related to the vehicle use.

Finding 9: KLC sold a vehicle at less than fair market value to an Executive Staff member.

Although KLC did not have a formal written policy for the proper disposal of its fleet vehicles, vehicles were replaced approximately every three years. According to the Chief Financial Officer (CFO), when the decision was made to replace a vehicle, the employee who was most recently assigned to the vehicle was given the first opportunity to purchase the vehicle at fair market value. If the employee chose not to purchase the vehicle, other staff members then could bid on the vehicle.

In December 2008, KLC Executive Staff decided to replace a 2005 Volvo XC90 SUV assigned to the Deputy Executive Director with a 2009 Toyota Avalon. Per KLC records, this vehicle was sold to the Deputy Executive Director at a price of $9,000. Per estimates obtained from the National Automobile Dealership Association (NADA) and Kelley Blue Book, the value of this vehicle was determined to be at least $15,623 even if the vehicle was deemed to be only in "fair" condition.

Per KLC's CFO, a Toyota dealership in the local area provided an assessment of $9,000 for the 2005 Volvo XC90 as trade-in for a 2009 Toyota Avalon. Per the KLC CFO, the Deputy Executive Director stated he was willing to pay $9,000 for the vehicle; KLC sold the car for $9,000 to the Deputy Executive Director.

The 2005 Volvo initially was purchased in January 2005 for $46,314, including tax. At that time, KLC traded in a 2002 Volvo S60 for $14,470 and paid a balance of $31,844 for the newer XC90 SUV Volvo. On January 8, 2008, the Certificate of Registration identified the assessed value of this vehicle as $24,000. Per discussion with a county clerk, the assessment is based on the trade-in value of the vehicle per the NADA book but it does not take into consideration the mileage on the vehicle. Based on the vehicles mileage of 105,000, this value should be reduced by $3,625 for an assessed value of $20,375. Less than one-year later, the 2005 Volvo was sold to the Deputy Executive Director for $9,000.

Service records obtained for the maintenance of the vehicle helped assess the condition of the vehicle. As of December 2008, the auditor found that new tires costing $1,200 were purchased in March 2008, a window was repaired and new front brakes were installed in October 2008 costing $226, the vehicle was detailed for $200 in November 2008, two weeks prior to transferring vehicle ownership, and the 105,000 mile maintenance service with tire rotation was performed in December 2008 at a cost of $277, seven days prior to transferring vehicle ownership. Based on the information gathered, this vehicle was determined to be in at least good, if not, excellent condition and was sold at less than trade-in value.

KLC had not established policies and procedures to govern the disposal of KLC vehicles. In addition, KLC did not have a process in place to determine the true fair market value of the vehicle prior to the sale. Therefore, KLC did not receive a fair value for a well maintained vehicle that was apparently in excellent condition.

Recommendations

We recommend that KLC Executive Board establish and require compliance with a formal written policy that details the process to be followed when KLC disposes of vehicles it owns. The policy should include the process to follow to establish the value of the vehicle and the process to be followed when attempting to sell a vehicle. We also recommend that all supporting documentation related to the valuation, sale, and transfer of vehicles be approved and maintained by the CFO. We further recommend that the purchase and disposal of vehicles be reported to the KLC Executive Board.

Finding 10: KLC had no credit card policy to control over one million dollars that was charged on cards issued to employees.

Credit cards were issued to KLC staff members without the KLC Executive Board establishing a policy for the use of the cards or the review and approval of credit card expenditures. In addition, the Board was not involved in the review or approval of KLC's executive staff's $523,261 credit card expenditures that accounted for 50 percent of the total amount of credit card expenditures.

During the examination period, it was noted that various staff had been issued eleven Visa cards, four MasterCards, four American Express cards, and seven Sam's Club credit cards. Some staff had multiple cards without a documented reason. The following table details the amount spent per card from July 1, 2006 through June 30, 2009. The totals presented in the table also include annual credit card fees of $3,362.

Table 33 indicates that approximately $1,046,702 was expended without any type of approved policy or any evidence of expenditure approval to ensure proper oversight of the expenses.

Table 33: Number of Cardholders and Amount Spent Per Credit Card Between July 1, 2006 and June 30, 2009

Credit Card	Number of Cardholders	Amount of Expenditures
American Express	4	$449,964
National City Visa	11	520,188
Fifth Third MasterCard	4	45,234
Sam's Club	7*	31,316
Total		**$1,046,702**

Source: Auditor of Public Accounts based on information provided by KLC.
* One account with seven cardholders.

Our review of credit card statements for each employee revealed numerous instances where expenditures were made via credit card and paid by KLC even though supporting documentation was missing and/or the purchase lacked any business purpose. Between July 1, 2006 and June 30, 2009, $74,463 in credit card expenditures had no supporting information and $212,871 that were questionable based on the documentation provided. These amounts are discussed further in Chapter 2 and Finding 21.

During our examination, no evidence was found that monthly statements were reviewed for proper use of cards, supporting documentation, or accuracy prior to payment. According to interviews, the payment of credit card statements start with a KLC staff member date stamping the statements upon receipt and forwarding them to the accounting department. The accounting department transfers the expenditures to a spreadsheet to code the expenditures, prepares the checks for payment, and submits both to the Deputy Executive Director for review and check signing. Credit card statements were paid regardless of documentation so that late fees will not be incurred.

Staff also stated that, after the open records request on February 19, 2009 by the *Lexington Herald-Leader* newspaper, additional steps were taken to ensure that credit card expenditures are supported by documentation. On August 17, 2009, which was after our period of review, KLC's Executive Board adopted a credit card policy authorizing credit cards to be issued to the Executive Director/CEO, and any other staff members recommended by the Executive Director /CEO, with approval by the Executive Board. The credit cards are to be used strictly for operational business purchases or meeting-related purchases, but not for personal expenses. Receipts detailing the business purpose, date, location, amount, and persons covered by the charge must be submitted for approval. All monthly credit card statements are to be reviewed and signed by the Chief Financial Officer and the person named on the card as evidence that the charges are legitimate business expenses. The Executive Board will review the credit card usage policy as needed, but no less than every three years. (See Exhibit 12).

The new credit card policy defines operational expenses to include, but are not limited to, prepaid airfare, prepaid hotel charges, prepaid business car rental, prepaid conference registrations, other prepaid meeting-related expenses, office-related expenses, and any other non-travel related expenses. Examples provided include, but are not limited to, computer supplies, office equipment, etc.

We acknowledge the action taken by the Executive Board to implement a needed credit card policy. This policy places the responsibility of reviewing all monthly credit card statements for proper documentation on the Chief Financial Officer, who is under the supervision of the Executive Director/CEO and the Deputy Executive Director, including reviewing the credit card charges of the executives as well. As a peer or subordinate to other Executive Staff members the Chief Financial Officer may not be in a position of authority to effectively monitor the credit activity of Executive Staff members.

Recommendations

We recommend that the KLC Executive Board consider strengthening its credit policy previously adopted by including procedures that:

- Provide examples to users of unallowable expenses that should not be charged on a credit card.

- Specify if certain expenses require prior approval by Executive Staff or Executive Board before credit card use, i.e. overnight travel, out-of-state travel, over purchases over a specified dollar amounts.
- Limit the types of purchases made with credit cards in favor of more deliberative purchase methods, such as purchase orders, bids, etc.
- Require the cardholder's supervisor or director to review and sign the card statement prior to the review of the Chief Financial Officer. By signing the supervisor should attest that proper documentation was provided and the expenses were for a legitimate business expense.
- Address the employees' responsibility to reimburse unsupported expenditures. The policy should provide for a process to disallow expenditures charged to a KLC credit card. The policy should establish a specific time period that the employee is to reimburse disallowed charges. The time period that an employee is given to reimburse KLC for disallowed credit card charges should be no longer than three business days after the charge was disallowed. We recommend the policy address the penalty that should be applied for not reimbursing KLC within the required period.
- Require the Executive Director/CEO prior to the review of the CFO to approve the credit card statements of Executive Staff members.
- Require that the KLC President or other designated person or body of the Executive Board review and approve the credit card statements of the Executive Director/CEO. The minutes of the KLC Executive Board should document a report that credit card expenses were reviewed, approved, and any items of interest were questioned and investigated further.

We also recommend that the KLC Executive Board take additional steps to limit the number of staff assigned credit cards. Employees are more apt to spend frivolously if they are using KLC credit cards than if they are required to pay for expenses themselves and receive reimbursement.

Finding 11: KLC's travel and entertainment expense policies were insufficient to prevent excessive spending.

KLC's Executive Staff incurred excessive travel and entertainment expense at numerous in-state, out-of-state, and international meetings and conventions. Travel and entertainment expenses for all employees totaled $1,337,722 during the audit period. (See Findings 22 through 25 for excessive travel and entertainment expenses.) The chart below documents the conferences and travel of six select staff members. Much of this travel included other staff, board members, and spouses who are not listed on the chart.

Table 34: Conferences and Travel of Selected KLC Officials from July 1, 2006 through June 30, 2009

Job Title	In-State	Out-of-State	Inter-national Trips	Total per Employee	Percent In-State	Percent Out-of-State*
Executive Director/CEO	100	64	2	166	60%	40%
Deputy Executive Director	24	44	3	71	34%	66%
Chief Insurance Services Officer	28	41	1	70	40%	60%
General Counsel	29	22	1	52	56%	44%
Director of Member Services	11	8	0	19	58%	42%
Executive Vice President - NewCities	6	17	0	23	26%	74%

Source: Auditor of Public Accounts based on travel list provided by KLC.
* Includes Out-of-State and International Travel.

The lack of adequate internal control and monitoring of credit card and reimbursement expenditures created an environment in which excessive and unsupported purchases and reimbursements could be made with little risk of detection. Insufficient controls, combined with the inherent risk of abuse associated with credit cards, lessened the ability of KLC Executive Staff and the board to ensure that funds were properly controlled and expended.

KLC did not have in place a comprehensive policy to provide specific guidance and direction for employees and board members that would prohibit excessive and unreasonable travel and entertainment expenses. Throughout the audit period, KLC allowed improper expenses for travel, meals, alcohol, and entertainment. Established budget processes did not provide the needed oversight to track such expenditures.

KLC's 2006-2007 Employee Handbook includes operational procedures for "Travel and Entertainment Expenses," which required employees to use KLC-owned vehicles for travel whenever possible, and provided reasonable procedures for mileage reimbursement when a KLC vehicle was not available or it was determined reasonable for an employee to use his or her own vehicle. Specific documentation for business-related lodging, meals, and entertainment was required to be submitted to support expenditure reimbursement. All out-of-state travel was required to be approved, in advance, by the Chief Insurance Services Officer, Deputy Executive Director or the Executive Director/CEO.

The above guidelines appear to be reasonable, but a comprehensive policy addressing all types of travel and entertainment expenses allowable for staff and board members did not exist. It appears that the guidelines that KLC did have in place above were not enforced or complied with by Executive Staff during our period of review, and did not allow the Executive Board to detect improper, excessive, or unreasonable travel and entertainment expenses. Further, while out-of-state travel had to be approved by the Chief Insurance Services Officer, Deputy Executive Director or the Executive Director/CEO, there was no apparent requirement, or actual practice, for any of those individuals to obtain approval for their out-of-state or international travel.

In our review of Executive Board minutes, we found no evidence of approval of any expenses for out-of-state or international travel taken by Executive Staff, nor did we find any report to the Executive Board of the beneficial nature of such travel for KLC membership. Accepted practice allowed Executive Staff to determine the appropriateness of all travel, employee reimbursement, and entertainment expenditures of KLC. Most of the expenditures were then subsequently charged to KLC's affiliated organizations through its cost allocation plan.

On August 19, 2009, KLC established a new "Travel and Meeting Expense Reimbursement Policy," which appears to define allowable costs related to lodging, meals, entertainment, personal mileage reimbursement, rental cars, airfare and other travel expenses, and, if enforced, will provide much needed direction for travel of employees and board members on behalf of KLC. The policy also requires appropriate approval for out-of-state travel. However, several exceptions within the new policy weaken the controls this policy attempts to establish. Under this new policy, the Executive Director/CEO or Finance Committee may grant exceptions for otherwise non-reimbursable travel-related expenditures. Further, although employees will receive a per diem for meals when travel requires an overnight stay, employees may be reimbursed directly for meals when they are incurred during meetings with guests of KLC. According to the new policy, Executive Staff or the Finance Committee also may approve spousal travel when it is deemed a spouse's attendance will provide a benefit to KLC. (See Exhibit 13).

Recommendations

We recommend that KLC Executive Board strengthen its "Travel and Meeting Expense Reimbursement Policy" by developing the following additional policies in addition to what has previously been adopted:

- Require the Executive Director/CEO, in fulfilling his or her board delegated responsibility to KLC relative to the day-to-day operations, to include financial oversight of staff travel and entertainment expenses, as well as to comply with the adopted travel and entertainment policies him or herself;
- Require the Executive Director/CEO and Finance Committee to report periodically to the Executive Board all non-reimbursable travel-related expenses for which they have granted exceptions and the benefit to KLC for the exception granted;
- Detail specific parameters for allowable meal and entertainment expenses incurred during meetings with vendors and/or KLC policyholders;

- Prohibit payment of expense for spousal travel given that no direct benefit to KLC is recognized and revise its policy to reflect the prohibition; and
- Include in its policy specific parameters to limit the number of employees attending each conference/training event to those employees whose work product will provide the most benefit to KLC from such attendance.

We further recommend the Executive Board discuss staff and board member travel needs during the budget formation process, along with the anticipated costs. Travel policies should require the Executive Board to approve an annual travel plan for Executive Staff and board members in advance and incorporate to the extent possible anticipated travel expenses, as well as an amount for unanticipated travel, in annual budget projections. Approval for such travel should be documented in the board minutes with the estimated costs.

KLC's Executive Board also should require periodic out-of-state travel expense reports to be included in its board information packets sent to members prior to each meeting. The expense reports should sufficiently detail the expenses associated with the meals, lodging, transportation, and entertainment of each trip, as well as the relevance that the trip has to the employee's or board member's position.

Finding 12: KLC's budget and financial information does not provide a breakdown of the projected or actual expenses associated with its affiliated organizations.

The actual costs incurred by KLC to operate each of the affiliated organizations were not presented to the KLC Executive Board or the affiliate boards. KLC charged the affiliate organizations an administrative fee but this fee was not based entirely on actual costs. Each organization's administrative agreement had a different method for determining the administration fee that was paid to KLC. A cost allocation was performed by the CFO in coordination with KLC Executive Staff, but this method was not based on a written, approved policy nor was it presented in the budgets to the boards or in audited financial statements. Accordingly, members of KLC's Executive Board, as well as members of its other affiliated boards, were not informed of actual costs incurred to operate their respective programs.

KLC had a separate administrative agreement with each of the following affiliates: KLCIS, KLCIA, KLCMFC, NewCities, and KLCPFC. Each of the agreements had different methods for calculating the fee to be paid to KLC but they all provided for compensation of KLC for services provided. The agreements stated that this fee provides for all necessary office facilities, staff, supplies, and administrative services. The methods for calculating the administrative fees to be paid to KLC by each affiliate are as follows:

Table 35: Administrative Agreement Terms For Each Affiliated Organization

Affiliate Organization	Administrative Fee Calculation Method
KLCIS	KLC must present a proposed budget to the KLCIS Board of Trustees projecting total administrative costs for the fiscal year. KLCIS pays KLC during the year based on the projected administrative cost. In addition, KLC is paid an annually agreed upon fee not to exceed six percent of gross premium billed for liability, property, and workers' compensation. For each of these components a final adjustment must be made based on actual costs and premiums as shown on the audited financial statements for the year. Additional amounts owed or refunds due are to be paid within 30 days of the calculation.
KLCIA	KLC is paid an amount equal to 95 percent of all commissions, royalties, or other payments received by KLCIA for procuring the sale of insurance policies to KLC member cities, city boards, or other local government entities.
KLCMFC	KLC is paid by KLCMFC a fee equal to one-fourth of one percent of the average principal balance of the bonds outstanding from the date of the issuance and sale for the cost of administering the program.
NewCities	NewCities agrees to reimburse KLC for actual costs incurred for providing staff and services, unless KLC agrees to make an in-kind contribution of all or part of the cost of staff and services for the fiscal year.
KLCPFC	KLC is paid by KLCPFC a flat fee agreed upon annually prior to the submission of the budgets and should be approved by both boards of directors.

Source: Auditor of Public Accounts based on information provided in the listed organization's administrative agreement with KLC.

KLC's CFO prepared a detailed annual allocation spreadsheet that allocated direct and indirect personnel and administrative costs to KLCIS, KLCIA, and NewCities. Direct expenses are those expenses specifically identifiable and coded in the KLC ledger as attributable to an affiliate organization. Indirect costs are those personnel and operating expenses incurred by KLC that must be allocated to the affiliated companies.

The determination of the percentage of time each employee works to benefit each affiliate and thus the allocation of KLC salary and benefits is made by KLC Executive Staff with no input from other KLC staff. The total of shared salary and benefit costs for FY 2009 allocated to the affiliate organizations as indirect costs was $2,363,242. Once the indirect personnel costs were determined, direct and indirect personnel were combined to calculate total salary costs. The percentage of the affiliate's personnel costs to total personnel costs was used to allocate all of the other indirect costs to the affiliated organizations. In FY 2009, the total of other indirect expenses allocated to the three affiliates was $1,063,483. Examples of other indirect expenses include depreciation, telephone, software, service contracts, professional dues, and conference and expo expense.

While any cost allocation method could be considered arbitrary because costs are not directly coded to the affiliates, the basis for the employees' time attributable to each affiliate was not supported by documentation. Therefore, unsupported information was used to allocate personnel and other operating expenses to each affiliate.

This cost allocation method was documented as part of KLC's accounting policies but was not approved by the appropriate board as the method to calculate the affiliates' actual costs. In addition, the results of this cost allocation process were not presented to the organization boards of directors. According to KLC's CFO, this allocation methodology has been used by KLC since 1997 when the new accounting software was implemented.

The annual budget presented to the KLC Executive Board included the expenditures of all affiliates without any breakdown and only showed the projected revenue from these organizations. Likewise, the affiliate organization's budgets only contained a line item expense for the administrative fee but no details as to the expense types or amounts that were projected to be incurred. Therefore, all of the boards were in the dark as to the projected costs of the affiliates and KLC, and the audited financial statements did not provide a breakdown of actual costs of the affiliates and KLC.

To ensure transparency and effective controls, the KLC Executive Board and the affiliates' boards should be provided details of the expense items included in the annual KLC fees charged to the affiliates. The details should be provided to board members with sufficient time for review prior to approval of the annual budgets. Board members also should be provided with details of any cash or cash equivalents held by KLC on behalf of the affiliates.

Recommendations

We recommend that KLC's Executive Board and affiliate boards, to enhance transparency, approve a cost allocation method to be used in determining the actual cost of operating the affiliated organizations that assures these costs support KLC's true mission. This method should be documented and based on information that can be supported. In addition, KLC should provide information as to the basic assumptions and methodology behind the allocation process.

A detailed breakdown of the projected expenses of each affiliate should be provided to the KLC Executive Board and the affiliate boards to ensure an adequate understanding of the expenses when the annual budgets are approved. In addition, the actual cost of operating should be disclosed in the audited financial statements to provide information as to the types and amounts of expenses that are incurred on behalf of KLC to operate the affiliated organizations.

The KLC Executive Board should reimburse NewCities based on actual costs incurred for providing staff and services instead of making an in-kind contribution for these costs. Accounting principles require in-kind contributions to be shown as a revenue and expense, but a reimbursement for services provided by KLC will only be presented as an expense on the NewCities' audited financial statements.

Finding 13: Policies for ethical behavior were weak or nonexistent for board members, officers, and staff.

The citizens of the Commonwealth have a right to expect board members, officers, and employees of taxpayer-funded associations of governmental entities to comply with high ethical standards of conduct in their administration of such associations. KLC, primarily funded through membership fees, administrative fees, and commissions for insurance services and bond issues, receives its funding ultimately from cities and merged governments within the Commonwealth. Such receipt of public funds to operate KLC requires that KLC board members, officers, and staff be accountable to the public for their actions and comply with standards of ethical conduct. Enforceable, written standards of conduct for KLC board members, officers, and staff help provide the needed direction and accountability that is necessary for citizens to have confidence in the operation of KLC.

The KLC 2006-2007 Employee Handbook detailed minimal written Work Conduct policies for employees, but did not extend such standards to board members. While the handbook included limited requirements for employees pertaining to conflicts of interest, gifts and political activity, it did not address other areas of conduct such as specific conflicts of interest, outside employment, employment of relatives, contracts, service on outside boards or advisory commissions, use of public property/equipment/personnel/time, use of official position to obtain a benefit, confidential information, honoraria, investment/stock ownership, post-employment, financial disclosure, and acting as a representative of KLC before a business owned by a family member.

In October of 2008, the KLC Executive Board of Directors adopted a “Code of Ethics” which included general conflict of interest standards and required Executive Board members to sign a “Conflict of Interest Affidavit” annually certifying that the member received, read, and agreed to the Ethics Policy. Other programs affiliated with KLC, including Insurance Services, Workers’ Compensation Trust, Premium Finance Company, and NewCities, also had codes of ethics for general conflicts of interest standards and affidavits for their respective board/trustee members.

The KLC Executive Board of Directors on August 19 and September 22, 2009, attempted to strengthen KLC’s Work Conduct policies and establish a Code of Ethics policy for its employees, and to revise its Executive Board of Directors affidavit to require submission of an annual financial disclosure form for Executive Board members. However, the provisions in both the code of ethics applicable to various board members and the board’s new Work Conduct policy for employees allow improper exceptions for conflicts of interest and gifts, do not provide enough direction or specificity regarding conflicts and solicitation, and do not address many of the provisions listed above that are required for employees and board members to be accountable and ethical in their decision-making for KLC. (See Exhibit 14).

Further, no evidence was provided that KLC enforced compliance with its minimal ethical requirements for employees or board members, or that it had a policy or any procedures for enforcing compliance. Neither did auditors find any evidence that KLC issued any penalties for violating the requirements.

Recommendations

Although we believe that the standard of conduct listed in the 2006-2007 Employee Handbook for "Political Activity" is a strong policy as written, we recommend KLC strengthen its Work Conduct (Code of Ethics/Conflict of Interest) policies for "Conflicts of Interest" and "Gifts" and further develop and implement a comprehensive code of ethics including other standards of conduct. Additional areas for consideration are listed below.

We further recommend that KLC adopt a code of ethics for its Board of Directors, Executive Board, and for the trustees of its various affiliated programs, that includes guidance regarding the acceptance of gifts and gratuities, provides for specific directions regarding conflicts of interest and solicitation, and includes a comprehensive code of ethics with additional standards of conduct.

In developing a comprehensive code of ethics for the boards and staff, the following ethics policy areas for conduct should be considered:

1) General Standards of Conduct;
2) Conflicts of Interest in Contracts and Agreements;
3) Acceptance of Gifts and Gratuities;
4) Solicitation;
5) Employment of Relatives;
6) Use of KLC Property/Equipment/Personnel/Time;
7) Use of Official Position to Obtain a Financial Gain or Private Benefit;
8) Representation;
9) Misuse of Confidential Information;
10) Outside Employment/Service on Boards or Commissions;
11) Honoraria;
12) Investment/Stock Ownership;
13) Post-Employment;
14) Political Activity; and,
15) Financial Disclosure.

Several of these standards of conduct areas will be addressed more specifically in other comments with additional findings and recommendations.

In order to ensure compliance with the code of ethics adopted, KLC also should develop and implement policies, procedures and responsibilities in Finding 17, regarding reporting and resolution of complaints.

Finally, we recommend once the new comprehensive code of ethics is implemented, KLC should provide initial training on the code, as well as an annual review, for all staff and board members.

Finding 14: Numerous conflicts of interest existed that contributed to the appearance of, if not actual, improprieties by certain KLC board members and staff.

KLC board members and employees should be independent and impartial in the actions they undertake and decisions they are called on to render, ascertaining that such actions and decisions are based on the best interests of the local cities and their citizens. The selection of vendors should be guarded and made without even an appearance of bias based on friendships or other relationships. It is the responsibility of the KLC Executive Board to ensure that conflicts of interest do not exist.

During our period of examination, we were informed through interviews of several instances where conflict of interest situations existed, some of which are detailed below:

1) KLC spent $1.4 million during the review period, and $2.1 million during the last 10 years, for legal services with law firms where the spouse of KLC's Executive Director/CEO is a partner. According to interviews of KLC staff, the Chief Insurance Services Officer told KLC’s General Counsel that the Executive Director/CEO’s spouse was not getting enough work. An Executive Staff member stated that the firm would not have received as much business from KLC if the Executive Director/CEO's spouse had not been a partner there.

2) KLC spent $28,600 at a restaurant owned, in part, by the spouse of KLC's Executive Director/CEO. According to interviews, employees were encouraged to use the restaurant for KLC entertainment purposes and it would not have received as much business from KLC had it not been owned by the spouse of the Executive Director/CEO. Furthermore, KLC vendor use of the restaurant when entertaining KLC staff was reported to be much more significant than the expenses incurred by KLC. KLC’s conflict of interest policy as provided in its Employee Handbook in place at the time, required employees to notify the Executive Director/CEO of any financial interest in any company or firm doing business with KLC.

3) A current Executive Board member, who also serves as the Chairperson for KLC’s Insurance Services (KLCIS), is a private independent insurance agent for insurance products sold by KLC. In addition, the KLCIS Board of Trustees approved a $275,000 contract with a disaster recovery vendor in August 2008. The same board member/insurance trustee stated that he entered into a verbal agreement in July 2009 to be a consultant for an insurance company solely to market, outside the state of Kentucky, the services of the KLCIS disaster recovery vendor. This insurance company also does business with KLC.

4) No evidence of competitive, independent vendor selection was found for any of the following transactions. Several family members of the Chief Insurance Services Officer did business with KLC as detailed below:

   - KLC made payments of $14,413 to the Chief Insurance Services Officer's spouse, who provided decorating services, bought artwork, furniture and decorations for KLC offices, and purchased anniversary gifts for cities that had been insured 20 years. Travel expenses of approximately $1,000 for the Chief Insurance Services Officer’s spouse to select artwork in New York City also were paid by KLC.

   - KLC made payments of $13,576 to the Chief Insurance Services Officer's brother and his company for renovation work on KLC’s Frankfort office.

   - KLC paid the Chief Insurance Services Officer's son $1,290 for lawn mowing services and $432 to hang a banner. The invoice provided for hanging the banner was from D & H Lawn Care; however, the check was made payable to the Chief Insurance Services Officer’s son.

5) Several family members of the Chief Insurance Services Officer either currently work or previously worked for a vendor of KLC as detailed below:

   - KLC’s Third Party Administrator (TPA) employed the Chief Insurance Services Officer’s son as a claims adjuster;
   - A reinsurance vendor of KLC’s in California employs the Chief Insurance Services Officer’s daughter; and,
   - KLC’s TPA employs the Chief Insurance Services Officer’s grandchild’s mother.

6) The Chief Insurance Services Officer directed a KLC employee to find KLC policyholders to assign to an independent insurance agent who was employed by an insurance company that rented building space from the Chief Insurance Services Officer and his spouse. Such action increased KLC's costs by paying commissions to a private insurance company rather than retaining them by KLC.

7) The Chief Insurance Services Officer recommended to the board members and trustees the use of various insurance companies, as well as a disaster recovery company. An insurance agent, who is not on the board, attended an KLCIS Board of Trustees meeting and introduced the concept for the disaster recovery services "by explaining that some cities have already been involved in a pilot project with" the vendor "for the last year." This agent is an employee of a western Kentucky financial group company that serves as an independent insurance agent for KLC insurance products and provides numerous gifts to KLC's executives and insurance staff.

8) The Chief Insurance Services Officer and his spouse have a private rental agreement with KLC's TPA whereby they rent office space to the TPA. The Chief Insurance Services Officer stated that his relationship/friendship with the TPA's president and other vendors might sway his decisions on behalf of KLC. In addition, KLC's Deputy Executive Director agreed that this activity could impact independence and public perception. The Chief Insurance Services Officer and his spouse also rent office space privately to an insurance company that serves as an independent insurance agent for products sold by KLC. Such actions appear to have violated KLC's in-house policy, provided in KLC's Employee Handbook, in place at the time.

9) The spouse of KLC's Administrator of Product Development was a private insurance agent with an insurance company that sells insurance products for KLC. Further, the Administrator of Product Development has a Tennessee law license for which KLC pays his annual fee of $135. On his registration statement for the Board of Professional Responsibility of the Supreme Court of Tennessee, he lists his office address as the Tennessee address of KLC's TPA. The Administrator of Product Development recommended the TPA to KLC in 2003.

10) Numerous executive and other staff members, as well as board members/trustees accepted gifts of substantial value from various vendors, attorneys, and financial institutions that received the bulk of KLC's business. These officers and employees were involved in discretionary decisions concerning such vendors. A policy did not exist to prohibit employees and board members from involvement in contracting or vendor decisions regarding businesses from which they received gifts or with which they had an outside interest. (See Finding 15).

11) KLC's Deputy Executive Director purchased a 2005 Volvo XC 90 SUV from the KLC vehicle pool for $9,000 when the actual value of the vehicle, based on sources reviewed, was at least $15,623. His position afforded him the opportunity to gain this advantage. (See Finding 9).

12) KLC gave preference in procurement decisions, when possible, to its Cornerstone Partners, those businesses that gave sizable donations to KLC. In 2008, KLC moved its investments to financial institutions that were Cornerstone Partners. (See Exhibit 15).

13) KLC rented building space to a financial institution that also serves as KLC's depository for its general and agency accounts.

14) KLC employees obtained privileges for their personal use that were acquired through points earned on KLC credit cards. One staffer also earned a free night's stay through hotel rooms booked by KLC.

15) Several employees came to work for KLC directly from vendors of KLC and immediately were involved in KLC matters pertaining to their former employers.

Ineffective Conflict of Interest Policies

KLC's conflict of interest policy provided in its Employee Handbook for employees, and the various "codes of ethics" that were applicable to its board members and trustees, provided some limited guidance, but did not provide thorough standards of conduct that were effective in prohibiting conflicts of interest for its employees, board members, and affiliated programs' trustees. Without a strong, detailed conflict of interest policy that is enforced by management, actions and decisions taken by employees and board members may be inequitable and based on favoritism rather than made impartially. While the new employee Work Conduct policy (code of ethics/conflict of interest policies for employees) adopted by KLC on August 19, 2009, and the employment of relatives policy adopted September 22, 2009, provide some good general policies and guidance for employees related to conflicts of interest, several exceptions, as well as lack of specific guidance, allow loopholes in the otherwise strong standards for KLC employees. (See Exhibit 14).

Business Practices

The conflicts that occurred at KLC may have contributed to unfair business practices and poor quality services. It is impossible to determine if the vendors KLC used provided the best services to KLC members when the staff allowed friendships or other relationships to potentially provide favoritism and influence independent decision-making. Proper bidding of services, without inherent conflicts, can keep the door open for potential vendors that offer better products, lower costs, and ensure that KLC members are receiving the best service possible.

Recommendations

In addition to the conflict of interest provisions that KLC already has enacted for its board members and staff, we recommend the KLC Executive Board of Directors, within its comprehensive code of ethics, provide standards of conduct for conflicts of interest that prohibit employees and all affiliated board members and trustees from involvement in discussions or decisions pertaining to:

1) Persons or businesses from which they have accepted gifts, gratuities or compensation over a specified dollar amount;
2) Matters involving businesses in which they have a direct or indirect financial interest over a specified percentage;
3) Persons or businesses with which they have a partnership or financial ownership interest over a specified percentage;
4) Persons or businesses which compete with a business they own privately;
5) Matters involving family members, or businesses owned by or employing family members; and
6) Any other matters that present a conflict between the employee or board member/trustee's personal interest and his or her duty to KLC and the cities KLC represents.

Employees or board members who abstain from involvement in discussions or decisions as recommended above should not be present during such discussions, and the abstention should be documented either in writing and placed in the employee's personnel file or recorded in the minutes of the board meeting.

Moreover, the Executive Board of Directors should ensure that conflict of interest standards:

- Prohibit a board member, trustee or employee, or a business owned by a board member, trustee or employee, from having a contract or an agreement with KLC, or from representing a person or business privately before KLC;
- Prohibit a board member, trustee or employee from using his or her official position to obtain a financial gain or a benefit or advantage for him or herself or a family member;
- Forbid a board member, trustee or employee from using confidential information acquired during his or her tenure to further his or her own economic interests or that of another person; and,
- Prohibit a board member, trustee or employee from holding outside employment with, or accepting compensation from, any person or business with which he or she has involvement as part of his or her official position for KLC.

We reiterate the current Work Conduct policy in KLC's Employee Handbook that states employees are expected to act professionally, honestly, ethically, courteously and with integrity in all business transactions and interpersonal interactions while at work or on behalf of KLC. Board members and trustees must do so as well. Also, as stated in KLC's newly adopted code of ethics for Executive Board members, we recommend KLC's board members avoid situations where it is clear that their own interests are brought into conflict with that of KLC.

And finally, in order to ensure compliance with the conflict of interest policies adopted, KLC also should develop and implement policies, procedures and responsibilities found in Finding 17, regarding reporting and resolution of complaints.

Finding 15: Ineffective policies for the acceptance of gifts resulted in personal benefits and the appearance of, if not actual, inappropriate relationships with vendors.

KLC's standards of conduct for solicitation and acceptance of gifts and gratuities by board members and staff were not effective in preventing numerous conflicts of interest for Executive Staff members resulting in personal benefits for those staff members and the appearance of, if not actual, inappropriate relationships with vendors. KLC's policy on gifts provided in its 2006-2007 Employee Handbook, its revised gifts policy adopted on August 19, 2009 for employees, and its solicitation and gifts policy included in codes of ethics for the Executive Board members and KLC insurance/finance program trustees do not provide strong standards of conduct that prohibit conflicts of interest for its employees and board members. Without a strong policy regarding solicitation and acceptance of gifts, conflicts for employees and board members/trustees may allow subjective decisions to be made that are not in the best interests of the cities and citizens of the Commonwealth.

KLC's gifts policy for employees, newly adopted on August 19, 2009 states that "employees shall not solicit or accept a gift from any person, corporation or entity that has, or is seeking to obtain, a contractual or other business or financial relationship with the League." This policy, if enforced, would serve to strengthen ethical behavior, and the term "gift" appears to be defined appropriately in the policy. However, several of the exceptions listed in the gifts policy, which allow employees to accept "any gift given because of the employee's membership in a group," "services (of any value) that assist them in the performance of their job duties," and moreover gifts from a vendor of over $100 in value as long as approved by the Executive Director/CEO or the Deputy Executive Director, weaken the policy's effectiveness to the extent that conflicts may arise for employees that affect the impartiality of decision-making in their job duties. Furthermore, the policy allows any gift of any value to be accepted by an employee on behalf of KLC. Allowing exceptions for the acceptance of gifts such as those listed above appears to be extravagant considering the policy already permits an employee to accept services or tangible items up to a value of $100. (See Exhibit 14).

The current KLC Executive Board member and trustee gifts policies, within their respective "codes of ethics" prohibit board members/trustees from solicitation, but provide no standards of conduct for acceptance of gifts from vendors. The absence of such a gifts standard allows for exceptions that can cause a conflict between the board member's personal interest and his or her duties for KLC.

Several instances were identified where Executive Staff, other employees, and board members accepted gifts from vendors that were not in accordance with KLC's gifts policy, benefited the employees' personal interests rather than the best interest of KLC, and consequently created conflicts of interest for the employees. It appears that this culture of accepting gifts and gratuities from vendors had become an acceptable practice by many of the KLC employees and they did not view it as improper. Examples gathered through interviews and other procedures of this practice include:

1) KLC Executive Staff and administrators, who were responsible for the selection and oversight of vendors, accepted numerous gifts and gratuities from KLC's Third Party Administrator (TPA), the company responsible for the processing of insurance claims for KLC. The following are examples of gifts the president of the TPA provided, either through the company or from himself directly:

    - Housing and other expenses for trips to the TPA President's home in Bonaire, a small island in the Dutch Caribbean. This was for an annual scuba diving trip in which KLC's Chief Insurance Services Officer, Administrator of Product Development, General Counsel, and spouses participated. Certain KLC employees participated in the trips over a period of approximately five years. The General Counsel stated that in certain years he paid for all his trip expenses for he and his wife, except for lodging and meals at the TPA President's home in Bonaire and on the last trip he reimbursed the TPA for all expenses. The Chief Insurance Services Officer was involved in the selection of the company as the TPA, and also was responsible for any internal quality control monitoring of the TPA, as well as evaluating the results of reviews conducted by an outside auditor on the quality of the TPA's claims process. The Chief Insurance Services Officer does not view this as a conflict.
    - Frequent meals at local restaurants primarily for the Executive Director/CEO, the Deputy Executive Director, the Chief Insurance Services Officer, the General Counsel, insurance administrators, and various Executive Board members.

- Reimbursement to KLC by its TPA for a cover charge for admission to a strip club in Las Vegas for three KLC staff members, the charge of which was originally charged to Chief Insurance Services Officer's credit card. The three staff members stated that they subsequently reimbursed the president of the TPA for the cover charge, though no documentation of the employees' reimbursement was provided.
- Meals/drinks/entertainment for the Deputy Executive Director, the Chief Insurance Services Officer, the General Counsel, the Compliance Officer, the Administrator of Product Development, the Director of Underwriting, and the Administrator of Agency Operations at annual Risk Insurance Management Society conferences held in New Orleans, San Diego, and Orlando. When dining with vendors, Executive Staff expected the vendors to pick up the "tab."
- Hams and Christmas gifts sent to Executive Staff and other staff members.
- Tickets for university sporting events for KLC staff.

2) KLC Executive Staff and administrators, who were responsible for the selection and oversight of vendors, accepted numerous gifts and gratuities from KLC's reinsurance vendors, the companies responsible for insuring KLC's insurance programs, as detailed below:

- Two trips to Naples, Florida accepted by the Chief Insurance Services Officer and his spouse;
- Meals at local restaurants for the Executive Director/CEO, the Deputy Executive Director, the Chief Insurance Services Officer, the General Counsel, insurance administrators, and various Executive Board members;
- Green fees at a PGA Tour golf course for the Deputy Executive Director and the Chief Insurance Services Officer provided during the Risk Insurance Management Society conference in San Diego;
- Lodging in Munich, Germany provided to the Deputy Executive Director and the Chief Insurance Services Officer, and their spouses; and,
- Meals/drinks provided at a restaurant in New Orleans during a Risk Insurance Management Society conference for a KLC Insurance Administrator and several other KLC Executive Staff and administrators attending the conference.

3) A Western Kentucky financial group company that serves as an independent insurance agent for insurance products sold by KLC invited KLC's Executive Staff and insurance staff to its annual "company day" which was typically held at a state park and included use of a houseboat and a golf outing, among other activities. Several of KLC's Executive Staff and insurance staff participated in this event. The company also sponsored a fishing tournament and cookout at Taylorsville Lake to which several KLC employees were invited and attended. According to employee's interviewed, KLC recently entered into a contract with the financial group company for a $50,000 health insurance analysis that previously had been completed primarily in-house and at less expense.

4) KLC's Chief Insurance Services Officer and the Claims Program Administrator both accepted meals, as well as tickets to university football and basketball games, paid by various attorneys that do business with KLC. Both employees had responsibilities that involve the selection of attorneys as vendors of KLC. The attorneys also sponsored golf outings to which KLC employees were invited.

5) Through its Cornerstone Partner and Conventions Sponsor programs, KLC solicited and accepted sizable donations from numerous venders, including the current TPA, reinsurers, law firms that are in KLC's "pool," banks with which KLC does business, actuarial firms, engineering companies, technology companies, and other businesses with which KLC or cities do business or which are seeking to do business with KLC or a city. The amount of donations solicited ranged per company between $1,500 and $25,000. (See Exhibit 15). KLC markets the programs as avenues through which the businesses that donate will be recommended to cities looking for products or services. Its website states, "As a KLC Cornerstone Partner, your business receives a number of benefits including a direct link to the customers you want to reach. Whether it be face to face events or customized KLC mailing lists, no other opportunity gives you the kind of year round, targeted access you receive as a KLC Cornerstone Partner."

   At one point during the audit period, the Compliance Officer was directed to contact all law firms that were associated with KLC and request them to become Cornerstone Partners.

6) NewCities received a $100,000 grant from a bank KLC does business with for the publication of a book authored by the Executive Director/CEO. KLC has several of its accounts deposited with the bank.

7) Banks, actuarial firms, and other businesses with which KLC does business provided meals and drinks for many of the Executive Staff members.

To remain independent in decision-making regarding a TPA, independent insurance agents, reinsurance vendors, banks and other businesses with which KLC does business, neither KLC, nor any of its board members, trustees or employees, should accept such gifts or gratuities that compromise the impartiality of their decision-making on behalf of KLC or give the appearance that KLC actions are based on favors rather than objective decision-making.

Recommendations

We recommend KLC strengthen its gifts policy within its code of ethics by adopting a standard of conduct for the Solicitation and Acceptance of Gifts and Gratuities that would prohibit conflicts of interest for employees, as well as for executive and other board members and trustees. The effect of the policy should be that vendor decisions by employees, board members and trustees of KLC, and its affiliated programs, be made impartially and objectively in the best interest of KLC. Employees responsible for the selection and oversight of vendors should have limitations on the value of the gifts they may accept from vendors.

The policy adopted by the board should ensure no board member, employee, or immediate family member of a board member or employee knowingly solicit or accept any gift or gratuity over a nominal value (value should be monetarily defined in the policy) per year from any person or business which to his or her knowledge does business with, or is interested directly or indirectly in doing business with or seeks to influence the actions of KLC or any of its affiliated programs, or which represents any person or business that seeks to influence or do business with KLC or its affiliated programs.

The policy should define what is included as a "gift" such as a payment, loan, advance, reimbursement, deposit of money, service, travel, promise, whether intangible or tangible, unless equal or greater consideration is received. Exceptions may be allowed for gifts from family members, engagement and wedding gifts, loans and scholarships awarded on the same terms applied to all applicants, and door prizes available to the general public.

Finally, the policy should address whether KLC, as an association of government entities, should solicit or accept gifts on behalf of KLC directly from its vendors. However, KLC should not use the program as a way to recommend or influence cities to work with certain vendors or for vendors to have an inappropriate advantage through direct contact with city decision-makers given that city decisions also should be made independently and objectively in an impartial manner. Any board members and employees involved in the solicitation or acceptance of donations from vendors should have no responsibilities in the selection and oversight of KLC vendors. Moreover, KLC should be aware that a "partnership" with any vendor gives the appearance that a close relationship exists with the partner that may compromise the decision-making ability of its employees and board members to remain independent.

Finding 16: KLC did not require its board members, trustees and Executive Staff to file statements of financial disclosure revealing potential conflicts of interest.

During the period of examination, KLC had no requirement for its Board of Directors, various trustees of its affiliated programs, or Executive Staff to file a statement of financial interests disclosure. Financial disclosure statements provide a means to determine whether officials responsible for the use of public funds possess any conflicts of interest or potential conflicts between their private interests and their employment duties. Lack of such disclosure tends to reduce public confidence in the integrity of those officers and employees responsible for spending monies obtained ultimately from taxpayers.

At its August 19, 2009 meeting, the KLC Executive Board revised its Conflict of Interest Affidavit for Executive Board members to include a provision that states, "I have submitted the KLC financial disclosure/conflict of interest form," and also revised its employee Work Conduct policies to require all employees to annually complete a KLC financial disclosure/conflict of interest form. As of the date of this report, the financial disclosure form had not been developed by KLC. (See Exhibit 14).

Recommendations

We recommend the KLC Executive Board implement a financial disclosure policy within its code of ethics that requires the Board of Directors, the Executive Board, and all trustees of affiliated programs, as well as Executive Staff, to annually file by a specified date a financial interests disclosure statement with the appropriate committee of the Executive Board. Required financial information should be disclosed on a form prescribed by the Board. The Board should consider including the following disclosures on its prescribed form:

- name, business and home addresses, telephone number, and e-mail address of the filer;
- title of position or office whereby filing is required;
- any other occupation or positions of the filer or filer's spouse;
- businesses in which the filer or filer's spouse hold at least a specified percentage of interest (percentage should be numerically stated in policy);
- sources of income to the filer, filer's spouse, or filer's immediate family members exceeding a specified amount (dollar amount should be specified in policy);
- real property owned by the filer, the filer's spouse, or the filer's immediate family, and its location;
- creditors of the filer, the filer's spouse, or the filer's immediate family who are owed more than a specified amount (dollar amount should be specified in the policy); and,
- sources of gifts over a specified amount (the dollar amount should be specified in the policy) to the filer, the filer's spouse, or the filer's immediate family, except those from family members.

The policy should further require an affirmative statement by the filer that he or she has no interest that would cause a conflict with his or her official duties. Sanctions for noncompliance with the filing requirement should also be detailed in the policy.

Finding 17: KLC had no whistleblower policies or procedures established to report ethical and other policy violations, or to investigate such potential violations, or to impose sanctions for violations.

During our period of examination, KLC had no whistleblower policy or procedure for either employees or others to:

- report potential ethical and other policy misconduct (other than for sexual or nonsexual harassment) or concerns;
- follow-up and investigate any reported activity;
- determine whether an actual violation of policy or abuse existed; and,
- establish criteria for sanctions or disciplinary procedures.

Without a method for employees or other citizens to report potential violations of policy without fear of repercussion, for the board to follow-up and investigate a reported complaint, and for a determination to be made that includes consequences for violations or exploits, abusive actions by employees and board members may exist that are never corrected.

KLC's Employee Handbook states that KLC uses a management philosophy of "coaching" employees in order to elicit proper work conduct and ethical behavior and to motivate and influence employees to achieve KLC goals and objectives. KLC does recognize in its handbook, however, that in some instances coaching may fail or may be inappropriate. In those instances, the handbook provides that KLC management staff may use disciplinary procedures including:

1) verbal warning or reprimand/counseling by supervisor;
2) written reprimand/counseling by supervisor, Chief Insurance Services Officer, Deputy Executive Director, or Executive Director/CEO;
3) suspension, without pay;
4) career decision days, suspension with pay;
5) demotions and/or reduction in pay; or,
6) discharge.

At its August 19, 2009 meeting, the Executive Board implemented a process for reporting code of ethics and/or conflict of interest violations. This policy states that an employee who becomes aware of a violation, or suspected violation, of the code of ethics or conflict of interest policy should report the violation promptly to certain positions within KLC. All reports of ethics or conflict of interest policy violations will be kept confidential to the extent feasible, and the employee will not be discriminated against or subject to retaliation for making the report. Any person found to have discriminated or retaliated against an employee who makes a complaint shall be subject to disciplinary action. All reports of a violation, or suspected violation shall be in writing and signed by the complainant. The policy further requires all reports to be investigated by one or more members of the management staff designated by the Deputy Executive Director or the Executive Director/CEO. The results of the investigation will be communicated to the complainant and the alleged policy violator. Any employee found to have engaged in misconduct constituting a violation of the conflict of interest or code of ethics policy will be appropriately disciplined, up to and including dismissal. An employee may speak directly to any member of the Executive Board about a suspected violation of this policy if the employee has reported fraud or illegal activity relating to a conflict of interest or code of ethics violation within KLC to members of management without result. (See Exhibit 14).

While these procedures provide a mechanism for reporting misconduct and investigating and imposing sanctions, several questions within the policy still need to be addressed, as detailed below:

1) Who enforces disciplinary action when someone retaliates against an employee who files a complaint?
2) Who ultimately receives and keeps the complaints filed?
3) Who disciplines and determines dismissal if an employee is found to have engaged in misconduct?
4) What if the complaint is against the Deputy Executive Director or the Executive Director/CEO – who then investigates?
5) How may citizens of the Commonwealth report suspected violations or abuse?

Recommendations

We recommend that the Executive Board further strengthen its whistleblower reporting policy for suspected violations of any in-house policies by creating and documenting an independent process for receiving, analyzing, investigating and resolving such alleged violations. The process should include multiple avenues by which concerns may be expressed, such as a toll-free hotline, an e-mail address, and a postal address. One option that the Executive Board may want to consider to facilitate this independent process would be to create an Ethics/Work Conduct Committee, which would include board members, Executive Staff, as well as other staff members, and which would be responsible for:

- establishing an anonymous reporting avenue for employees and citizens;
- receiving and filing complaints against employees and/or board members;
- assigning persons to investigate and review the conduct of board members and/or staff who are alleged to have violated policies;
- making a determination as to whether a policy has been violated;

- recommending to the Executive Board sanctions as a result of any violations of policies; and,
- determining and enforcing disciplinary action when someone retaliates against an employee who files a complaint.

Another option to facilitate this process would be for the Executive Board to appoint an independent party to be responsible for investigations of concerns. The Ethics/Work Conduct Committee, or the appointed independent party, also could be responsible for following up on the sanctions imposed to ascertain that an employee complied with sanctions imposed, and reporting to the Executive Board when they have not.

We further recommend if someone files a complaint against an employee or board member serving on the Ethics/Work Conduct Committee, that employee or board member should abstain completely from any involvement regarding the complaint, should not attend meetings of the committee or board concerning the complaint, and should have no involvement whatsoever in any discussions or decisions, whether formal or informal, concerning the matter against him or her. The complaint procedure should not allow the complaint be filed directly with an employee or board member about whom the complaint is lodged, nor should any employee or board member against whom a complaint is filed have any involvement in the resolution of the matter.

Finding 18: A procurement policy for the purchasing of goods and services was not established by KLC Executive Staff or the Executive Board.

During the examination period, KLC paid $63.7 million to 1,572 vendors out of KLC’s 4,778 vendors. KLC lacked a procurement policy to ensure that the selection of these vendors and contractors, and the services they provided, maximized benefits to KLC membership. The KLC Executive Board and the affiliate boards are responsible for ensuring that staff effectively manage procurement costs to protect each organization and its members. KLC’s Employee Handbook contains a contract policy that establishes contract review and signing requirements, but does not address purchasing approval or vendor selection procedures. A procurement policy should provide guidelines to be followed for purchasing office supplies to million dollar contracts with a vendor. The policy should address purchasing approval policies, proper purchasing methods, criteria for when competitive bidding is required, the competitive bidding process, and contracting procedures.

Without an adequate procurement policy, KLC Executive Staff made all decisions related to the procurement of goods and services. KLC Executive Staff decided the selection of vendors, contract terms, and when to disclose purchasing information to the respective boards. In addition, without a policy, purchasing decisions are made based on whether there are funds available in the budget rather than whether the purchase is necessary and benefits KLC member cities.

Vendors including third party administrators, reinsurance providers, consultants, and others providing services were used to operate KLC's insurance programs; millions of dollars of services were acquired without established procedures. To provide adequate oversight of expenditures and vendor selection, KLC staff should be guided by a procurement policy that provides criteria for purchase approvals, purchase methods, a competitive bidding process, contracting review and monitoring practices, and dictates which purchasing/contracting decisions require Executive Board approval.

Purchasing Approvals

During our review period, a purchasing approval process was not in place and KLC staff had no guidance regarding purchase methods that should be used. Due to the use of credit cards, an invoice process was circumvented since the credit card statements were paid regardless of any supporting documentation. No guidelines established the level of staff approval or when a credit card could be used instead of being directly invoiced to KLC, which would have provided transparency.

Large information technology (IT) purchases were found among credit card expenditures. According to the Chief Information Officer, IT purchases do not have to be presented or approved as long as the budget is not exceeded. Therefore, there is no requirement that KLC Executive Staff approve IT related expenditures.

Instances were identified where KLC staff did contact vendors to receive price quotes, but there was no evidence to support that the purchasing decision was reviewed to determine that the costs were necessary or whether a conflict of interest existed with the potential vendor.

Competitive Bidding

KLC and its affiliated organizations did not use a formal competitive bidding process to establish the criteria of a purchase to ensure that the selection of vendors or service providers was performed in an objective, transparent manner. Interviews with KLC staff revealed that there were times when an informal bidding process was used but decisions were mainly made by the Executive Staff.

As stated above, the only policy related to purchases was KLC's contract policy that states any contract exceeding $1,000 or a six month term "shall be reviewed by Legal Department before execution. Approval from a Director or Executive Management is required prior to requesting the Legal Department to draft a contract." If a contract requires a legal review, a Contract Review Form must be completed. Contracts must be signed by a member of the Executive Staff and copies of the contracts must be forwarded to the Legal Department for tracking and filing purposes.

The following contracts are presented as examples of where competitive bidding would have benefited and protected each organization and its members.

Third Party Administrator Contract

KLC Executive Staff secured a TPA to handle insurance claim work without requesting bids from other TPAs. Under the current TPA contract, KLC pays a monthly service fee of $160,313 for processing claims, performing electronic data transfers, processing electronic filing fees for workers' compensation, indexing filings, and covering the adjuster's claim expenses. The service fees paid do not include the costs related to surveillance/private investigations, official reports/documents, and medical case management. The following chart illustrates the costs associated with the TPA.

Table 36: Contract Costs for KLC's Third Party Administrator During Audit Period

Monthly Service Fee	Annual Service Fees	Total Service Fees Paid for Three Years	Actual Amount Paid to TPA for Three Years
$160,313	$1,923,756	$5,771,268	$6,613,231

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

It is not known or documented as to whether KLC conducted a cost analysis to determine if claim processing could have been performed internally or whether another vendor could have performed this service for less money. Without a documented evaluation process, it cannot be determined if these expenses are excessive or whether KLC evaluated the option of processing claims internally to provide cost savings and additional control. During our review, one state municipal league surveyed stated that it was working towards hiring personnel to work as claims adjustors for the property and liability program.

The details of the contract with the TPA were not presented or discussed with either the KLC's Insurance Services Board or the Executive Board, according to the boards' minutes. However, the cost of this three-year contract may have been included as a line item in the budget that was approved by the Insurance Services and/or Executive Board. A cost analysis to determine if some or all of the claims work provided by the TPA could be done in-house was not performed.

Disaster Recovery Agreement

In September 2008, KLCIS Board of Trustees entered into a year-long agreement with a disaster recovery company without considering any other vendors. Per the agreement, KLCIS members will have access to recovery resources in the event of a disaster and the disaster recovery company will maintain a network of recovery assets, retain fully equipped mobile office units, deliver and install the resources requested in a predetermined plan.

According to the agreement, KLCIS is required to pay a membership fee of $225,000 to the company for the services provided. In addition to the membership fees, KLCIS agreed to pay the following:

- reasonable expenses "related to setup, de-install, shipping, travel and living fees, network engineering, satellite space segment charges, generator rental and transport of the designated disaster recover equipment requested by KLCIS;"
- reimburse for "all reasonable travel, living, and other related expenses" of the deployed specialists to a disaster recovery location requested by KLCIS;
- a usage fee of $2,000 per day when the equipment provided for the disaster is longer than sixty days;
- a "prevailing rate per person per day" for services of the deployed specialists when KLCIS requests them for longer than the initial forty-eight hours of the delivery of the equipment; and,
- all fees relating to the testing of the company's recovery services.

Other than the $2,000 fee listed above, there are no supplementary fee schedules provided in the agreement. The agreement does note that some of the undisclosed fees might be covered under the insurance agreements between KLCIS and its members.

This agreement was approved by the KLCIS Board of Trustees but there was no documentation to support the need for this service or any discussion of the terms of the contract. There was also no presentation to the Board of any other bids received from any company that offers the same type of service. During FY 2009, KLC made two payments to a disaster recovery vendor totaling $450,000. One payment of $225,000 was made in October 2008 and another payment of $225,000 was made in June 2009. Both payments were for annual membership fees.

Life and Health Consulting Contract

The terms of the contract KLC has with a life and health care consultant do not provide a clear understanding of the need or benefit to KLC members. These services were contracted without a competitive bidding process and KLC had other agreements with health care consultants during this period. The services that the consultant is to provide are to:

- review a monthly report and provide analysis;
- hold a quarterly conference call and review session;
- assist with technical needs; and,
- provide assistance with annual renewal negotiations with carriers.

The annual fee for the consultant is $25,000. KLC can also incur additional costs through this contract, but the actual amounts of these services are not disclosed. Over the last three fiscal years, KLC paid $620,037 to this consultant for a variety of insurance services. In addition, this consultant sponsors an annual "company day" event to which KLC's Executive Staff and insurance staff are invited. (See Finding 15).

Other Examples of the Lack of Proper Contracting Practices

KLC has also acquired the services of reinsurance companies without obtaining quotes from other reinsurance carriers. KLC could not provide documentation that quotes were received from any other carriers. KLC paid one reinsurer $12.4 million dollars over a three-year period and $5.3 million to the other carrier during the same timeframe.

During interviews, we were informed of other services paid for by KLC without the benefit of a contracting and any known competitive bidding. KLC paid an outside consultant $40,330 to conduct a compensation study. These services were not documented in a contract nor was the Executive Board involved in the selection process. Considering that this study affected the amount of salaries, the Executive Board should have been involved in the vendor selection as well as the criteria of the compensation study.

KLC paid an organizational coaching and consulting firm $51,113 over a three-year period without having a formal contract in place. The actual services provided by this firm to KLC were not documented.

Summary of Expenses

The following table summarizes the total spent during the past three fiscal years for the TPA contract, disaster recovery agreement, health care consulting contract, reinsurance services, compensation consultant, and the coaching firm. Considering that the total amount of vendor expenses during this period was $63.7 million, the costs associated with these vendors accounted for 40 percent of the total expenditures during the three-year period of review.

Table 37: Selected Procurement Expenses Incurred by KLC from FY 2007 to FY 2009

Payee	Amount Paid in Fiscal Year 2007	Amount Paid in Fiscal Year 2008	Amount Paid in Fiscal Year 2009	Total Amount Paid to Each Payee
Services Under Contract				
Claims Agreement	$2,046,381	$2,224,908	$2,341,942	$6,613,231
Disaster Recovery Agreement	0	0	450,000	450,000
Life and Health Consulting Contract	300,055	250,872	69,110	620,037
Services Not Under Contract				
Reinsurer A	0	3,510,193	1,836,277	5,346,470
Reinsurer B	5,123,447	4,764,421	2,557,379	12,445,247
Compensation Consultant	0	27,500	12,830	40,330
Coaching Firm	22,165	19,928	9,020	51,113
Grand Total	**$7,492,048**	**$10,797,822**	**$7,276,558**	**$25,566,428**

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

Contract Monitoring

Contracting procedures should ensure that needed deliverables are provided as required and that invoices thoroughly document the services provided. KLC staff responsible for the contracted services should diligently monitor the associated contract. Formal contract monitoring procedures have not been implemented to ensure adequate oversight of contracts, agreements, and the related costs. KLC could be paying an excessive amount for a product or a contracted vendor could be providing unreliable or inadequate services.

Formally established contracts for goods or services provide two primary benefits. First, a contract specifies the details of a purchasing agreement that promotes efficiency and effectiveness for the organization. Second, it assists in ensuring that significant purchases are properly evaluated by the organization's Executive Staff prior to the commitment. If Executive Board approval is needed prior to a final contract, this policy would ensure that Executive Board are informed of contracts and the associated costs.

Recommendations

We recommend that the Executive Board enact policies that establish the circumstances under which bids or competitive quotes must be secured in order to make a purchase, and the process to be followed in doing so. The policy should establish the criteria requiring board approval of contracts, including that all long term contracts must be presented to the appropriate board for full review and approval before a commitment is made to a vendor.

We recommend that the board enact policies governing the advance approval of purchases and the methods by which purchases are made to include, distinguishing purchases made by credit card or a purchase order, and establishing when a contract must be executed prior to a purchase being made. This policy should also establish a purchase order process and define when this process should be used. The following are recommendations for a procurement policy:

- A contract should be executed for any purchases over $20,000 with the contract disclosed to all relevant boards or committees.
- Staff should receive at least three vendor price quotes, when possible, for any purchases below $20,000.
- Competitive proposals should be required and formal contracts should be executed for professional services, such as TPA, consulting, legal, and accounting services.
- All contracts should be reviewed by counsel, have a fixed expiration date, and renegotiated on a regular basis.

We also recommend that procurement policies address purchasing approvals and purchasing methods required for the different types of services and products purchased to ensure proper monitoring and oversight of payments.

Finding 19: KLC board members and trustees received no formal orientation on their legal and fiduciary responsibilities.

Auditors made inquiries to determine whether orientation training was provided to KLC and its affiliated board members, the purpose of the respective boards, responsibilities as KLC representatives, as well as, the legal and fiduciary roles of board members and/or trustees. No documentation was found indicating that KLC board members or the trustees of its affiliated insurance and financial organizations received formal orientation training. Interviews of the current Executive Board president, as well as three former presidents and other board members, confirm no formal, detailed orientation was held during our period of review.

KLC, with six affiliated organizations, is a complex organization providing its members with various products and services including training, financing, and insurance coverage. KLC's board members and trustees consist of representatives from cities and merged governments as well as other member organizations.

Members of the Board of Directors and the Executive Board serve two-year terms, and although directors may be reappointed, new board members are elected each year that may not be familiar with the boards' responsibilities, or with KLC's structure, programs, or personnel. The boards of directors/trustees of the various insurance and finance programs offered by KLC serve either one-year or two-year terms, and although they also may be reappointed and serve an unlimited number of consecutive terms, new trustees are annually appointed to serve. These new appointees may not have an understanding of their responsibilities as board members/trustees, as well as, of KLC's insurance or finance programs structure.

Absent a detailed orientation for board members and/or trustees to be properly informed of their responsibilities regarding oversight of KLC, including administration of its insurance and finance programs, budget review, legislative program leadership, and ethical requirements, it is difficult for directors to perform their responsibilities effectively. New board members/trustees may feel apprehensive or intimidated without a proper understanding of the organization and their responsibilities and not ask pertinent questions or enter into discussions on significant issues.

To effectively perform their responsibilities to benefit the organization, KLC board members and the trustees of its affiliated insurance and financial organizations should receive a formal orientation to ensure each board member/trustee understands the organization, his or her role and responsibility as a board member/trustee, and purpose of the board on which they serve.

A majority of other state municipal leagues that responded to our survey stated that orientation is provided for new board and/or trustee members.

Recommendations

We recommend KLC provide an annual orientation training for new and returning board members/trustees of the Executive Board, Board of Directors, and all affiliate organization boards to ensure the members/trustees have at a minimum, a clear understanding of the KLC organization structure and policies, their responsibilities as board members, as well as their legal and fiduciary roles, and the purpose of the board on which they serve. In addition, the orientation should address ethical requirements of board members and staff and any significant policy changes adopted by KLC during the previous year.

Material for the orientation should be written and formally presented in a manual to facilitate the orientation process and serve as a useful reference tool for board members. The orientation manual should provide a description of the KLC structure and its affiliated organizations, each board's budget and accounting structure, its revenue and investment information, as well as all ethics policies for KLC board members/trustees and staff. We also recommend that the orientation be facilitated by a knowledgeable independent party, such as a board attorney who can participate in and oversee the orientation training.

We further recommend that upon completion of orientation board members sign a statement attesting that they have attended the orientation and received and read the orientation manual. KLC should retain the signed statements as documentation of the board member's attendance.

Finding 20: The KLC board structure may impede oversight and accountability.

The 2009-2010 KLC board of directors consists of 59 members that according to KLC By-Laws have no decision-making authority, but act in an advisory capacity. Board level decision-making authority is vested in an eighteen member Executive Board. Although the Executive Board has officers, an executive committee has not been established as many non-profit organization boards have to act on matters between meetings. Executive committee members, when such a group exists, tend to be more engaged than other members of the board. KCL By-Laws provide no alternative to Executive Board decision-making. It is possible that this limitation creates situations where KLC Executive Staff makes decisions that would otherwise be addressed by an executive committee in lieu of an Executive Board meeting.

A body of 59 members that is a board of directors in name only and which possesses none of the powers of a board of directors creates a perception of governance that is not supported by fact. Eighteen members on an Executive Board is actually a functional number of members, but given the demands on those individuals, all of whom are city mayors or city managers, such a body may find itself dealing with governance in a more cursory than substantive manner. The resulting void in governance appears to have been filled by KLC's Executive Staff. Although KLC succeeded in providing beneficial services to its members, our examination has identified various instances of Executive Staff benefiting from the void in board oversight and accountability.

It is a common struggle for board members, who are volunteers, to devote the necessary time and focus to actively fulfill their collective obligations of enacting policies and providing oversight. These natural barriers to the full and effective exercise of a board's responsibilities may have been complicated by the KLC governance structure.

Recommendations

We recommend that KLC's By-Laws be amended to provide for an alternative to decision-making solely by the Executive Board. We recommend KLC's Executive Board engage in a comprehensive review of its governance structure and processes to strengthen board oversight. We recommend that KLC consider renaming the Board of Directors to reflect their advisory role to avoid confusion that this board is not the governing body of KLC.

Finding 21: KLC allowed credit card expenses and reimbursement requests to be paid with no or inadequate supporting documentation.

The Travel and Entertainment Expenses policy in effect during the examination period states that employees should submit documentation to identify business expenses; however, our examination of credit card expenditures and employee reimbursements found $87,783 in purchases that had no supporting documentation and $266,374 in purchases that had an unclear business purpose, inadequate documentation or were excessive. Compliance with this policy was not enforced and KLC placed itself in a position for staff to abuse credit cards and employee reimbursements. Because of its failure to require supporting documentation to identify business expenses, KLC paid for unknown items and allowed reimbursements to staff for purchases that may have been personal in nature or excessive even if the expenditure was determined to have a business purpose.

The Travel and Entertainment section of KLC's Employee Handbook contains the following requirement:

> Business expenses may be charged to KLC on a credit card issued to the employee, or paid for from the employee's private funds and reimbursed upon the submission of appropriate documentation. Regardless of the method, an employee must submit vouchers or other documentation to the KLC employee assigned the responsibility of compiling and maintaining business expense information to identify all business expenses. The information to be submitted must include accurate dates, places, nature and amount of expense, and purpose of the trip.

Unsupported or Inadequately Documented Credit Card Charges

Credit card expenditures totaling $74,463 in purchases were paid with no supporting documentation for the period July 1, 2006 through June 30, 2009. During the same period, KLC had credit card expenditures totaling $212,871 that had unclear business purposes, inadequate documentation, or were excessive. All credit card expenditures with no or inadequate supporting documentation can be seen in Appendices 1 through 4 and tables within Chapter 2.

Executive Staff made 64 percent of the unsupported credit card expenditures, and 59 percent of the unclear business purpose, inadequate documentation, or excessive credit card expenditures, for items such as hotels, airlines, restaurants, internet, and phone charges. For example, the Executive Director/CEO charged $1,680 at a hotel in Alaska without documenting the business purpose for the trip, the attendees, and provided no itemized receipt from the hotel. The Deputy Executive Director had $1,460.30 in what appears to be monthly internet charges on his credit card over a period of time and the Chief Insurance Services Officer charged $202.45 to Ticketmaster as well as $80 at a strip club, Diamond Cabaret in Las Vegas.

Additional unsupported charges were made using other KLC credit cards with charges ranging from $5.28 at Kroger to the largest charge of $2,650 to Public Risk Management Association. Other examples are charges of $73.72 at a Drury Inn, $99.50 at Experts Exchange LLC, $250 to Education Trust, $400.16 at Montana Grill, and a $1,451.09 purchase at Liquor Barn.

Unsupported or Inadequately Documented Reimbursement Requests

Employee reimbursements totaling $13,321 were paid to employees with no supporting documentation during the period of July 1, 2006 through June 30, 2009. During the same period, KLC had employee reimbursements totaling $53,503 that had unclear business purposes, inadequate documentation, or were excessive. All of the reimbursement requests with no or inadequate supporting documentation can be seen in Appendices 1 through 4 and tables within Chapter 2.

Executive Staff members had unsupported reimbursements totaling $4,231, and had reimbursements totaling $11,968 for unclear business purposes, that were inadequately supported, or were excessive. The Deputy Executive Director had only three unsupported reimbursement requests but one of these requests was for $4,000 and listed “cash” as the vendor on the reimbursement form. The Executive Director/CEO had eight unsupported reimbursements totaling $149.80, with the largest item being a purchase of $78.00 at an unknown location.

The remaining employee reimbursements without supporting documentation totaled $9,090, and totaled $41,535 for reimbursements that had unclear business purposes, inadequate documentation, or were excessive. In addition, KLC allowed 18 reimbursements totaling $1,969.91 for “unknown” vendors. This amount is over 21 percent of the total unsupported reimbursement requests. Of those requests, we identified unsupported reimbursements that were paid twice by KLC, one that was $545.91.

Recommendations

We recommend that KLC institute procedures to ensure that credit card expenditures and reimbursements are not paid without sufficient supporting documentation that states a business purpose. A process should be established to ensure that all payments are reviewed for appropriateness, reasonableness, and necessity, and to ascertain that adequate supporting documentation exists.

The Travel and Entertainment Expenses policy should be strengthened to explicitly state that unless expenses are supported by detailed, itemized receipts that verify a business purpose and are provided within a reasonable specified period, they would not be paid by KLC.

We recommend employees who received duplicate payments reimburse KLC the additional amount received.

Finding 22: KLC spent over $430,000 on out-of-state travel with questionable benefit to KLC membership.

During the three-year audit period, KLC spent $431,354 for out-of-state travel costs associated with 162 trips. Costs associated with these trips included entertainment and expensive meals. (See Findings 24 and 25). KLC staff and board members traveled out-of-state for a variety of conferences, meetings, training sessions, and conventions. In many instances, out-of-state travel included participation by groups of KLC employees of which the number of individuals attending was considered questionable. The average cost per person per trip was approximately $1,000. While KLC had a travel expense policy within its Employee Handbook, the policy was not comprehensive and its provisions were not enforced or fully complied with. (See Finding 11).

The following are examples of questionable or excessive KLC travel expenses:

It was accepted practice for KLC to pay for spousal travel for Executive Staff and Board members in certain circumstances. In April 2008, KLC paid for eleven people to attend the National League of Cities Risk Information Sharing Consortium (NLC-RISC) Trustees Conference in Tucson, AZ. Of the eleven attendees, two were employees, three were board members, three were spouses of either employees or board members, one was an insurance agent who does business with KLCIS, and two others were companions. The total cost for this trip was $16,336. It is not known whether the expenses incurred by the insurance agent may have been reimbursed to KLC. The benefit to the KLC membership of such an extensive representation and of KLC spousal and companion paid travel is questionable.

In September 2007, KLC paid for the Executive Director/CEO and spouse to participate in a trip to Dublin, Ireland with Greater Louisville, Inc. There was no documentation as to the benefit to KLC for this trip. The Executive Director/CEO indicated that she worked on “fundraising” while she was there. Travel records indicate that $9,428 was spent on registration, hotels, meals, and other costs.

The Executive Director/CEO and the Deputy Executive Director, along with at least one spouse, attended a National League of Cities (NLC) State League Directors Summer Meeting in Monterey, California in July 2008. While fully detailed records were unavailable, the information provided indicates there were two attendees at the conference. The total cost of this trip, including lodging, airfare, meals, etc. was $11,501. Hotel charges alone were over $6,300.

In November 2007, the Executive Director/CEO attended a workshop conducted by the Doug Stevenson Story Theater International in Colorado. The registration fee for the workshop was $4,200. The workshop's purpose was to train participants in the business use of storytelling. The total cost of the trip, inclusive of the registration fee, was $5,300. An additional $199 was spent in December on "How to Write and Deliver a Dynamite Speech," comprised of a series of 10 Audio CDs and an 80 page workbook from Doug Stevenson Story Theater International.

In November 2008, six members of KLC staff attended the NLC Congress of Cities in Orlando, Florida. The total expenses identifiable for this trip were $18,732. Expenses incurred were for lodging, meals, airfare, and ground transportation. Also, included in the total expense was a $4,700 charge for a KLC catered hospitality room that included the cost of food and beverages.

The number of out-of-state trips, the number of participants, and the total cost of those trips raise questions as to the benefit that this level of out-of-state travel provides to a membership that consists solely of Kentucky cities. KLC Executive Staff was of the opinion that a strong KLC presence at the various conventions and seminars elevated KLC's stature and recognition on a national level. In turn, KLC Executive Staff felt that national recognition ultimately provided a higher degree of exposure, status, and benefit to the KLC member cities.

Attendance at the various seminars, conferences and national gatherings can provide educational and networking opportunities with some ultimate benefit to the state organization and its members. However, based on the examples noted above and the aggregate frequency, number of participants, especially spouses and companions, and the total cost, there is inadequate evidence that this level of out-of-state travel was justified by the benefits derived by Kentucky cities.

Recommendations

We recommend the Executive Board establish a detailed policy to guide employee and board travel in general and also to address the scope of KLC's presence and representation on a state and national level. This policy should include consideration of the relevance of a national presence and the amount of resources KLC should allocate to out-of-state activities. The policy should outline a strategic view of KLC's national involvement, what the expected benefits to the KLC membership would be, and the extent of that involvement.

We recommend that KLC not pay for spousal travel.

We recommend that the Executive Board receive a written report of the total cost of out-of-state trips taken by employees and board members. The total costs should be sufficiently detailed to clearly identify the reasons for those in attendance as well as detailed cost associated with meals, lodging, transportation, and entertainment, including details of those entertained. (See Finding 11 for more detail on travel policies.)

Finding 23: KLC spent over $56,000 on meals at local restaurants.

An examination of KLC credit card statements and employee reimbursements documented expenses in excess of $56,000 incurred for the purchase of local meals for KLC staff. In addition to the issue of the overall amount of funds spent on local meals for staff, two more specific issues emerged from our review. The first is the extent to which so called working lunches were held and the second is the extensive use of a restaurant that is co-owned by the spouse of the Executive Director/CEO.

Most of the local meal expenditures were for KLC staff. It was acceptable practice to routinely expense lunches where only KLC employees were in attendance and to classify the expense as a “working lunch.” These “working lunch” expenses were incurred on an almost daily basis across the spectrum of KLC Executive Staff. Working lunches would either be ordered in for an individual or several employees, or a group of employees would visit a local restaurant at lunch time and expense the cost of all those attending as a working lunch.

It should be a reasonable responsibility of an employee, except under clearly defined circumstances, to pay for his or her meal during a “working lunch or other meal.” The expense incurred by KLC attributed to working lunches and the frequency of those lunches is excessive, given the ready availability of staff, availability of facilities, and the absence of a supportable purpose and benefit.

In a discussion with an Internal Revenue Service official, each meal that KLC either paid for or reimbursed to an employee is subject to scrutiny. The cost of meals provided for an employee not on travel status must have an adequately documented business purpose to be excluded from income as a non-taxable fringe benefit. Adequate documentation may include such items as a record of the meeting, meeting minutes, meeting agenda, or other such items.

The second specific issue related to local meals is that KLC spent over $28,000 at Azur, a restaurant co-owned by the spouse of the Executive Director/CEO. KLC staff indicated that employees dined there frequently and that several KLC retirement and award functions were held at the restaurant. Although staff stated that there was not any overt directive that Azur should be used for KLC functions, they also stated that it was commonly understood that Azur should be given preference by employees and vendors alike when a business meal was planned. Staff also explained that it was very common for vendors to entertain KLC staff at Azur.

The following table shows the top eight restaurants where local meals were purchased with the total amounts spent at each during the examination period.

Table 38: Amount of KLC Expenditures at Local Restaurants

Restaurant	Amount Spent
Azur	$28,600
Bellini's	8,784
Dudley's Restaurant	2,236
A La Lucie	1,696
Durango's Mexican Restaurant	1,606
Hanna's on Lime	1,241
Malone's	1,126
Portofino	1,101
Total	**$46,390**

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

Recommendations

The Executive Board should implement a policy to clearly define when it is appropriate for meals, including local meals, to be purchased on behalf of employees, board members, vendors, and guests. The policy should also identify the specific documentation that must be provided to ensure the business purpose and necessity of the meal is fully documented.

We recommend the Executive Board develop a policy to require employees not on travel status to pay for their own meals and subsequently be reimbursed after completing an established review and approval process. This policy should clearly identify any exceptions the Executive Board deems necessary and appropriate.

We further recommend the Executive Board establish policies as to the purchase of goods and services from vendors in which KLC employees, directors, and officers or their families have an ownership interest. Such policies should comply with conflicts of interest policies developed pursuant to Finding 14.

Finding 24: KLC spent approximately $50,000 to purchase tickets for various events.

KLC spent approximately $50,000 on tickets to various entertainment venues. Tickets were purchased for a variety of events, including university football and basketball games, horse racing events, and a concert.

Over $17,000 was expended on season tickets for university football and basketball games. Neither the original purchase of the tickets, nor the actual use of the tickets was documented as being attributable to a specific marketing plan or having an identifiable business purpose. Also, there were no records maintained listing those individuals who used the tickets.

Football and basketball tickets were apparently purchased by KLC in some instances from individuals, some or all of whom were KLC employees. Documentation for tickets purchased included the actual statement from the university, handwritten notes to pay or reimburse an individual, or no documentation at all. In all cases, the actual invoices for ticket purchases indicated that individuals (KLC employees) were purchasing the tickets. None of the invoices listed KLC as the purchaser, although ultimately it was.

Reimbursement was made to the Deputy Executive Director in the amount of $4,000 for university basketball tickets he purchased. The supporting documentation for that transaction was a cancelled check that was made payable to cash.

In 2007, $10,000 was spent to reserve a table at the Kentucky Derby and Oaks. In 2008, $11,315 was spent for a table in the Triple Crown Room for the Derby and The Oaks. No documentation was noted regarding who attended or for what business purpose the expenditure was made. Also in 2008, KLC paid $1,000 for the Executive Director/CEO and spouse to attend the Governor's Derby Soiree.

Four tickets to the Breeders' Cup for the Executive Director/CEO and the Deputy Executive Director were purchased in 2006 in the amount of $1,900. Also, in 2006 a charge to a Louisville hotel in the amount of $1,825 was incurred during the Breeders Cup and noted as being for the Executive Director/CEO. No business purpose or description of related business activities was evidenced.

In October 2008, KLC spent $438 on two tickets for the Executive Director and her spouse to attend the Bluegrass Inaugural Ball in Washington, D.C. and purchased four 2009 memberships for the Kentucky Society Membership Program.

The tickets purchased by KLC appear to be for entertainment purposes. Without supporting documentation, it is questionable as to who actually benefited from the ticket purchases. There was no formal marketing plan that would support the purchase or usage of the tickets. There was no documentation as to who used the tickets. Without documented substantiation of the business purpose and use of the tickets, the benefit to the KLC membership is questionable.

Recommendations

KLC should not allow the purchase of tickets solely for the entertainment of board members, staff, spouses, or guests. The expenditure of funds for sporting events and other entertainment venues should have a documented benefit detailing the expected benefit to KLC membership. Supporting documentation for all ticket usage must be maintained and should be reviewed by Executive Staff to ensure the stated business purpose is fulfilled. See Finding 21 for further recommendations.

Finding 25: KLC had no policy governing expenditures for alcohol.

Alcoholic beverages were provided by KLC at many KLC sponsored events. KLC purchased alcohol in bulk for KLC sponsored hospitality rooms during events such as their annual conference and other similar conferences. KLC also purchased or reimbursed employees for purchases of alcoholic beverages by the drink at restaurants and bars. During the audit period, receipts totaling $12,349 had bulk purchases by KLC. This did not include purchases of alcohol accompanying individual meals. Also, a complete analysis of alcohol purchases could not be performed because of $354,158 in credit card and business expense reimbursement transactions either had no supporting documentation or lacked detailed receipts. Many routinely submitted expenses were for significant purchases of alcoholic beverages where both KLC employees and others were being entertained.

On September 22, 2009, the Executive Board adopted an Alcohol Reimbursement policy that states:

> Alcohol expenses, within reason, in the course of an official KLC-sponsored reception, party, conference or event are an acceptable business expense. While not encouraged, alcohol is a reimbursable expense in reasonable and customary business settings for meetings and group functions with KLC guests in accordance with this subsection. All expenditures of alcohol should be pre-approved by Executive Management. Only funds from private contributions will be used to reimburse expenses for alcohol.

This policy includes two important elements – pre-approval by Executive Staff and use of private funds for alcohol purchases. These policy provisions will only be as effective as the processes and procedures that are established for executing them, and their communication to staff and volunteer leaders. Additionally, the policies do not speak to the issue of liability that is present when any organization provides for the purchase and consumption of alcohol.

Recommendations

The Executive Board should ensure that effective processes and procedures are in place for executing and monitoring the Alcohol Reimbursement Policy, including actions that will be taken in the event of non-compliance. The Executive Board also should ensure that the policy and related processes and procedures are fully communicated to staff and volunteer leaders.

We recommend the Executive Board review the KLC policy regarding alcoholic beverages given the potential liability that could be incurred by KLC in the event of an alcohol related accident or incident. Elements of that policy should include limiting the quantity and duration of alcohol service, prohibiting KLC employees or members from serving alcohol at KLC events and requiring the use of professional bartenders, providing bartenders with written instructions prohibiting them from serving alcohol to someone who is inebriated, prohibiting self-service with respect to alcohol, etc. Such policies should be fully researched in order to identify a comprehensive set of guidelines to limit liability.

Finding 26: KLC Executive Staff did not inform the Executive Board of a harassment investigation that raised broader concerns involving an Executive Staff member.

According to interviews with KLC current and past Executive Board Presidents, KLC's Executive Staff did not inform the Executive Board of a harassment investigation involving an Executive Staff member. KLC's Employee Handbook requires that all reports of sexual and nonsexual harassment be reviewed and investigated but it does not address advising the Executive Board of these personnel issues. These policies are in place to not only protect the employees but to also protect KLC from lawsuits. The harassment policy, at a minimum, should include informing the Executive Board of harassment issues involving KLC Executive Staff.

KLC's Harassment Policy

The Employee Handbook describes the complaint procedure, the employee's role in filing a complaint, and management's responsibility in handling complaints. The section reads as follows:

> Complaint Procedure: Any employee who believes he or she has been subjected to sexual or nonsexual harassment should report the incident promptly to one of the following: the Director of Human Resources; the employee's supervisor; any other supervisor with whom the employee feels comfortable discussing the matter; the General Counsel; the Deputy Executive Director; or Executive Director/CEO. All reports of sexual or nonsexual harassment will be kept confidential to the extent feasible and appropriate under the circumstances. Further, if an employee makes such a report, the employee will not be discriminated against or be subject to retaliation in any way for having made the report. Any person found to have discriminated or retaliated against an employee who makes a complaint shall be subject to disciplinary action.
>
> All reports of sexual or nonsexual harassment shall be reduced to writing by the complaining employee or by the person receiving the complaint. The complaint shall be signed by the complaining employee. Employees who believe they have been subjected to sexual or nonsexual harassment are encouraged to make prompt reports of the incident to ensure timely response and remedial measures, if necessary. However, all reports of sexual and nonsexual harassment shall be reviewed and investigated regardless of when the alleged misconduct occurred.
>
> Reports of sexual and nonsexual harassment will be investigated promptly following the receipt of an incident report by one (1) or more members of the management staff designated by the Deputy Executive Director or the Executive Director/CEO. The results of the investigation will be communicated to the complainant and the alleged offender.

The Employee Handbook also states, "It is the policy of KLC that sexual and nonsexual harassment of any kind is absolutely prohibited and will not be tolerated." However, it does not discuss informing the Executive Board about harassment investigations conducted within the KLC organization.

Complaint and Investigation

In August 2008, a KLC employee filed a nonsexual harassment complaint with KLC's Director of Human Resources (HR Director) regarding incidents that occurred with the Chief Insurance Services Officer. After filing the complaint, the employee resigned from KLC's employment.

KLC immediately hired an independent law firm to perform an investigation of the filed complaint. The law firm reviewed the original complaint, reviewed the Employee Handbook, and interviewed KLC staff. The law firm's interviews with staff found multiple employees stating they had similar issues with the Chief Insurance Services Officer. In addition, broader concerns were raised regarding ethical and legal issues unrelated to the nonsexual harassment charges.

In less than one month the investigation was complete and a report was presented to KLC's Executive Director/CEO, Deputy Executive Director, HR Director, and General Counsel. The total cost of the investigation was $12,126. The report provided the law firm's findings related to allegations against the Chief Insurance Services Officer:

- intimidation of staff, clients, and/or customers;
- conduct in the workplace made staffers uncomfortable, nervous, and the intimidation tactics caused employees to walk on eggshells;
- known for getting upset and being explosive;
- use of profanity and demeaning others; and,
- certain high-level managers discussed what they perceived as unethical business practices that may not comply with the KLC's policies and procedures or applicable law.

At the conclusion of the investigation, a representative of the firm presented their recommendations to KLC Executive Staff. The recommendations were as follows:

1. The employee that filed the complaint should be invited back to work at KLC.
2. Upon the acceptance of a job offer by the employee, the Chief Insurance Services Officer should apologize for previous behavior and there should be no direct work activities between the Executive Staff member and the employee.
3. The Chief Insurance Services Officer should be reminded of the anti-harassment policy and any future incidents should result in termination.
4. The Chief Insurance Services Officer should be disciplined and required to undergo anger management counseling.

5. Due to the low morale and the perception of reprisal or retaliation, an independent consultant should provide workplace behavior training to staff.
6. Periodic discussions with staff of the Chief Insurance Services Officer should be conducted to ensure that the working environment is stable and not combative.
7. The Executive Director/CEO and the Deputy Executive Director should meet with KLC's Chief Financial Officer to discuss allegations of the Chief Insurance Services Officer's possible unethical conduct, once an independent audit of the finance and insurance department is completed.

After the Investigation

All the decisions related to the implementation of the recommendations in the investigative report were at the discretion of Executive Staff. Per interviews with staff, KLC Executive Staff did require the Chief Insurance Services Officer to take an immediate two week suspension with pay, apologize to the entire KLC staff, and to attend anger management counseling. According to KLC's General Counsel and Executive Director/CEO, the employee filing the complaint was asked to continue employment with KLC, but declined. The General Counsel also stated that KLC did not conduct an independent audit regarding the alleged unethical issues within the insurance program because it has an annual financial statement audit and also an audit conducted by Kentucky's Department of Insurance every four years. He further stated that the concerns of alleged unethical conduct raised during the investigation were not brought to the attention of either the CPA firm performing the financial audit or to Kentucky Department of Insurance.

Though required by the complaint policy, the investigative report was not shared with the employee who filed the grievance. The General Counsel stated that decision was made because the intent of the complaint policy was to maintain the employee/employer relationship. Because the employee resigned and the relationship no longer existed, the employee had no vested interest in the results of the investigation. The Employee Handbook does not state that to receive the results of the investigation the complainant must continue to be an employee of KLC.

According to KLC's General Counsel, the Deputy Executive Director did talk with the Chief Insurance Services Officer's staff about the issues revealed in the investigation report and told them to communicate to him any concerns they had.

Regarding the Employee Handbook's language of "harassment of any kind is prohibited and will not be tolerated," the General Counsel stated that this grievance was considered the first formal complaint against the Chief Insurance Services Officer because no formal grievances were previously filed involving the Chief Insurance Services Officer. KLC Executive Staff felt that a warning was warranted before terminating employment. Other than a copy of the investigation report, no other documentation or official reprimand was found in the Chief Insurance Officer's personnel file.

Although this was the first formal grievance filed pertaining to the Chief Insurance Services Officer, the law firm's report states, "[a]lthough no formal complaints were ever filed with Human Resources, all witnesses stated that everyone knows that" the Chief Insurance Services Officer "'blows up' and is 'explosive' because the other executive directors, and persons in legal and in HR overheard past outbursts. Managers aware of the problem are said to have expressed sympathy to their subordinate employees, but to respond only with 'I've seen it before,' without taking further action." The report also states that every witness interviewed, with the exception of one high level manager, has observed the executive employee "blow up."

According to interviews, the Executive Director/CEO did not present the findings and recommendations of the investigation report to the KLC Executive Board or the KLCIS Board of Trustees. According to the General Counsel, this situation did not rise to the level of informing the boards. However, due to the cost of the investigation, the paid two week suspension of an executive employee, the severity of the complaint against the Chief Insurance Services Officer, the resignation of a KLC employee, and the significant findings and recommendations of the investigative report, the KLC Executive Board and KLCIS Board of Trustees should have been informed of the incident and the findings and recommendations of the report. Reporting this information appears especially appropriate given the investigative report language stating that, "past and future incidents could expose KLC to legal liability." Neither of the boards' minutes document any presentation or discussion of the investigation and report. The Employee Handbook does not require any member of Executive Staff or the HR Director to notify the KLC boards of directors regarding harassment complaints.

Recommendations

We recommend that the KLC Executive Board have a policy to ensure they are informed of harassment complaints when preliminary internal investigations indicate that there is sufficient merit to the allegation. The KLC Executive Board should be involved in the decision to hire an outside consultant to conduct the investigation. When the complaint involves a member of KLC Executive Staff, the Executive Board should be notified immediately in order to ensure that the investigation is handled with the best interests of KLC staff and its membership.

KLC's Executive Board should be provided with the investigative report referenced above and any other future investigative reports, whether the investigation is handled internally or by an outside firm. This will ensure that the Executive Board is aware of findings and recommendations and have adequate information to determine the appropriate action.

The KLC Executive Board should revise the Employee Handbook to reflect the recommended changes. In addition, the Employee Handbook should include the requirement that a formal reprimand will be documented in the employee's personnel file if it is determined that a violation occurred. We also recommend the Executive Board ensure that the policy provide Executive Staff with a clear understanding of the types of issues that should be reported to the Board. This should assist in limiting Executive Staff's discretion over what information is shared with the Executive Board.

We further recommend that the Executive Board take action to ensure a whistle-blower policy is adopted as recommended in Finding 17 of this report.

Finding 27: The insurance programs of KLC were not organizationally independent of the primary KLC member association activities.

Because the insurance programs of KLC were not organizationally independent of KLC member association activities, the Kentucky Department of Insurance (KDOI) requested on July 2, 2009, that KLC implement a distinct and discernable separation between the activities of KLC and KLC's insurance programs. This separation was to assist in determining whether the purchase of insurance policies from KLC was in compliance with insurance regulations regarding illegal inducements. While KLC has recently agreed to make certain changes to the roles of KLC executives, a clearer distinction may be needed to ensure compliance with KDOI statutes and regulations. This is especially important since KDOI is responsible for reviewing the activities of the insurance programs and not the parent organization.

According to KRS 304.12-110, no insurer can provide any offer or promise to the insured or prospective insured of the following:

1. employment;
2. shares of stock, issued securities, or related interest;
3. advisory board contract offering or promising any profits or special returns or dividends; and,
4. prizes, goods, wares, merchandise, or property with an aggregate value of $25.

To ensure compliance with the statute, KDOI suggested that there be a more distinct and discernable separation between the activities of KLC and KLC's insurance operations. This suggestion defined insurance operations to include not only KLCIS, but also KLCWCT, KLCIA, and KLCPFC. A corrective action plan was requested by KDOI with the goal of eliminating any direct or indirect inducements as well as the appearance of impropriety that may result from providing benefits to insureds/prospective insureds that might be associated with an insurance transaction.

According to the final corrective action plan submitted by KLC and accepted by KDOI, KLCIS will not sponsor meal functions, hospitality events, and/or cocktail receptions at the KLC annual conventions. However, KLCIS will continue to advertise its products and services like other insurance companies. KLC and its related entities will cease offering entertainment and sporting event tickets to any KLC member, prospective member, insured or prospective insured, with the exception of KLC officers and KLC Executive Board members. KLCIS will discontinue offering a chance for a door prize, valued at over $25, to anyone that visits the KLCIS booth at the annual KLC convention. As for Executive Staff, KLC's Executive Director/CEO and Deputy Director's roles will be clarified to include the monitoring and oversight of KLC internal activities related to the execution of the administrative agreements with the insurance programs and the external activities that do not involve the direct solicitation of new or renewal business from current or prospective members. The Chief Insurance Services Officer will no longer manage the KLC finance programs. This duty will be reassigned to other KLC personnel as soon as arrangements can be made to ensure the continued success of that program.

KLC's corrective action plan begins to address the concerns of KDOI, but further separation may be needed to ensure the independence of the insurance programs. The boards related to KLCIS, KLCWCT, KLCIA, and KLCPFC consist of several of the same members that serve as officers of the KLC Executive Board. Therefore, the oversight of the insurance programs was provided by the same individuals that determined the budget and operations for the parent KLC organization. In addition, the Chief Insurance Services Officer organizationally reported to KLC's Deputy Executive Director and Executive Director/CEO. This situation did not provide independence and had the perception that the insurance program activities were being directed by the KLC Executive Director/CEO, who was ultimately responsible for membership activities.

Recommendations

We recommend KDOI review the information presented in this report for its use in KDOI's oversight of KLCIS. We further recommend the KLC Executive Board determine whether further segregation between KLC and KLCIS is warranted.

Finding 28: KLC subsidized NewCities through in-kind contributions and cash totaling $7,239,378 over an eight-year period with few quantifiable results.

NewCities was formed by KLC in 2002 as NewCities Foundation, a separate non-profit corporation to "research, study, educate, and innovate communities about civic engagement." The name of the organization was changed to NewCities Institute in 2005 in order "to more accurately reflect our research and education mission." In June 2008, The Kentucky Partnership for Successful Schools (PSS) merged with NewCities. PSS was formed in 1992 to "deliver practical, real-world programs and strategies that focus community and employer energy on school improvement efforts." PSS provides "research, policy development, public information campaigns and has worked directly with schools and school districts to improve student achievement." The current stated mission of NewCities is to "define and promote the economic and social prosperity of communities, regardless of size or location, through citizen engagement."

NewCities generates revenue from grants, contributions, and engagement fees. NewCities contracts with municipalities, educational, and other non-profit groups, in and out-of-state, to facilitate meetings and provide guidance in soliciting and training local residents to recognize opportunities for and encourage participation in projects that may improve the standard of living in those local or regional areas. NewCities charges an engagement fee for providing those services. NewCities has conducted two out-of-state engagements to date. One engagement was in Sparks, Nevada in 2007 and another in Moscow, Idaho in 2005. NewCities charged fees of $4,000 and $20,000, respectively, for those two engagements.

NewCities has developed various initiatives impacting communities and providing educational opportunities. Through its merger with PSS, various educational programs provided include Kentucky Scholars, One to One, Community Engagement Research and Dissemination, Math Matters, NewCitizen Kentucky, as well as other educational programs. NewCities also provides facilitation and training services for communities, while providing presentations and sponsorships for various management and educational conferences.

PSS was historically funded primarily by federal and state grants, and by grants from corporations and charitable foundations. PSS promotes several existing educational programs and supports the development of additional educational programs. For example, the Kentucky Scholars program works with school districts to ensure course offerings are providing the knowledge base required for students to enter the workforce and to ensure students are encouraged to take the challenging coursework necessary for a successful future. The One 2 One programs train volunteers to assist and mentor students who are struggling with reading and math skills. PSS retains contract trainers for the purpose of training local volunteers to be mentors in the various programs.

The NewCities Board of Directors is comprised of 15 members including the Executive Director/CEO of KLC, five members with educational backgrounds, three from municipal or county government, two from legal firms, and one each from corporate, a non-profit, a former governor, and a KLC donor/benefactor. The NewCities Board has only two representatives from the KLC membership. Executive staff for NewCities is comprised of a President (KLC Executive Director/CEO), an Executive Vice President, a Director of Public Affairs, a Director of Business Development and a Leadership Education Administrator. There are several former PSS staff employed as contractors for the purpose of insuring a smooth transition of the merger and to continue to develop, promote, and train PSS programs.

All the full time staff of NewCities are employees of and compensated by KLC. KLC and NewCities entered into a “Service and License Agreement” whereby KLC agreed to lease to NewCities the employees, facilities, supplies, and services “that may be required for the effective operation of the Institute.” KLC allocated the cost of these services to NewCities via an “in-kind contribution” comprised of the direct and indirect costs incurred by KLC on behalf of NewCities. The allocation included the direct cost of salaries and benefits for NewCities staff and an indirect salary allocation of all other KLC employees. The indirect salary allocation was based upon an estimate of all other KLC employees’ time allocated to supporting NewCities operations. In addition to the salary and benefits cost, KLC allocated a percentage of all other KLC overhead costs based on the ratio of allocated direct and indirect salaries and benefits to the total KLC salaries and benefits. Per Statement of Accounting Standards No. 116, the total of this in-kind contribution was recorded on the financial books of NewCities as both revenue and expense.

The following table displays NewCities yearly operating revenues and expenses excluding the in-kind allocation of expense. The table also lists by year the amount of in-kind overhead allocation from KLC to NewCities, all cash transfers to or from NewCities by KLC and the amount of “direct” expense included in the in-kind allocation.

Table 39: New Cities Revenues and Expenditures

	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009** *est.*	**Total**
Contributions	$30,000	$3,000	$37,767	$44,246	$33,367	$105,083	$160,814		$414,277
Program Revenue *	42,176	108,033	50,597	57,902	77,652	42,602	126,242		505,204
Grants			68,575	218,976	96,376	37,877	-		421,804
Interest and other	495	625	4,173	28,385	19,085	19,132	14,449		86,344
Total Revenues	72,671	111,658	161,112	349,509	226,480	204,694	301,505	*367,156*	1,794,785
Less Expenses	(247,463)	(273,949)	(210,657)	(421,976)	(257,423)	(204,060)	(315,103)	*(467,661)*	(2,398,292)
Net operating income (loss)	$(174,792)	$(162,291)	$(49,545)	$(72,467)	$(30,943)	$634	$ (13,598)	*$ (100,505)*	$ (603,507)
In-kind contribution from KLC	$467,889	$654,043	$569,272	$727,860	$922,187	$1,140,450	$1,315,109	$992,568	$6,789,378
Net cash transferred from (to) KLC	$200,000	$200,000	$100,000	$100,000	$100,000	$50,000	$ (125,000)	$ (175,000)	$450,000
Total contribution from KLC									$7,239,378
NewCities direct expense included in the KLC in-kind contribution						$570,460	$681,462	$652,405	

Source: NewCities annual audit reports and other KLC provided financial reports.
* Includes an allocation of Cornerstone Partners revenue.

In eight years of operations, NewCities has incurred a cumulative net operating loss of $603,507. During those eight years, NewCities required $6,789,378 of in-kind overhead subsidies or support from KLC and received an additional net cash contribution of $450,000. The total operating loss, in-kind allocation and cash infusion for the eight-year period was $7,842,885. While the accounting treatment for an in-kind allocation requires that amount to be included as both a revenue and an expense, thus having a zero impact on operating income, it is important to note that there were significant expenses included in the in-kind allocation that were deemed to be directly attributable to and incurred solely on behalf of NewCities. Those expenses are listed above as the NewCities direct expenses. As the net operating loss indicates, NewCities has demonstrated limited ability to profitably market the services offered while requiring a significant level of support from KLC.

The NewCities direct expenses detailed above include all of the salary and benefit cost of the NewCities Executive Vice President, the NewCities Director of Business Development, the NewCities Director of Public Affairs and any other miscellaneous operating costs that were directly attributed to NewCities. If only those direct costs were included as part of the NewCities net operating income, NewCities would have recorded an operating loss of $569,826, $695,060, and $752,910 for the fiscal years 2007, 2008, and 2009.

NewCities major revenue generating engagements and the related revenues during the past three years were as follows:

Table 40: NewCities Revenue Generating Engagements

Source of Revenue	FY 2007	FY 2008	FY 2009
Morehead	$40,000		
Madisonville		$75,000	
Inez		$20,000	
West Liberty			$10,000
Lexington/Fayette			$19,200
Total	**$40,000**	**$95,000**	**$29,200**

Source: Auditor of Public Accounts based on financial information provided by New Cities.

As part of NewCities merger agreement with PSS, NewCities incurred additional expense for a special audit of PSS prior to the merger and also for consulting fees paid to former PSS staff subsequent to the merger. These expenses were partially offset by PSS related revenues. The PSS related revenues included in the 2009 NewCities results stated in Table 39 were $136,596. The PSS related audit and consulting expenses incurred in 2009 totaled $15,090 and $258,651, respectively.

Historical results and financial projections indicate a requirement for a significant level of continued support by KLC for the NewCities program. While NewCities has indicated that the in-kind allocation from KLC will be substantially reduced starting with fiscal year 2009, it is important to understand and also question the nature of a reduction of the in-kind allocation.

Essentially all the operating costs of the various KLC operations, i.e. insurance, agency, financing and NewCities, were recorded on the books of KLC. At each fiscal year end, KLC prepared a spreadsheet that manually allocated all of the KLC incurred expenses to the appropriate affiliated organizations. Some expenses that were readily identifiable as chargeable to a specific entity, such as salaries and benefits, travel, etc., were allocated to that entity as direct costs. KLC salaries and benefits not previously allocated as direct costs were then allocated to the affiliated organizations based on individual estimates of time spent supporting those entities during the year. The total of the direct salaries and benefits and the allocated salaries and benefits charged to each organization was then used as a basis for allocating all the other unallocated KLC expenses.

As noted in Table 39, NewCities 2009 in-kind allocation was reduced by nearly $323,000. A cost reduction of that magnitude in a single year raises concerns regarding the accuracy of the allocation and the true cost of support provided NewCities. If the prior year allocations were correct and NewCities required that level of additional support from KLC in order to operate, what has changed in the NewCities structure to allow NewCities to no longer require that degree of support? Included in the approximate $323,000 reduced allocation is a $208,000 reduction of allocated indirect KLC salaries. In the 2008 allocation, 24 KLC staff allocated over two hundred thousand dollars of indirect salary and benefits to NewCities. Those 24 staff members allocated zero dollars to NewCities in 2009. If KLC has $208,000 of equivalent salaried staff that is no longer supporting NewCities that would seem to bring into question whether KLC should reduce its staff by some comparable component. Reducing the total allocation by such a significant amount challenges the credibility of the process.

To help provide financial support, NewCities has developed a "Funding and Development Support" plan for the 2009-2010 fiscal year, and it has under consideration a proposal requiring financial and personal commitments from all NewCities Board members. The Funding and Development Support plan lists six specific strategies that NewCities will adopt in order to define funding requirements and funding sources for the various NewCities programs. The strategies include targeting corporations, foundations, associations, and specific individuals on a national scale as sources of funding for NewCities in the current budget year. NewCities plans to seek smaller but more numerous engagements and to emphasize fund raising via solicitation of grants and contributions. In addition, the NewCities Board is considering a proposal that will require the NewCities Board members to sign a commitment stating that they will make an annual gift to NewCities, will be expected to help raise at least $10,000 annually, and that they will support other funding initiatives that will require personal commitments of time and resources.

Based on funding projections provided by KLC, it is unclear whether all the PSS programs can be self-supporting even though PSS has added several grant-based programs to the NewCities operation. The Kentucky Scholars program is funded by annually renewable grants from the Kentucky Department of Education and Kentucky Community and Technical College System. The One 2 One Math program is seeking a two-year $250,000 grant from a corporation, though the decision to award that grant will not be known until December 2009. Should that grant not be awarded, alternative funding will have to be sourced before the program can be implemented. The One 2 One Reading program is currently under-funded but has several grant applications in process, the decisions of which are pending. Many of the PSS programs were funded on a year-to-year basis but funding did not necessarily coincide with the timing of required program expenditures.

While the above stated NewCities funding programs and grant activity appear to be more extensive and aggressive than fundraising efforts in previous years, it is not clear that even a moderately successful fundraising campaign would be sufficient to provide the amount of support required for NewCities to become a self sustaining operation without continued substantial in-kind support from KLC. The question for the KLC Executive Board then becomes: Is NewCities a program that supports the mission of KLC to the extent that it is funded?

KLC's independent auditors, having noted the significant amount of historical support provided NewCities by KLC, and being required to evaluate the representation of NewCities as a going concern, will request KLC to include in its 2009 Management Representation Letter affirmation by KLC of KLC's intent to provide the amount of support necessary for NewCities to continue to be deemed a going concern through calendar year 2010.

Recommendations

While the stated missions of NewCities and the merged PSS are commendable, the KLC Executive Board must recognize the significant expenditure of resources required to support these operations and evaluate the benefit to KLC members.

The KLC Executive Board, NewCities Board of Directors, and KLC staff must reassess and weigh the future commitment to these missions to determine if continued support is the best use of KLC resources. The Board must assess whether a $7.2 million outlay to NewCities over the last eight years represents a responsible and acceptable use of member-provided resources.

If the KLC Executive Board determines to continue its commitment, the following recommendations should be considered:

- Given the significant amount of support required from KLC, the NewCities Board should limit the engagement activities of NewCities to in-state municipalities unless NewCities can provide detailed analysis demonstrating a degree of profitability that covers not only the direct expenses of the engagement but also includes a proportionate profit component sufficient to offset some pro-rata portion of the KLC in-kind support.
- We recommend NewCities improve the financial reporting for both NewCities and PSS engagements such that NewCities Board members can easily understand and determine the status of any program at any given quarter end. That reporting should include concise summaries by program of the actual and projected expense and revenue and the status of related grants or fees. The Executive Board should receive detailed financial and program reporting to assist in determining the cost benefit of the program.
- Given that KLC membership is providing the support for NewCities, we recommend NewCities consider additional board member representation from the KLC membership.
- Given the significant amounts of in-kind contributed services in question, we recommend the KLC Executive Board, the NewCities Board of Directors, and KLC staff review the amount and nature of the support provided NewCities to ensure the allocation is accurate and appropriate. The KLC Executive Board also should review whether further cost reductions at KLC are warranted and dictated as a result of the decreased requirements of NewCities.

Finding 29: Income related to personal use of vehicles was not accurately reported in executives' W-2 wages.

KLC provided Executive Staff with organization-owned vehicles that were used for personal as well as KLC business purposes. KLC also reimbursed the executives for all gasoline purchases. Executive Staff members were expected to, but did not consistently submit mileage logs to the Payroll Department at each year-end. The mileage logs were required to enable the Payroll Department to calculate the amount to be charged to each executive for personal use of the automobile. The amount calculated as attributable to personal use was added to the executives' W-2 wages as fringe or non-cash income and thus subjecting that amount to all the pertinent federal, state, and local taxes. In some cases mileage logs were not submitted and in other instances the personal use amount was miscalculated.

There are several methods allowable by the IRS for calculating the total cost of personal use of a vehicle. KLC used the annual lease value method.

The annual lease value method has two parts to the calculation. First, the annual lease value of the car is derived from an IRS provided chart using the fair market value of the car at the time it was placed in service. Mileage logs are then used to determine the percentage of personal versus work-related miles driven during the year. The percentage of personal miles to total miles is applied to the annual lease value to arrive at the portion of the annual lease value that is deemed to be personal.

The second part of the calculation is an allocation of the cost of gasoline. If an employer provides all the gasoline for the vehicle, the IRS applies a $.055 per mile charge to the personal miles driven during the year.

The total of the personal portion of the annual lease value plus the amount calculated for personal gasoline use is the amount to be charged the employee for personal auto use. That total is added to the W-2 line 1 wages and should be shown on the W-2 line 14 as non-cash fringe income.

KLC used two accounting forms to capture data for the calculation of the personal charge for automobile expense. The first, the Auto Usage form, was completed and signed by the employee who had use of the automobile. This form detailed the amount of work-related and personal mileage driven during the year. The second, the Automobile Worksheet form was completed by the Payroll Department and included the calculation of the personal charge for automobile use to be included on the employee's W-2 as non-cash fringe income.

If there is not adequate supporting documentation for the calculations, the entire amount of the annual lease value of the automobile must be reported as personal income.

Table 41 details the amount of non-cash fringe income related to personal use of a vehicle actually included in the W-2 for each executive, the amount reported on the KLC prepared supporting worksheets, the amount recalculated by the auditor using the correct fair market value of $.055 per mile for personal mileage, and the variance of the amount reported on the W-2 to the recalculated amount.

Table 41: Income Recognition for Personal Use of KLC Provided Automobile

W-2 Year		Amount Shown on W-2	KLC Calculated Amount Per Auto Usage Worksheet	Recalculated Amount Based on KLC Data	Corrected Calculation Versus Amount Reported on W-2
2006	Executive Director / CEO	$3,025	$646	$679	$2,346
	Deputy Executive Director	$1,100	$3,393	$5,323	($4,223)
	Chief Insurance Services Officer	$1,757	$1,385	$1,630	$127
2007	Executive Director / CEO	$3,900	N/A	N/A	N/A
	Deputy Executive Director	$3,440	$4,352	$6,895	($3,455)
	Chief Insurance Services Officer	$2,092	N/A	N/A	N/A
2008	Executive Director / CEO	$3,900	$1,622	$2,670	$1,230
	Deputy Executive Director	$4,160	$4,340	$6,566	($2,406)
	Chief Insurance Services Officer	$2,600	N/A	N/A	N/A

Source: Auditor of Public Accounts based on information provided by KLC.
N/A – Mileage logs were not submitted.

In reviewing the auto usage worksheets for the Executive Director/CEO, the Deputy Executive Director, and the Chief Insurance Services Officer for the years 2006, 2007, and 2008 there were several errors noted in the calculations and reporting. These errors included:

- A recalculation of the reportable income for the Deputy Executive Director indicates that the amount of personal income included in the W-2 for the calendar years 2006 through 2008 was understated by over $10,000. This was a result of using the wrong fair market value of the automobiles and applying the $.055 per mile gasoline cost to the wrong value.
- The Executive Director/CEO did not submit a mileage log in 2007; the Chief Insurance Services Officer did not submit a mileage log in 2007 or 2008. In the absence of specific details, KLC estimated the amounts to be included on the W-2's for those years.
- The fair market value of the Executive Director/CEO's 2007 BMW X5 used in the 2007 and 2008 calculation was $39,082 and the scheduled annual lease value applicable to that fair market value was $10,250. The correct fair market value that should have been used was $64,083, the amount actually paid for the BMW, including tax and fees. Using the correct fair market value in the calculation would have resulted in a $1,048 increase in the 2008 personal reportable income.

- The calculation of the $.055 per personal mile charge was done incorrectly on all of the Auto Worksheet forms that were completed. The $.055 per mile was applied to the calculated personal value of the annual lease payment instead of applying it to the personal miles driven.
- None of the amounts that were calculated on the Auto Worksheet forms completed by the Payroll Department agreed to the amounts that were shown on the individuals W-2's as non-cash fringe income related to personal use of an automobile.

KLC indicated that for the years where employees did not submit a mileage log to support the calculation to be made, the amounts included in the individuals W-2's were estimated.

When the above noted errors occurred, the Payroll Department was administered by the Human Resources Department. The Payroll Department has been moved to the Controller's Department and the responsibility has been reassigned.

Recommendations

In order to comply with IRS regulations, we recommend the Payroll Department, in consultation with the IRS, take steps to amend any previously issued W-2s to appropriately reflect the non-cash fringe income that should have been reported for each of the employees who were provided personal use of a vehicle by KLC but did not provide adequate supporting documentation for calculations of that income.

Any KLC executive assigned a vehicle that includes personal use must record and submit personal and work-related mileage records in a timely manner to the Payroll Department. Those records should include all the information necessary for KLC to accurately calculate and support the personal usage charge for KLC provided vehicles.

KLC must ensure that the Payroll Department employees responsible for the calculation of the personal value of KLC supplied vehicles are properly trained and understand the methodology of the calculation.

All Payroll Department calculations resulting in non-cash fringe income adjustments to an individual's W-2 should be reviewed and approved by supervisory or other designated knowledgeable staff.

Finding 30: Weak internal controls identified at KLC did not provide a sufficient review process prior to making a payment.

KLC did not establish a formal process to ensure a thorough and consistent review and approval was performed prior to making a payment. Without proper guidance, the accounting staff was placed in the position of paying expenses without supporting documentation, which could lead to the payment of inappropriate expenditures. KLC should implement a formal process requiring appropriate accounting staff to be provided supporting documentation and proper approval prior to processing a payment. Expenditures should not be paid until the transaction documentation and approval is provided and reviewed by the accounting staff. This process should apply for transactions initiated by or on behalf of staff, Executive Staff, board members, or others.

During our expenditure review and interview process, we found several accounting control weaknesses. The following conditions identified during our review illustrate that expenditures were not properly controlled.

Lack of Adequate Controls and Oversight

KLC had an inadequate accounting system and payment procedures that would not prevent the manipulation of records and payments. We noted numerous examples of payments without proper review or approval, payment of duplicate employee reimbursements, invoices that lacked supporting documentation, and instances where the payee on the check was different than the payee on the invoice. A handwritten paper passed as adequate supporting documentation for a purchase and other transactions had no documentation. Below are additional examples of inadequate controls.

1. In our sample of invoices reviewed, a check to the Lexington Blue Grass Airport, a KLC insurance policyholder, was found to have no invoice or other supporting documentation. It was later determined by Airport accounting staff that this was an unemployment insurance dividend payment of $9,206.

2. The accounting staff determined accounting codes for expenses instead of the specific employees that approved the expenditure. For credit card expenses, accounting staff coded the expenditures without supporting documentation or approval. The Deputy Executive Director approved and signed checks for payment to the credit card companies, but did not provide guidance on how expenditures should be coded in KLC's accounting system.

3. The vendor listed on the invoice did not always agree with the payee written on the check. Checks were cut directly to the KLC Chief Insurance Services Officer's son even though the invoice only stated the name of the business, not an individual's name. These expenditures were coded to the business name even though the checks were written to the KLC official's son. In another example, a local insurance agent was the payee on a check when the invoice was provided by the insurance agent's firm. While these expenditures may have been legitimate, they illustrate that payments may not agree with the supporting documentation.

4. All accounting staff were able to create vendors in the accounting system without approval. The accounting system does not limit the rights of accounting staff and there is no purge of vendors to ensure that all vendors are active with KLC. This allows any employee in the accounting area to establish a vendor at any time and increases the risk of fraudulent transactions.

5. Because any accounting employee could create a vendor, the person that printed the checks could also falsify an invoice and present the check to be signed by Executive Staff. Only one person in the accounting department had the responsibility of printing KLC's checks because the check printer was connected to that individual's computer. Once the checks were printed, that staffer then took the checks to the appropriate Executive Staff members for signatures. The checks and associated documentation were not reviewed by another accounting department staff member before being presented for signatures or prior to mailing. To further weaken this control, banks do not review the signatures of checks that are not over a certain amount. According to KLC's CFO, any checks issued to an employee over $600 was required to have a tax I.D. number of the employee so that a W-9 statement could be sent to the employee. Therefore, a check less than $600 was not always subject to further review.

6. In FY 2008, KLC's audited financial statements report that $318,870 was spent for professional services. Of the invoices reviewed for consultant expenses, no detail was provided as to the actual services performed. The invoice would simply indicate the total hours worked at a rate and that amount would be on the invoice/check.

7. The KLCIS Paid Claims bank account is mainly controlled by KLC's TPA. The TPA pays claims from this account to KLC policyholders and also uses it to pay attorney fees. The checks issued by the TPA are not reviewed by KLC staff and there is no code to separate the account between checks for policyholders or checks for attorneys. Therefore, the KLCIS Board of Trustees is not informed as to what types of expenditures are being paid from this account.

8. Gifts and prizes were purchased for conferences and employee events, but there were no procedures in place to document the individual receiving that gift or prize. At KLC's conventions, tickets were given to all attendees for door prizes that were given away. When KLC had an office function, like Casino Night, people who won "money" could purchase raffle tickets. Those tickets could be used for different kinds of prizes from a cordless phone to a $650 LCD 32-inch TV. Additional controls are needed to ensure that these purchases are used for their intended purposes.

9. While a budget is approved with established categories of expenditures, amendments to the budget are not required if an expenditure category is exceeded as long as the total budget amount is not exceeded. If spending is not controlled by category, the budgeting and approval process is weakened.

10. In certain instances, an expense on an employee reimbursement form also would be submitted twice and reimbursed twice to the employee. Some of these reimbursement forms had evidence of being reviewed/approved and still would be paid twice. The employee reimbursement process used during the period of our review further complicated this situation. Any amounts an employee owed to KLC for personal expenses were netted against the amount documented on the individual's reimbursement form, instead of requiring separate transactions. According to accounting staff this process has now been changed to require that amounts owed to KLC must be paid by the individual regardless of any reimbursements owed to the individual.

The weaknesses described above could lead to unauthorized activity due to either error or intent. The other findings in this report are further evidence that additional policies and controls are needed.

Recommendations

The KLC Executive Board should ensure a procedures manual is developed to address the security of the accounting system, proper lines of authority for review/approval of expenditures, the types of allowable expenses, required supporting documentation, and requirements regarding expenditure payments. This manual should also include required procedures for reviewing payments and checks.

KLC should thoroughly review the accounting system for security weaknesses and establish appropriate security measures to limit access based on a user's rights to the accounting system. The authority to grant user rights to accounting records should be limited to a trained administrator.

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
6/5/2006	Travel Traders	Chicago, IL	$3.47	Unknown
6/6/2006	Barnes & Noble Bookseller	Chicago, IL	$27.13	Book - Never Eat Alone
6/19/2006	Bellini	Lexington, KY	$29.91	Unknown - Meals; 2 Employees
6/23/2006	Leather, Inc	Lexington, KY	$51.41	Notepads/journals
6/28/2006	Marriott's Griffin Gate	Lexington, KY	$18.69	Unknown - Meals; 1 Employee, 1 Companion
7/7/2006	Azur Restaurant & Patio	Lexington, KY	$36.10	Unknown - Meals; 1 Employee, 1 Companion
7/24/2006	Azur Restaurant & Patio	Lexington, KY	$35.04	Unknown - Meals; 1 Employee, 1 Companion
7/27/2006	Borders Books, Music, & Café	Unknown	$10.06	Newspaper & Pink Pussycats Notebook
7/30/2006	Outback Steakhouse	Unknown	$29.76	Unknown - meals
8/6/2006	Borders Books and Music	Unknown	$48.40	2 Periodicals and 2 Books
9/4/2006	Leather, Inc	Lexington, KY	$15.90	3 Blank pads & 4 Bosca pads
9/6/2006	Walgreens	Tucson, AZ	$55.43	Cosmetics - make up, blush, eyeshadow, mascara, eye liner, and concealer
9/12/2006	Michelinos/Café Ole	San Antonio, TX	$27.12	Glass of wine and meal
9/16/2006	Leather, Inc	Lexington, KY	$20.67	1 Scully 504SA-07
9/18/2006	Cincinnati Airport Marriott	Cincinnati, OH	$16.44	Unknown - Meal; 1 Employee, 1 Companion
9/20/2006	Serafini	Frankfort, KY	$25.20	Meal; 1 Employee; 1 Companion
9/25/2006	US Airways	Unknown	$50.00	Additional Collection; Employee; Unknown Purpose for Trip
9/25/2006	Azur Restaurant & Patio	Lexington, KY	$17.52	Working lunch, Employee, stood up by companion
10/8/2006	Joseph-Beth Booksellers	Lexington, KY	$7.16	2 magazines
10/11/2006	Delta Air Lines	Unknown	$10.00	Miscellaneous Tax/Fee (Change Penalty); Employee
10/15/2006	Joseph-Beth Booksellers	Lexington, KY	$7.16	2 magazines
10/29/2006	Joseph-Beth Booksellers	Lexington, KY	$7.16	2 magazines
11/13/2006	Images Model Agency	Lexington, KY	$95.00	Unknown; Note says TV Marketing & Image Consulting
11/19/2006	Leather, Inc	Lexington, KY	$42.93	10 Notepads and Jotter
11/25/2006	Leather, Inc	Lexington, KY	$12.72	2 Waterman Ballpoint Pens
11/25/2006	Leather, Inc	Lexington, KY	$21.20	5 Notebooks
12/15/2006	Leather, Inc	Lexington, KY	$30.00	10 Bosca Pads

Credit Card Expenditures With An Unclear Business Purpose, Inadequate Documentation or Excessive
July 1, 2006 – June 30, 2009

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
12/20/2006	Azur Restaurant & Patio	Lexington, KY	$19.25	Unknown - Meals; 1 Employee, 1 Companion
12/24/2006	Leather, Inc	Lexington, KY	$33.92	1 Shoreline 14151
12/31/2006	Joseph-Beth Booksellers	Lexington, KY	$16.64	1 Magazine and 2 Newspapers
1/28/2007	Hyatt Regency	Washington, D.C.	$370.69	One Night Stay; No Purpose
2/12/2007	Serafini	Frankfort, KY	$22.02	Meal; 1 Employee; 2 Companions
2/17/2007	Surrey Hotel	New York, NY	$301.14	One Night Stay; Employee; No Purpose
2/17/2007	Surrey Hotel	New York, NY	$446.77	One Night Stay; Employee; No Purpose
2/19/2007	Azur Restaurant & Patio	Lexington, KY	$21.98	Unknown - Meals; 1 Employee, 1 Companion
2/25/2007	Joseph-Beth Booksellers	Lexington, KY	$43.14	2 Books and 2 Newspapers
2/27/2007	Azur Restaurant & Patio	Lexington, KY	$13.75	Unknown - Meals; 1 Employee, 1 Companion
3/9/2007	Abuelo's Mexican Food Embassy	Lexington, KY	$11.73	Unknown - Meal
3/17/2007	Leather, Inc	Lexington, KY	$58.30	1 Scully Padcover
3/18/2007	Joseph-Beth Booksellers	Lexington, KY	$15.58	1 Magazine and 2 Newspapers
4/7/2007	Portofino	Lexington, KY	$43.05	Unknown - Meal
4/12/2007	Applebee's	Unknown	$10.99	Unknown - Meals; 1 Employee, 1 Mayor
4/26/2007	Phoenix Airport	Phoenix, AZ	$7.66	Unknown - Meal; Unknown Purpose for travel
6/6/2007	Hyatt Bellevue	Bellevue, WA	$437.23	One Night Stay; No Purpose
6/25/2007	Serafini	Frankfort, KY	$14.16	Meal; 1 Employee
7/10/2007	Greater Louisville, Inc.	Louisville, KY	$6,336.00	Extra Hotel Nights/Registration Fees; No Purpose
7/12/2007	CSA Travel Protection	Unknown	$396.74	Travel Insurance; Employee; No Purpose
7/29/2007	The Grand Hotel	Mackinac Island, MI	$1,824.50	Four Nights Stay; Employee and Spouse (Other employee on same trip paid $517.18 per night)
8/4/2007	Insight Cable	Unknown	$34.95	Receipt on file doesn't agree to amount on credit card statement; Internet Service
8/10/2007	Leather, Inc	Lexington, KY	$160.06	Filofax and 2 notepads
8/16/2007	Leather, Inc	Lexington, KY	$36.04	1 Filofax refill; 5 Filofax notebook refills
8/27/2007	The Woodland Grill	Lexington, KY	$8.87	Unknown - Meal

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
9/1/2007	Doug Stevenson Story Theater International	Colorado Springs, CO	$4,200.00	Storytelling workshop
9/2/2007	Joseph-Beth Booksellers	Lexington, KY	$35.72	1 Book (Political Brain) and 2 newspapers
9/21/2007	El Bracero	Unknown	$6.26	Unknown- Meal
9/23/2007	Joseph-Beth Booksellers	Lexington, KY	$7.16	2 Magazines
9/23/2007	Leather, Inc	Lexington, KY	$5.83	1 Filofax notepad
10/1/2007	Casa Rio Mexican Foods	San Antonio, TX	$8.76	Unknown - Meals
11/7/2007	Dudley's	Lexington, KY	$41.19	Unknown - Meal; 1 Employee, 1 Companion
11/10/2007	Kentucky Book Fair	Unknown	$28.58	Book - Prince of Darkness
11/15/2007	Marriott	New Orleans, LA	$240.88	One Night Stay; Employee; No Purpose
11/19/2007	Hilton	New Orleans, LA	$1,016.67	Three Nights Stay; Employee; No purpose given
11/21/2007	Dudley's	Lexington, KY	$203.39	Unknown - Meal; 1 Employee, 2 Companions
11/30/2007	Harry and David	Unknown	$244.28	Gifts for 4 Kentucky Mayors
11/30/2007	Residence Inn Marriott	Colorado Springs, CO	$327.36	Three Nights Stay; Employee; No purpose given
12/1/2007	Doug Stevenson Story Theater International	Colorado Springs, CO	$199.00	"How To Write and Deliver a Dynamite Speech" - 10 Audio CDs & 80 page workbook
12/11/2007	Serafini	Frankfort, KY	$76.91	Meal; 1 Employee; 1 Companion
12/20/2007	Willis Music FY	Lexington, KY	$16.95	Unknown Purchase; note says music stand for speakers
12/27/2007	Azur Restaurant & Patio	Lexington, KY	$15.65	Unknown - Meals; 1 Employee, 1 Companion
1/14/2008	Renaissance – St. Petersburg	St. Petersburg, FL	$380.82	Unknown; Receipt does not agree to credit card statement
1/20/2008	UV3 Topanga	Atlanta, GA	$5.35	Unknown
2/12/2008	Residence Inn - Colorado	Unknown	$109.81	Lodging; No Purpose
2/18/2008	Dudley's	Lexington, KY	$34.62	Unknown - Meal
2/23/2008	Hertz Car Rental	Cincinnati, OH	$171.51	Rental car for one day - Cincinnati, OH to Lexington, KY
2/24/2008	The Fairmont Hotel	San Francisco, CA	$1,061.66	Lodging; Receipt does not agree to credit card statement
3/24/2008	Margie's Southern Café & BB	Maysville, KY	$27.33	Unknown
3/27/2008	Embassy Suites	Lexington, KY	$12.99	Unknown

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
3/28/2008	Amazon.com	Internet	$43.72	2 Books - Presentation Zen: Simple Ideas on Presentation Design and Deliver & Made to Stick: Why Some Ideas Survive and Others Die
3/31/2008	Logan's	Unknown	$23.20	Unknown - Meals; 1 Employee, 1 Companion
6/1/2008	Capital Bar	Little Rock, AR	$14.00	Unknown - Meal
7/7/2008	PJ Morans Restaurant	New York, NY	$38.95	Unknown - Meal; Unknown Purpose for travel
7/8/2008	Aureole	New York, NY	$356.95	Unknown - Meals; 1 Employee, 1 Companion; $100 Reimbursed to KLC
8/22/2008	Azur Restaurant & Patio	Lexington, KY	$183.00	Unknown - Meal
9/10/2008	Serafini	Frankfort, KY	$23.08	Meal; 1 Employee; 1 Companion
9/12/2008	21C Museum Hotel	Louisville, KY	$296.69	One Night Stay; Meals; No Purpose
9/15/2008	Azur Restaurant & Patio	Lexington, KY	$498.52	Unknown - Meal
9/24/2008	Delta Air Lines	Unknown	$551.50	Passenger Ticket; Employee; No Purpose
9/29/2008	Bigg Blue Martini	Lexington, KY	$12.48	Unknown - Meals; 1 Employee, 1 Companion
10/2/2008	Azur Restaurant & Patio	Lexington, KY	$29.17	Unknown - Meals; 2 Employees
10/7/2008	KY Folk Art Center	Unknown	$200.00	Unknown
10/21/2008	Azur Restaurant & Patio	Lexington, KY	$26.01	Unknown - Meals; 1 Employee, 1 Companion
10/27/2008	Leather, Inc	Lexington, KY	$45.05	7 Filofax ruled paper refills; 4 blank pads
10/28/2008	Central KY Blood Center	Lexington, KY	$200.00	2 Tickets to attend the "Celebration"
10/29/2008	boxofficetickets.com	Unknown	$438.00	2 Tickets to the Bluegrass Ball and 4 memberships for the Kentucky Society Membership Program - 2009 Memberships
11/13/2008	Harry & David	Unknown	$241.72	Deluxe Holiday Gift Tower for 4 Executive Board Officers
11/21/2008	Azur Restaurant & Patio	Lexington, KY	$26.65	Unknown - Meals; 1 Employee, 1 Companion
11/26/2008	Delta Air Lines	West Palm Beach, FL	$716.50	Passenger Ticket; Employee; Purchased same flight plan for same employee twice

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
12/2/2008	Delta Air Lines	West Palm Beach, FL	$705.05	Passenger Ticket; Employee; Purchased same flight plan for same employee twice
12/24/2008	Delta Air Lines	Monterey, CA	$98.50	Remaining Balance of Airline Ticket to CA
12/30/2008	Serafini	Frankfort, KY	$71.89	Meal; 3 Employees; 2 Board Members
1/23/2009	Continental Airlines	Tucson, AZ	$928.90	Passenger Ticket; 1 NewCities Board Member
1/30/2009	Delta Air Lines	Unknown	$360.40	Passenger Ticket; Employee; No Purpose
2/5/2009	Delta Air Lines	Unknown	$610.90	Passenger Ticket; Companion; No Purpose
2/6/2009	Hyatt Hotels	Unknown	$71.08	Unknown
2/16/2009	Portofino - Lexington	Lexington, KY	$35.68	Unknown - Meal
2/18/2009	Delta Air Lines	Unknown	$501.40	Unknown
3/7/2009	Holiday Inn	Paducah, KY	$112.86	Lodging; No Purpose
3/31/2009	Bell Trans	Las Vegas, NV	$8.00	Copy of Original Receipt on File; No Explanation for Expense
5/5/2009	Delta Air Lines	Unknown	$180.51	Unknown
5/11/2009	Cincinnati/Northern KY Airport	Cincinnati, OH	$7.00	Parking at Airport
6/18/2009	Dudley's Restaurant	Lexington, KY	$702.24	Dinner with Board Members before board meeting, including alcohol
Total	**111 transactions**		**$28,275.02**	

Credit Card Expenditures With No Supporting Documentation
July 1, 2006 – June 30, 2009

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
6/1/2006	Ballys/Paris Las Vegas	Las Vegas, NV	$30.00	Unknown - No Receipt
6/8/2006	Hyatt Regency	Chicago, IL	$898.18	Unknown - No Receipt
6/15/2006	Fairfield Inn	Dayton, OH	$93.45	Unknown - No Receipt
6/29/2006	Southwest Airlines	Unknown	$34.00	Unknown - No Receipt
6/30/2006	Central Parking	Unknown	$2.00	Unknown - No Receipt
6/30/2006	Central Parking	Unknown	$5.00	Unknown - No Receipt
6/30/2006	Delta Air Lines	Unknown	$139.70	No receipt; Credit Card statement says Additional Collection; Employee
7/2/2006	Delta Air Lines	Unknown	$10.00	No receipt; Credit Card statement says Miscellaneous Taxes.Fees; Employee
7/9/2006	Joseph-Beth Booksellers	Lexington, KY	$8.75	Unknown - No Receipt
7/13/2006	Northwest Airlines	Unknown	$10.00	Unknown; No receipt; Employee
7/13/2006	Northwest Airlines	Unknown	$10.00	Unknown; No receipt; Employee
7/13/2006	Northwest Airlines	Unknown	$10.00	Unknown; No receipt; Employee
7/13/2006	Northwest Airlines	Unknown	$100.00	Unknown; No receipt; Employee
7/13/2006	Northwest Airlines	Unknown	$100.00	Unknown; No receipt; Employee
7/13/2006	Northwest Airlines	Unknown	$100.00	Unknown; No receipt; Employee
7/15/2006	Hyatt Regency	Washington, D.C.	$409.92	Unknown - No Receipt
7/15/2006	Hyatt Regency	Washington, D.C.	$26.83	Unknown - No Receipt
8/7/2006	Alyeska Prince Hotel	Girdwood, AK	$1,680.00	Unknown - No Receipt
8/21/2006	Shell Oil	Lexington, KY	$49.46	Unknown - No Receipt
9/4/2006	Insight Cable	Unknown	$34.95	Unknown - No Receipt
9/8/2006	Hertz Car Rental	Phoenix, AZ	$227.58	Unknown - No Receipt
9/8/2006	HmsHost - PHX- Air	Phoenix, AZ	$12.03	Unknown - No Receipt
9/9/2006	Hilton El Conquistador	Tucson, AZ	$41.92	Unknown - No Receipt
9/14/2006	Hilton	San Antonio, TX	$478.72	Unknown - No Receipt
9/14/2006	Vincenzos	Louisville, KY	$315.27	Unknown - No Receipt
9/25/2006	US Airways	Unknown	$5.00	No Receipt; Misc charge order/prepaid ticket authority
10/17/2006	Delta Air Lines	Louisville, KY to Montgomery, AL	$167.70	Passenger Ticket; Employee
10/28/2006	Jeff's Car Wash	Lexington, KY	$16.00	Unknown - No Receipt
11/2/2006	Delta Air Lines	Lexington, KY to Reno, NV	$123.31	Additional Collection; Employee
11/2/2006	Delta Air Lines	Unknown	$10.00	Departure Date 11/02/06; Additional Tax/Fees; Employee

Credit Card Expenditures With No Supporting Documentation
July 1, 2006 – June 30, 2009

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
11/3/2006	Delta Air Lines	Lexington, KY to Washington, D.C.	$383.70	Lexington, KY to Washington, D.C.; Passenger Ticket; Employee
11/13/2006	Marriott	Louisville, KY	$245.21	One Night Stay
11/17/2006	Marriott	Washington, D.C.	$513.55	One Night Stay
11/19/2006	Joseph-Beth Booksellers	Lexington, KY	$7.16	Unknown - No Receipt
12/7/2006	Sirius Radio	Unknown	$150.99	Unknown - No Receipt
12/23/2006	Jeff's Car Wash	Lexington, KY	$18.00	Unknown - No Receipt
12/24/2006	Leather Inc	Lexington, KY	$221.43	Unknown - No Receipt
12/28/2006	Country Style Plaza	Glendale, KY	$48.60	Unknown - No Receipt
12/31/2006	Shell Oil	Lexington, KY	$54.15	Unknown - No Receipt
1/2/2007	Amazon.com	Unknown	$31.04	Unknown - No Receipt
1/7/2007	Marriott	Marco Island, FL	$27.53	One Night Stay
1/8/2007	Marriott	Atlanta, GA	$165.11	Two Nights Stay; No Known Conference
1/19/2007	Marriott	Louisville, KY	$208.23	One Night Stay
1/22/2007	US Airways	Lexington, KY to Charlotte, NC	$589.40	Passenger Ticket; Employee
1/24/2007	Shell Oil	Lexington, KY	$49.35	Unknown - No Receipt
2/2/2007	Azur	Lexington, KY	$18.45	Unknown - No Receipt
2/3/2007	Jeff's Car Wash	Lexington, KY	$18.00	Unknown - No Receipt
2/6/2007	Delta Airlines	Cincinnati, OH to LaGuardia (New York) to Louisville, KY	$1,122.10	Passenger Ticket; Employee
2/10/2007	Northwest Airlines	Unknown	$159.10	Flight; KMESHA speaker
2/10/2007	Northwest Airlines	Unknown	$159.10	Flight; KMESHA speaker
2/27/2007	Northwest Airlines	Providence, RI	$159.10	Flight; KMESHA speaker
3/3/2007	Hilton Hotel	Austin, TX	$540.85	Three Nights Stay
3/5/2007	Amazon.com	Unknown	$21.72	Unknown - No Receipt
3/12/2007	Hilton Hotel	Washington, D.C.	$283.27	Two Nights Stay
3/21/2007	Delta Airlines	Lexington, KY to Atlanta, GA	$289.60	Passenger Ticket; Board Member
4/12/2007	Delta Airlines	Unknown	$9.07	Additional Collection; Employee; 5/17/07 Departure
4/16/2007	Delta Airlines	Lexington, KY to Baton Rouge, LA	$221.00	Passenger Ticket; Employee
4/16/2007	Delta Airlines	Lexington, KY to Phoenix, AZ	$259.00	Passenger Ticket; Employee
4/16/2007	Delta Airlines	Unknown	$10.00	Employee; Miscellaneous tax/fees;4/16/07 departure
4/16/2007	Southwest Airlines	San Antonio, TX to St Louis, MO	$300.70	Passenger Ticket; Employee
4/25/2007	Radisson Hotels	Phoenix, AZ	$163.36	One Night Stay

Credit Card Expenditures With No Supporting Documentation
July 1, 2006 – June 30, 2009

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
4/27/2007	Hilton Garden Inn	Baton Rouge, LA	$194.16	Hotel Stay; no receipt
4/30/2007	Serafini	Frankfort, KY	$15.23	Unknown - No Receipt
5/2/2007	United Airlines	Lexington, KY to Washington, D.C.	$47.30	Unknown; No receipt; Employee
5/9/2007	Northwest Airlines	Lexington, KY to Pellston, MI	$154.00	Flight for Executive Director; Lexington-Pellston, MI
5/9/2007	Northwest Airlines	Pellston, MI	$154.00	Passenger Ticket; Employee
5/10/2007	The Watergate Hotel	Washington, D.C.	$7.15	Unknown - No Receipt
5/14/2007	Der Air & Car Inc	Unknown	$6,385.52	City Fortunes Forum (Tours/Tickets)
5/16/2007	US Airways	Seattle, WA to Philadelphia, PA	$233.40	Passenger Ticket; Employee
6/3/2007	Joseph-Beth Booksellers	Lexington, KY	$7.16	Unknown - No Receipt
6/4/2007	Delta Airlines	Lexington, KY to Seattle, WA to Philadelphia, PA	$624.20	Passenger Ticket; Employee
6/9/2007	Republic Parking System	Lexington, KY	$11.00	Unknown - No Receipt
6/26/2007	Delta Airlines	Lexington, KY to Washington, D.C.	$520.60	Passenger Ticket; Employee
FY 2007	Nexion, Inc.	Unknown	$180.00	Ticket Booking Fee 9 transactions
7/9/2007	Hampton Inn & Suites	Paducah, Ky	$123.63	One Night Stay
7/18/2007	Deutsche Lufthansa	Munich, Germany	$1,043.07	Plane tickets for 3 Employees, 1 Board Member, and 3 Companions from Frankfurt Germany to Munich, Germany
7/20/2007	Delta Vacations	Unknown	$560.34	No Receipt; NLC State Meetings
7/24/2007	Delta Airlines	Cincinnati, OH to Pittsburgh, PA	$339.80	Passenger Ticket; Employee
7/25/2007	Delta Airlines	Lexington, KY to Orlando, FL	$157.70	Passenger Ticket; Employee
7/25/2007	NWA Air	Detroit, MI	$25.00	Unknown - No Receipt
8/3/2007	Big Boy - Frankfort	Frankfort, KY	$11.22	Unknown - No Receipt
9/4/2007	Delta Airlines	Unknown	$20.00	Companion; Miscellaneous taxes/fees (Departure Date 9-4-07)
9/8/2007	Unicorn Restaurant, The Dublin	Dublin, Ireland	$252.21	Unknown - No Receipt
9/9/2007	Peoples Dublin	Dublin, Ireland	$193.87	Unknown - No Receipt
9/17/2007	Drury Atlanta South	Morrow, GA	$112.99	Unknown - No Receipt
9/30/2007	Paradies	Unknown	$5.00	Unknown - No Receipt
10/8/2007	Shell Oil	Lexington, KY	$55.01	Unknown - No Receipt
10/18/2007	Delta Airlines	Unknown	$92.01	Companion; Additional collection (Departure Date 11-14-07)

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
10/19/2007	Delta Airlines	Unknown	$20.00	Companion; Miscellaneous taxes/fees (Departure Date 10-19-07)
10/19/2007	Delta Airlines	Unknown	$20.00	Employee; Miscellaneous taxes/fees (Departure Date 10-19-07)
11/7/2007	Holiday Inn	Frankfort, KY	$76.80	One Night Stay
11/17/2007	Delta Airlines	Lexington, KY to Washington, D.C.	$370.20	Flight for Executive Director; Lexington-Washington, D.C.
11/29/2007	Bennigans	Colorado Springs, CO	$19.61	Unknown - No Receipt
12/7/2007	Sirius Radio	Unknown	$150.99	Unknown - No Receipt
12/11/2007	Doug Stevenson Story Theater International	Colorado Springs, CO	$50.15	Unknown - No Receipt
12/14/2007	Marriott	Washington, D.C.	$278.25	One Night Stay
12/17/2007	Off Broadway Costumes	Lexington, KY	$40.28	Unknown - No Receipt
12/30/2007	Joseph-Beth Booksellers	Lexington, KY	$7.16	Unknown - No Receipt
12/31/2007	Shell Oil	Lexington, KY	$65.80	Unknown - No Receipt
1/14/2008	NABL	Chicago, IL	$795.00	Unknown - No Receipt
1/21/2008	Renaissance - Atlanta	Atlanta, GA	$193.00	Unknown - No Receipt
1/27/2008	Cheyenne Mtn Conf Resort	Colorado Springs, CO	$55.48	Unknown - No Receipt
2/11/2008	Delta Airlines	Unknown	$50.00	Unknown - No Receipt
2/11/2008	Delta Airlines	Unknown	$50.00	Unknown - No Receipt
2/11/2008	Delta Airlines	Unknown	$50.00	Unknown - No Receipt
2/11/2008	Delta Airlines	Unknown	$50.00	Unknown - No Receipt
2/12/2008	Residence Inn - Colorado	Unknown	$108.30	Unknown - No Receipt
2/19/2008	Delta Airlines	Unknown	$25.00	Unknown - No Receipt
2/19/2008	Delta Airlines	Unknown	$20.00	Miscellaneous taxes/fees; Employee
2/21/2008	Delta Airlines	Unknown	$135.50	Additional Collection; Employee
2/23/2008	Delta Airlines	Unknown	$85.50	Additional Collection; Employee
2/23/2008	Delta Airlines	Unknown	$263.00	Additional Collection; Companion
2/27/2008	Delta Airlines	Unknown	$75.00	Additional Collection; Companion
3/3/2008	Delta Airlines	Unknown	$513.50	Additional Collection; Companion
3/5/2008	Delta Airlines	Unknown	$8.00	Additional Collection; Employee
3/5/2008	Delta Airlines	Unknown	$830.50	Passenger ticket; Departure date 7/29

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
3/6/2008	Delta Airlines	Unknown	$20.00	Additional Collection; Employee
3/14/2008	Delta Airlines	Unknown	$434.50	Unknown - No Receipt
3/24/2008	Cheyenne Mt Conf Resort	Colorado Springs, CO	$200.00	Lodging 01/27 - 29/ 2008; No Receipt
3/28/2008	Shell Oil	Hagerstown, MD	$49.53	Unknown - No Receipt
4/13/2008	Joseph-Beth Booksellers	Lexington, KY	$7.16	Unknown - No Receipt
5/6/2008	Azur	Lexington, KY	$127.32	Unknown - No Receipt
5/29/2008	Delta Airlines	Unknown	$100.00	Additional Collection; Employee
6/4/2008	Barnes & Noble - Little Rock, AR	Little Rock, AR	$59.02	Unknown - No Receipt
6/4/2008	The Peabody - Little Rock	Little Rock, AR	$369.10	Unknown - No Receipt
6/13/2008	Frontier Airlines	Denver, CO	$78.20	Passenger Ticket; Employee
6/18/2008	Delta Airlines	Lexington, KY to New York, NY	$556.82	Passenger Ticket; Companion
6/19/2008	Shell Oil	Lexington, KY	$71.94	Unknown - No Receipt
7/9/2008	Delta Airlines	Unknown	$50.00	Additional Collection; Employee
7/9/2008	Delta Airlines	Unknown	$50.00	Miscellaneous taxes/fees; Employee
7/9/2008	Delta Airlines	Unknown	$50.00	Miscellaneous taxes/fees; Employee
7/12/2008	Embassy Suites	Huntsville, AL	$379.70	Unknown - No Receipt
7/23/2008	Delta Airlines	Unknown	$100.00	Additional Collection; Employee
8/2/2008	Mondo's Trattoria	Carmel, CA	$166.61	Unknown - No Receipt
8/4/2008	Insight Cable	Unknown	$35.00	Unknown - No Receipt
8/4/2008	National Parking	Monterey, CA	$9.00	Unknown - No Receipt
8/4/2008	Portola Hotel and Spa	Monterey, CA	$21.04	Unknown - No Receipt
8/5/2008	Sirius Radio	Unknown	$150.99	Annual Service
8/31/2008	Joseph-Beth Booksellers	Lexington, KY	$7.16	Unknown - No Receipt
9/5/2008	Delta Air	Roanoke, VA to Lexington, KY	$100.00	Unknown - No Receipt
9/7/2008	The Homestead Resort	Hot Springs, VA	$920.37	Unknown - No Receipt
10/7/2008	Courtyard	Arlington, VA	$22.21	Unknown - No Receipt
10/9/2008	Republic Parking System	Lexington, KY	$47.00	Unknown - No Receipt
10/9/2008	Tidewater Landing	Washington, D.C.	$12.84	Unknown - No Receipt
10/21/2008	UK Parking Transportation	Lexington, KY	$6.00	Unknown - No Receipt
10/23/2008	Sweet Water Saloon	San Diego, CA	$29.00	Unknown - No Receipt
10/28/2008	Delta Airlines	Unknown	$92.00	Additional Collection; Companion

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
11/3/2008	Bread of Life	Liberty, KY	$19.03	Unknown - No Receipt
11/17/2008	Marriott	Orlando, FL	$6.00	Unknown - No Receipt
12/7/2008	Sirius Radio	Unknown	$150.99	Unknown - No Receipt
3/3/2009	PARC - Louisville, KY	Louisville, KY	$7.00	Unknown - No Receipt
3/18/2009	Legal Sea Foods	Washington, D.C.	$45.34	Unknown - No Receipt
3/18/2009	Republic Parking System	Lexington, KY	$75.00	Unknown - No Receipt
4/1/2009	Republic Parking System	Lexington, KY	$26.00	Unknown - No Receipt
4/24/2009	Guest House Inn & Suite	Hazard, KY	$87.95	Unknown - No Receipt
5/21/2009	Palmer House Hilton	Chicago, IL	$44.91	Food
FY 2009	Nexion, Inc.	Unknown	$80.00	Ticket Booking Fee 2 transactions
Total	**166 transactions**		**$32,394.96**	

Reimbursements With An Unclear Business Purpose, Inadequate Documentation or Excessive
July 1, 2006 – June 30, 2009

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
7/7/2006	Panera Bread	Lexington, KY	$2.52	Breakfast in Lexington
7/26/2006	Panera Bread	Lexington, KY	$2.52	Breakfast in Lexington
7/31/2006	Unknown	Unknown	$36.00	Meal for Employee & Spouse
8/30/2006	Panera Bread	Lexington, KY	$2.63	Meal
9/6/2006	The Paradies Shops	Louisville, KY	$2.89	2 York Patties; 1 New York Times
11/6/2006	Churchill Downs	Louisville, KY	$1,900.00	4 tickets to the Breeder's Cup for Exec. Director and spouse and Deputy Exec. Director and spouse
2/16/2007	The Paradies	New York, NY	$2.16	Writing pad
4/12/2007	Panera Bread	Lexington, KY	$0.94	Meal
4/22/2007	Faustos Food Palace	Key West, FL	$9.57	1 New York Times Sunday; Merit Ultra Light Round Box
4/28/2007	Atlanta News Exchange	Atlanta, GA	$5.34	1 Forbes Magazine
6/7/2007	Hudson Group	Seattle, WA	$8.60	Magazine; Sundries; Candy
6/9/2007	Bassett's	Unknown	$5.09	Breakfast
6/25/2007	Delta Airlines	Dublin, Ireland	$841.78	Roundtrip ticket for Spouse to Dublin; "covered under spouse travel per board policy"
7/13/2007	Panera Bread	Frankfort, KY	$2.52	Meal
7/28/2007	Unknown	Unknown	$49.03	Meal for Employee & Spouse
8/29/2007	All About Travel	New York, NY	$425.10	Delta Air Lines tickets for Employee to fly Lexington to Cincinnati to New York (and return trip); No Purpose for flight stated
9/16/2007	Atlanta News Exchange	Atlanta, GA	$2.76	1 York Patty; 1 Orbit Peppermint Gum
9/17/2007	Atlanta News Exchange	Atlanta, GA	$3.73	1 Fiesta MX
10/4/2007	Panera Bread	Lexington, KY	$2.52	Meal
10/8/2007	Buckeyes & Bluegrass	Cincinnati, OH	$2.64	1 cheese popcorn
10/27/2007	Affimia Manhattan	New York, NY	$449.00	One Night Stay
11/27/2007	Yellow Cab Company	Colorado Springs, CO	$35.00	Taxi
11/30/2007	Creative Host Services	Colorado Springs, CO	$5.32	Meal
11/30/2007	Yellow Cab Company	Colorado Springs, CO	$35.00	Taxi
12/5/2007	Panera Bread	Lexington, KY	$2.59	Meal
2/4/2008	Panera Bread	Lexington, KY	$1.58	Coffee
3/10/2008	Rite Aid	Unknown	$6.02	Notebook
4/2/2008	Panera Bread	Lexington, KY	$2.97	Breakfast
4/11/2008	Bluegrass Airport	Lexington, KY	$633.00	Amount paid to Bluegrass Airport to reimburse them for the cost of Employee's airfare
5/1/2008	Derby Soiree	Meal	$1,000.00	Two Tickets to the Derby Soiree for Employee and Spouse
8/14/2008	Panera Bread	Lexington, KY	$4.62	Breakfast

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
8/27/2008	Panera Bread	Lexington, KY	$2.97	Breakfast
9/4/2008	Atlanta News Exchange	Atlanta, GA	$4.03	2 York Peppermint Patties; 1 Dentyne Fire gum
11/7/2008	Panera Bread	Lexington, KY	$2.97	Breakfast
11/19/2008	Panera Bread	Lexington, KY	$1.64	Breakfast
1/6/2009	Prestige Transportation	Palm Beach, FL	$50.00	luxury sedan ride - Palm Beach FL
1/11/2009	Prestige Transportation	Palm Beach, FL	$50.00	luxury sedan ride - Palm Beach FL
Total	**37 transactions**		**$5,595.05**	

Executive Director/CEO

Appendix 1

Reimbursements With No Supporting Documentation
July 1, 2006 – June 30, 2009

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
8/4/2006	Unknown	Unknown	$78.00	Meal; Unknown Attendees
6/26/2007	Unknown	Louisville, KY	$5.00	Lunch at the Galt House
8/3/2007	Unknown	Unknown	$17.08	Unknown
1/18/2008	Unknown	Unknown	$6.00	Unknown
6/1/2008	Southern Growth Policies	Unknown	$10.00	Unknown Purchase
8/1/2008	Unknown	Unknown	$25.00	Unknown
8/1/2008	Unknown	Unknown	$4.22	Unknown
2009	Unknown	Unknown	$4.50	Unknown
Total	**8 transactions**		**$149.80**	

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
6/7/2006	Bellini's	Lexington, KY	$54.08	Meal- Unknown Attendees
6/9/2006	Bellini's	Lexington, KY	$30.97	Meal- 2 Employees
6/11/2006	The Eiffel Tower - Vegas	Las Vegas, NV	$182.16	Meal- Unknown Attendees
6/14/2006	Ballys/Paris Las Vegas	Las Vegas, NV	$839.21	$401.03 charge to Les Artise Steakhouse; Unknown Attendees
6/20/2006	Bellini's	Lexington, KY	$40.95	Meal- 2 Employees
6/23/2006	Johnny Carino's	Frankfort, KY	$30.42	Meal- Unknown Attendees
6/30/2006	Bellini's	Lexington, KY	$51.99	Meal- 3 Employees
7/11/2006	Portofino's	Lexington, KY	$48.03	Meal- Unknown Attendees
7/17/2006	Bellini's	Lexington, KY	$57.73	Meal- 2 Employees, 1 Companion
8/13/2006	University Club	Lexington, KY	$125.00	Green Fees; Carts
8/17/2006	Valentino's Ristorante	Nashville, TN	$306.11	Meal- Unknown Attendees
8/23/2006	Bellini's	Lexington, KY	$48.31	Meal- 2 Employees, 1 Board Member
9/6/2006	Bellini's	Lexington, KY	$65.12	Meal- 3 Employees
9/7/2006	A La Lucie	Lexington, KY	$51.30	Meal- 4 Employees
9/13/2006	A La Lucie	Lexington, KY	$45.00	Meal- 3 Employees
10/10/2006	Walden Books	Charleston, SC	$90.95	Books
10/12/2006	Charleston Place	Charleston, SC	$1,240.10	Three Night Stay; 2 Meals; Refreshments; Spa Charge ($53.25)
10/19/2006	Turf Catering	Lexington, KY	$100.86	Unknown
10/23/2006	Clamatos	Lexington, KY	$55.97	Meal- 7 Employees
10/31/2006	Lexington Landside Food Co	Lexington, KY	$12.22	Unknown
11/6/2006	Bellini's	Lexington, KY	$65.06	Meal- 2 Employees, 1 Board Member
11/20/2006	Marriott	Lexington, KY	$44.84	Meal- 2 Employees, 1 Spouse
11/28/2006	Bellini's	Lexington, KY	$69.80	Meal- 2 Employees
12/7/2006	Beaujolais Bistro	Reno, NV	$948.82	Meal- Unknown Attendees
12/14/2006	Durango	Lexington, KY	$20.89	Meal- 2 Employees
12/14/2006	Durango	Lexington, KY	$69.04	Meal- 7 Employees
12/15/2006	Bellini's	Lexington, KY	$106.04	Meal- 3 Employees, 2 Board Members, 1 Other
1/4/2007	Bellini's	Lexington, KY	$70.86	Meal- Unknown Attendees
1/12/2007	Bellini's	Lexington, KY	$65.52	Meal- Unknown Attendees
1/18/2007	Marriott	New Orleans, LA	$730.88	Three Night Stay and "Lobby Bar"; Unknown Purpose for Trip
2/7/2007	Bellini's	Lexington, KY	$107.04	Meal- 2 Employees, 1 Board Member, 1 Other
2/22/2007	Bellini's	Lexington, KY	$48.28	Meal- 2 Employees
3/22/2007	Hanna's on Lime	Lexington, KY	$21.19	Meal
3/26/2007	Bellini's	Lexington, KY	$32.56	Meal- 2 Employees
3/28/2007	Metro West	Miami, FL	$24.77	Unknown
3/29/2007	Shingle Creek Golf Club	Orlando, FL	$276.92	Four Twilight Green Fees
4/4/2007	Steak n Shake	Lexington, KY	$10.65	Meal
4/17/2007	Hanna's on Lime	Lexington, KY	$21.42	Meal- 2 Employees
4/21/2007	Doughdaddy's	Versailles, KY	$25.75	Unknown

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
4/21/2007	Marriott	San Antonio, TX	$493.18	Three Night Stay; One Meal
4/24/2007	Bellini's	Lexington, KY	$96.62	Meal- 3 Employees
5/7/2007	Portofino's	Lexington, KY	$90.00	Meal- Unknown Attendees
5/9/2007	University Club	Lexington, KY	$165.00	Cart Fee - 1 Member; 3 Guest Green Fees
5/11/2007	Durango	Lexington, KY	$37.00	Meal- 4 Employees
5/16/2007	Bellini's	Lexington, KY	$144.31	Meal- KLC Officers, 2 Employees
5/18/2007	Morton's	San Juan, Puerto Rico	$410.28	Meal- Unknown Attendees
5/19/2007	Baru Restarante	San Juan, Puerto Rico	$316.90	Meal- Unknown Attendees
5/23/2007	Bellini's	Lexington, KY	$75.60	Meal- 2 Employees
5/24/2007	Bellini's	Lexington, KY	$59.32	Meal- 3 Employees
6/6/2007	Azur Restaurant & Patio	Lexington, KY	$65.80	Meal- 3 Employees, 1 Companion
6/14/2007	Cracker Hill - Elizabethtown	Elizabethtown, KY	$65.83	Unknown
6/29/2007	Bellini's	Lexington, KY	$45.16	Meal- 2 Employees
7/10/2007	Jonathan's Gratz Park	Lexington, KY	$116.67	Meal- 9 Employees
7/11/2007	Macaroni Grill	Lexington, KY	$55.27	Meal- 3 Employees, 1 Mayor
7/29/2007	Grand Hotel	Mackinac Island, MI	$2,004.96	Four Night Stay- $517.18 per night; Five Meals
8/22/2007	Azur Restaurant & Patio	Lexington, KY	$822.90	Meal- KLCIS Dinner
8/22/2007	University Club	Lexington, KY	$136.20	One Member Cart Fee; Two Guest Green and Cart Fees; One "Titleist Team Logo C"
8/30/2007	Vincenzos	Louisville, KY	$790.20	Meal- 5 Employees, 2 Board Members
9/4/2007	Bellini's	Lexington, KY	$64.59	Meal- 3 Employees
9/6/2007	Bone's	Atlanta, GA	$375.80	Meal- 1 Employee, 2 Board Members
9/11/2007	Durango	Lexington, KY	$27.88	Meal- 3 Employees
9/12/2007	Macaroni Grill	Louisville, KY	$755.30	Meal- Unknown Attendees
9/18/2007	Bellini's	Lexington, KY	$47.28	Meal- 2 Employees
9/19/2007	Bellini's	Lexington, KY	$64.06	Meal- Unknown Attendees
9/20/2007	Panera Bread	Lexington, KY	$15.44	Meal- 2 Employees
10/1/2007	Portofino's	Lexington, KY	$31.50	Meal- 2 Employees
10/8/2007	El Cazador	Lexington, KY	$47.18	Meal- 4 Employees
10/17/2007	Hanna's on Lime	Lexington, KY	$19.66	Meal- 2 Employees
10/18/2007	Bellini's	Lexington, KY	$71.48	Meal- 3 Employees, 1 Board Member
10/22/2007	Hanna's on Lime	Lexington, KY	$29.42	Meal- 3 Employees
10/28/2007	Stockyards Restaurant	Nashville, TN	$602.45	Meal- 3 Employees, 2 Others
10/30/2007	Valentino's Ristorante	Nashville, TN	$287.07	Meal- 3 Employees
10/31/2007	Bistro 147	Lexington, KY	$29.38	Meal- 3 Employees
11/1/2007	Renaissance	Nashville, TN	$673.72	Three Night Stay; "Club Lounge"
11/13/2007	Bistro 147	Lexington, KY	$33.56	Meal- 3 Employees

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
11/14/2007	Galatoire's	New Orleans, LA	$1,157.32	Meal; Unknown Attendees
11/27/2007	Applebee's	Mt Sterling, KY	$53.79	Meal- 3 Employees
12/9/2007	Hotel Contessa	San Antonio, TX	$1,201.65	Five Night Stay and "Cork Bar"
1/31/2008	Durango's Mexican Restaurant	Lexington, KY	$46.33	Lunch
2/6/2008	Radisson	Lexington, KY	$44.25	Meal- 2 Employees
2/8/2008	Jonathan's Gratz Park	Lexington, KY	$67.24	Meal- Unknown Attendees
2/11/2008	Hanna's on Lime	Lexington, KY	$21.87	Meal- 3 Employees
2/15/2008	Hanna's on Lime	Lexington, KY	$19.30	Meal- 2 Employees
2/19/2008	Serafini	Frankfort, KY	$63.00	Meal- 3 Employees, 2 Board Members
2/21/2008	Hanna's on Lime	Lexington, KY	$21.20	Meal- 2 Employees
2/22/2008	Bellini's	Lexington, KY	$44.10	Meal- 2 Employees
2/28/2008	Serafini	Frankfort, KY	$58.29	Meal- 3 Employees, 1 Board Member
2/29/2008	Bellini's	Lexington, KY	$75.60	Meal- 3 Employees
3/3/2008	Alfalfa's	Lexington, KY	$24.88	Meal
3/4/2008	Jonathan's Gratz Park	Lexington, KY	$45.16	Meal- 3 Employees
3/13/2008	Hanna's on Lime	Lexington, KY	$20.69	Meal- 2 Employees
3/31/2008	Durango	Lexington, KY	$38.36	Meal- 4 Employees
4/1/2008	Hanna's on Lime	Lexington, KY	$21.54	Meal- 3 Employees
4/10/2008	Dudley's Restaurant	Lexington, KY	$48.34	Lunch
4/18/2008	Turf Catering	Lexington, KY	$159.89	Keeneland
4/21/2008	Hanna's on Lime	Lexington, KY	$20.16	Meal- 4 Employees
4/30/2008	Vivace	Tucson, AZ	$995.64	Meal- Unknown Attendees
5/8/2008	Dudley's	Lexington, KY	$63.00	Meal- 3 Employees
5/23/2008	Bellini's	Lexington, KY	$64.06	Meal- 2 Employees, 1 Other
6/4/2008	Bellini's	Lexington, KY	$40.98	Meal- 2 Employees
6/10/2008	Durango's Mexican Restaurant	Lexington, KY	$38.66	Lunch
6/12/2008	Alfalfa Restaurant	Lexington, KY	$20.97	Meal- 2 Employees
6/26/2008	Serafini	Frankfort, KY	$40.45	Meal- 3 Employees
7/2/2008	Serafini	Frankfort, KY	$28.88	Meal- 2 Employees
7/21/2008	Hanna's on Lime	Lexington, KY	$28.88	Meal- Unknown Attendees; Note states "Lunch Staff"
7/31/2008	Sardine Factory	Monterey, CA	$585.05	Meal- Unknown Attendees
8/6/2008	Portola Hotel	Monterey, CA	$3,710.91	Seven Night Stay- rates vary from $389 to $419 per night); Movie/Game/Internet- $11.99; Jack's Restaurant- $7.22; Fax - $25.00; Fax - $2.00; Jack's Restaurant - $10.44
8/9/2008	Lodge at Vail	Vail, CO	$1,161.72	Four Night Stay
8/14/2008	Cracker Barrel	Shelbyville, KY	$10.57	Unknown
8/19/2008	Bellini's	Lexington, KY	$64.06	Meal- 3 Employees
8/22/2008	Portofino's	Lexington, KY	$45.16	Meal- 2 Employees
8/28/2008	Jim's Seafood	Frankfort, KY	$54.34	Meal- Unknown Attendees
9/3/2008	A La Lucie	Lexington, KY	$36.16	Meal - 2 Employees

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
9/4/2008	Alfalfa's	Lexington, KY	$23.87	Meal
9/20/2008	Carmichael's Bookstore	Louisville, KY	$118.00	Four Books
9/30/2008	Hanna's on Lime	Lexington, KY	$20.92	Meal- 2 Employees
10/2/2008	Alfalfa's	Lexington, KY	$22.55	Meal
10/8/2008	Portofino's	Lexington, KY	$32.56	Meal- 2 Employees
10/10/2008	Bellini's	Lexington, KY	$39.92	Meal- 2 Employees
11/17/2008	Marriott	New Orleans, LA	$1,409.41	Lodging; Phone Charge; Meals; Unknown Purpose for trip
11/18/2008	Hanna's on Lime	Lexington, KY	$30.09	Meal- 3 Employees
4/6/2009	Bellini's	Lexington, KY	$97.68	Meal- 3 Employees, 2 Others
5/7/2009	Vincenzo's	Louisville, KY	$1,161.55	Meal- 3 Employees, 7 Board Members, 4 Spouses, 1 Vendor
Total	**123 transactions**		**$28,602.78**	

Deputy Executive Director

Appendix 2

Credit Card Expenditures With No Supporting Documentation
July 1, 2006 – June 30, 2009

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
6/11/2006	Chevron	Las Vegas, NV	$8.00	Unknown- No Receipt
6/12/2006	BellSouth Internet	Unknown	$42.95	Internet Service
7/4/2006	Lex Landside Food Co	Lexington, KY	$8.79	Unknown- No Receipt
7/12/2006	BellSouth Internet	Unknown	$42.95	Internet Service
7/12/2006	Kroger	Shelbyville, KY	$35.10	Unknown- No Receipt
7/16/2006	HMSHOST - BWI - Airport #8 Baltimore	Baltimore, MD	$32.58	Unknown- No Receipt
7/21/2006	Rumors II	Lexington, KY	$85.12	Unknown- No Receipt
8/12/2006	BellSouth Internet	Unknown	$42.95	Internet Service
8/14/2006	Bellini's	Lexington, KY	$75.00	Unknown- No Receipt
8/30/2006	Bellini's	Lexington, KY	$35.71	Unknown- No Receipt
9/1/2006	Kroger	Shelbyville, KY	$35.75	Unknown- No Receipt
9/1/2006	Kroger	Shelbyville, KY	$35.75	Unknown- No Receipt
9/5/2006	Speedway	Lexington, KY	$37.93	Unknown- No Receipt
9/12/2006	BellSouth Internet	Unknown	$42.95	Internet Service
9/17/2006	Galt House Hotel	Louisville, KY	$123.42	Unknown- No Receipt
10/12/2006	BellSouth Internet	Unknown	$42.95	Internet Service
11/12/2006	BellSouth Internet	Unknown	$42.95	Internet Service
12/1/2006	BellSouth Internet	Unknown	$42.95	Internet Service
1/30/2007	BellSouth Internet	Unknown	$42.95	Internet Service
2/12/2007	BellSouth Internet	Unknown	$42.95	Internet Service
2/13/2007	Durango - Lexington	Lexington, KY	$35.74	Unknown- No Receipt
2/13/2007	Kroger	Shelbyville, KY	$21.50	Unknown- No Receipt
2/18/2007	Speedway	Shelbyville, KY	$24.00	Unknown- No Receipt
3/26/2007	BellSouth Internet	Unknown	$42.95	Internet Service
3/31/2007	Regional Airport	Louisville, KY	$48.00	Parking
4/12/2007	BellSouth Internet	Unknown	$42.95	Internet Service
5/4/2007	Marriott	New Orleans, LA	$709.23	Unknown- No Receipt
5/5/2007	Marriott	New Orleans, LA	$230.52	Unknown- No Receipt
5/11/2007	BellSouth Internet	Unknown	$42.95	Internet Service
5/31/2007	Carbie Hilton	San Juan, Puerto Rico	$65.00	Unknown- No Receipt
6/12/2007	BellSouth Internet	Unknown	$42.95	Internet Service
7/2/2007	Hanna's on Lime	Lexington, KY	$40.28	Unknown- No Receipt
7/3/2007	St. Julien Hotel	Boulder, CO	$218.30	Unknown- No Receipt
7/12/2007	BellSouth Internet	Unknown	$42.95	Internet Service
8/10/2007	BellSouth Internet	Unknown	$42.95	Internet Service
9/8/2007	Exxon Mobil	Knoxville, TN	$34.30	Unknown- No Receipt
9/12/2007	BellSouth Internet	Unknown	$42.95	Internet Service
9/24/2007	Regionalver Oberbayern Muenchen	Munich, Germany	$143.64	Unknown- No Receipt
10/12/2007	BellSouth Home Internet Service	Unknown	$42.95	Monthly Internet Service
10/14/2007	Marriott	Covington, KY	$1.00	Unknown- No Receipt
11/5/2007	Hanna's on Lime	Lexington, KY	$32.95	Unknown- No Receipt
11/13/2007	Pops on the Go	Frankfort, Ky	$46.00	Unknown- No Receipt
12/9/2007	McDonald's	San Antonio, TX	$8.98	Unknown- No Receipt
12/12/2007	BellSouth Internet	Unknown	$42.95	Internet Service
1/9/2008	Bellini's	Lexington, KY	$45.16	Unknown- No Receipt

Credit Card Expenditures With No Supporting Documentation
July 1, 2006 – June 30, 2009

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
1/17/2008	Sheraton Hotels	Raleigh, NC	$190.50	Unknown- No Receipt
2/12/2008	BellSouth Internet	Unknown	$42.95	Internet Service
3/12/2008	BellSouth Internet	Unknown	$42.95	Internet Service
3/19/2008	Au Bon Pain Conc	Atlanta, GA	$19.42	Unknown- No Receipt
3/19/2008	Delta On Board	Unknown	$6.00	Unknown- No Receipt
4/11/2008	AT&T	Unknown	$42.95	Internet Service
4/13/2008	Lola	Atlanta, GA	$124.30	Unknown- No Receipt
4/17/2008	Hertz Car Rental	Unknown	$359.42	Unknown- No Receipt
4/17/2008	Sports Scene	Atlanta, GA	$20.71	Unknown- No Receipt
4/18/2008	Hyatt Grand Hotels	Atlanta, GA	$1,148.40	Four Nights Stay
5/1/2008	Hotel del Cornado	San Diego, CA	$9.20	Unknown- No Receipt
5/12/2008	AT&T	Unknown	$42.95	Internet Service
6/12/2008	AT&T	Unknown	$42.95	Internet Service
7/1/2008	AT&T	Unknown	$42.95	Internet Service
7/10/2008	Delta Air Lines	Atlanta, GA - Ft. Myers, FL- Orlando, FL - Atlanta, GA	$333.50	Unknown- No Receipt
8/5/2008	Vandettas	Revail, CO	$29.00	Unknown- No Receipt
8/12/2008	AT&T	Unknown	$42.95	Internet Service
9/12/2008	AT&T	Unknown	$42.95	Internet Service
10/10/2008	AT&T	Unknown	$42.95	Internet Service
11/12/2008	AT&T	Unknown	$42.95	Internet Service
12/8/2008	Le Petit Bistro	San Antonio, TX	$10.15	Unknown- No Receipt
12/12/2008	AT&T	Unknown	$42.95	Internet Service
1/12/2009	AT&T	Unknown	$42.95	Internet Service
2/19/2009	AT&T	Unknown	$42.95	Internet Service
3/12/2009	AT&T	Unknown	$42.95	Internet Service
3/24/2009	Swifty	Shelbyville, KY	$22.00	gas - Shelbyville
4/10/2009	AT&T	Unknown	$42.95	Internet Service
5/12/2009	AT&T	Unknown	$42.95	Internet Service
5/23/2009	www.PlatePass.com	Unknown	$13.00	Unknown- No Receipt
6/2/2009	Kroger-gas	Shelbyville, KY	$38.75	gas - Shelbyville
6/12/2009	Shell	Covington, KY	$43.00	Gas
Total	**76 transactions**		**$6,045.40**	

Reimbursements With An Unclear Business Purpose, Inadequate Documentation or Excessive
July 1, 2006 – June 30, 2009

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
11/1/2006	Radisson Plaza	Lexington, KY	$20.75	Food/Beverages for Mayors
8/6/2006	Thrifty Car Rental	Anchorage, AK	$1,297.73	2006 Chrysler Pacifica in Anchorage, AK
11/17/2006	Churchill Downs	Louisville, KY	$324.00	6 Oaks Tickets- 2nd Floor Grandstand
2/21/2007	Panera Bread	Unknown	$14.80	Meal - 2 Attendees
4/2/2007	University of Kentucky Athletic Association	Lexington, KY	$1,404.00	UK Season Tickets
4/30/2009	University of Kentucky Athletic Association	Lexington, KY	$912.50	UK Season Tickets for KLC's use
Total	**6 transactions**		**$3,973.78**	

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
7/21/2006	Unknown	Unknown	$8.79	Unknown Purchase
10/26/2006	Cash	Unknown	$4,000.00	Check made to cash used as documentation; Memo line says UK Basketball Tickets
12/5/2008	Tips	Unknown	$72.00	Tips
Total	**3 transactions**		**$4,080.79**	

Credit Card Expenditures With An Unclear Business Purpose, Inadequate Documentation or Excessive
July 1, 2006 – June 30, 2009

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
6/2/2006	Eagle Trace Golf Course	Morehead, KY	$25.00	Unknown Purchase
6/2/2006	Reno's Roadhouse	Morehead, KY	$162.27	Meal - Unknown Attendees
6/12/2006	Strip Club Diamond Cabaret	Las Vegas, NV	$80.00	Entertainment - 3 Employees, 1 Vendor
6/14/2006	International Beer Bar	Las Vegas, NV	$16.00	3 Employees
6/14/2006	Zingers	Las Vegas, NV	$45.55	Meal with Alcohol; 3 Employees
6/16/2006	The Paradies Shops	Unknown	$27.51	Book- Freakonomics
6/26/2006	Bellini's	Lexington, KY	$56.17	Meal - 3 Employees
6/28/2006	Johnny Carino's	Lexington, KY	$28.29	Meal - 1 Employee
6/30/2006	Mellow Mushroom	Lexington, KY	$140.50	Meal - Unknown Attendees
7/10/2006	Azur Restaurant & Patio	Lexington, KY	$44.90	Meal - 2 Employees, 1 Vendor
7/11/2006	Azur Restaurant & Patio	Lexington, KY	$505.82	Meal - 3 Employees, 1 Board Member; 2 Vendors
7/11/2006	Bellini's	Lexington, KY	$76.13	Meal - 2 Employees, 2 Others
7/13/2006	Johnny Carino's	Lexington, KY	$20.46	Meal - 1 Employee
7/19/2006	Alfalfa's	Lexington, KY	$29.65	Unknown Purchase
7/21/2006	Logan's	Lexington, KY	$26.82	Meal - Unknown Attendees
7/25/2006	Bellini's	Lexington, KY	$30.97	Meal - 2 Employees
7/27/2006	Jonathan At Gratz Park	Lexington, KY	$26.10	Meal - 1 Employee
7/31/2006	Bellini's	Lexington, KY	$57.23	Meal - 3 Employees
8/4/2006	Atlanta Bread Company	Unknown	$12.26	Meal - Unknown Attendees
8/8/2006	Bellini's	Lexington, KY	$83.96	Meal - 4 Employees
8/9/2006	Bellini's	Lexington, KY	$1,365.90	Meal - Unknown Attendees
8/12/2006	Malone's	Lexington, KY	$120.97	Unknown Purchase
8/13/2006	Dudley's	Lexington, KY	$495.52	Meal - 2 Employees
8/13/2006	Dudley's	Lexington, KY	$80.00	Meal - Unknown Attendees
8/15/2006	A La Lucie	Lexington, KY	$128.44	Meal - 1 Employee, 1 Board Member
8/16/2006	Malone's	Lexington, KY	$26.62	Unknown Purchase
8/17/2006	Tim Dudley Golf Sales	Bronston, KY	$858.00	Golf supplies
8/17/2006	Tim Dudley Golf Sales	Bronston, KY	$21.68	Unknown Purchase; 1 Employee, 1 Other Listed
8/17/2006	Woodson Bend Resort	Bronston, KY	$132.00	Unknown Purchase; 3 Employees, 1 Other listed
8/21/2006	Anneliese's Bookstore	Scottsdale, AZ	$55.50	Three Books
8/24/2006	Azur Restaurant & Patio	Lexington, KY	$92.45	Meal - 3 Employees, 1 Vendor
8/24/2006	Trump's Sports Bar & Grill	Lexington, KY	$21.78	Meal - 1 Employee
8/26/2006	Woodford Humane Society	Versailles, KY	$150.00	Freedom Fest Tickets
9/2/2006	Shoppers Village Liquor	Lexington, KY	$168.17	Unknown Purchase
9/5/2006	Bellini's	Lexington, KY	$55.11	Meal - 3 Employees
9/20/2006	Azur Restaurant & Patio	Lexington, KY	$80.70	Meal - Unknown Attendees
9/21/2006	Bellini's	Lexington, KY	$273.42	Meal - Unknown Attendees
9/21/2006	The Paradies Shops	Unknown	$29.15	Book- Good To Great
9/25/2006	Bellini's	Lexington, KY	$44.10	Meal - 2 Employees
9/28/2006	Bellini's	Lexington, KY	$150.57	Meal - Unknown Attendees
10/2/2006	Bellini's	Lexington, KY	$70.03	Meal - 3 Employees, 1 Other
10/3/2006	Bigg Blue Martini	Lexington, KY	$63.25	Meal - 1 Employee, 1 Board Member

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
10/4/2006	Azur Restaurant & Patio	Lexington, KY	$456.36	Meal - Unknown Attendees
10/8/2006	Hank's	Charleston, SC	$254.02	Meal - 2 Employees
10/13/2006	Keeneland - Equestrian Room	Lexington, KY	$284.60	Entertainment - 7 Employees
10/15/2006	Keeneland - Equestrian Room	Lexington, KY	$88.06	Entertainment - 1 Employee, 1 Other
10/17/2006	Durango's	Lexington, KY	$27.53	Meal - 3 Employees
10/18/2006	Bellini's	Lexington, KY	$98.15	Meal - 4 Employees
10/18/2006	Keeneland - Equestrian Room	Lexington, KY	$176.05	Entertainment - 6 Employees
10/24/2006	Azur Restaurant & Patio	Lexington, KY	$407.47	Meal - 3 Employees
10/24/2006	Azur Restaurant & Patio	Lexington, KY	$8.50	Meal - Unknown Attendees
10/26/2006	Azur Restaurant & Patio	Lexington, KY	$66.90	Meal - Unknown Attendees
10/26/2006	Keeneland - Phoenix Room	Lexington, KY	$812.91	Entertainment - Unknown Attendees
10/26/2006	Keeneland - Phoenix Room	Lexington, KY	$323.22	Entertainment - Unknown Attendees
10/30/2006	Bellini's	Lexington, KY	$69.30	Meal - 3 Employees
11/3/2006	Sullivan's	Austin, TX	$44.25	Unknown Purchase
11/3/2006	Sullivan's	Austin, TX	$25.00	Unknown Purchase
11/3/2006	Sullivan's	Austin, TX	$623.96	Unknown Purchase
11/4/2006	Delaware North Companies	Austin, TX	$33.73	Unknown Purchase
11/6/2006	A La Lucie	Lexington, KY	$52.36	Meal - 3 Employees
11/7/2006	Cherry Blossom Golf & Country Club	Georgetown, KY	$31.00	Unknown Purchase
11/8/2006	Azur Restaurant & Patio	Lexington, KY	$547.94	Meal - 3 Employees, 2 Board Members
11/9/2006	Bellini's	Lexington, KY	$376.11	Meal - Unknown Attendees
11/10/2006	Geno's Formal Affair	Lexington, KY	$37.10	Unknown Purchase
11/10/2006	Hanna's on Lime	Lexington, KY	$21.92	Meal - 2 Employees
11/17/2006	Durango's	Lexington, KY	$27.11	Meal - 3 Employees
11/21/2006	Grotto	Lexington, KY	$55.10	Meal - 3 Employees
11/29/2006	Portifino	Lexington, KY	$49.29	Meal - 4 Employees
12/1/2006	African American Forum	Lexington, KY	$1,003.00	Unknown Purchase
12/1/2006	Metropol	Lexington, KY	$372.98	Meal - 3 Employees
12/4/2006	Silver Spur Liquor	Reno, NV	$11.92	Unknown Purchase
12/5/2006	Eldorado La Strada	Reno, NV	$573.46	Meal - 5 Employees
12/6/2006	Lucky Golfer	Reno, NV	$12.71	Unknown Purchase; 1 Employee
12/6/2006	SL Sterlings	Reno, NV	$382.66	Unknown Purchase- 2 Employees
12/8/2006	Zephyr Cove Resort	Zephyr Cove, NV	$60.87	Unknown Purchase; 2 Employees
12/9/2006	Eldorado Brew	Reno, NV	$39.52	Bar Charge - 3 Employees
12/9/2006	Rapscallion Restaurant	Reno, NV	$380.97	Meal - 3 Employees, 2 Board Members

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
12/10/2006	Harrah's	Reno, NV	$206.47	3 charges to Café NAPA (a wine café - $81.51);2 charges to the Sapphire Lounge (a topless revue - $76.00), and 2 charges to Sammy's Showroom (a music, dance, and comedy club - $48.96)
12/19/2006	Corky's Ribs	Lexington, KY	$54.33	Meal - 1 Employee, 1 Vendor
12/20/2006	Azur Restaurant & Patio	Lexington, KY	$831.22	Meal - 3 Employees, 1 Board Member
12/21/2006	Ruby Tuesday	Lexington, KY	$52.77	Meal - 1 Employee; 1 Vendor
12/22/2006	Durango's	Lexington, KY	$85.24	Meal - Unknown Attendees
1/4/2007	Bellini's	Lexington, KY	$199.71	Meal - Unknown Attendees
1/6/2007	Azur Restaurant & Patio	Lexington, KY	$205.80	Meal - 1 Employee, 1 Vendor
1/17/2007	Montana Grill	Bowling Green, KY	$373.68	Meal - Unknown Attendees
1/22/2007	Beef O'Brady's	Lexington, KY	$23.89	Meal - 2 Employees
1/23/2007	Bob Evans	Lexington, KY	$23.25	Meal - 2 Employees
1/24/2007	Sawyer's	Lexington, KY	$33.31	Meal - 5 Employees
1/29/2007	Bellini's	Lexington, KY	$52.52	Meal - 3 Employees
1/30/2007	Billy's BBQ	Lexington, KY	$22.51	Meal - 2 Employees
1/30/2007	O'Charley's	Lexington, KY	$63.65	Meal - 2 Employees, 1 Vendor
1/31/2007	Bellini's	Lexington, KY	$61.41	Meal - 3 Employees
2/6/2007	Old Towne Sports Grill	Georgetown, KY	$21.97	Meal - 3 Employees
2/7/2007	Radisson Plaza	Lexington, KY	$783.83	Unknown Purchase; Trustee Dinner
2/12/2007	Happy Dragon	Lexington, KY	$27.52	Meal - 3 Employees
2/19/2007	Durango's	Lexington, KY	$44.58	Meal - 5 Employees
2/22/2007	Bellini's	Lexington, KY	$79.78	Meal - 3 Employees
3/5/2007	A La Lucie	Lexington, KY	$98.94	Meal - 5 Employees
3/6/2007	Durango's	Lexington, KY	$27.64	Meal - 3 Employees
3/8/2007	A La Lucie	Lexington, KY	$99.63	Meal - 6 Employees
3/9/2007	Bellini's	Lexington, KY	$63.00	Meal - 3 Employees
3/14/2007	International Spy Museum	Washington, D.C.	$48.00	Entertainment - 3 Employees
3/19/2007	Azur Restaurant & Patio	Lexington, KY	$59.99	Meal - 1 Employee, 1 Other
3/26/2007	A La Lucie	Lexington, KY	$51.41	Meal - 3 Employees
3/27/2007	A La Lucie	Lexington, KY	$54.42	Meal - 2 Employees, 2 Others
3/30/2007	Outback Steakhouse	Unknown	$39.59	Meal - 2 Employees
3/30/2007	Rosen Hotels	Orlando, FL	$506.96	One charge at the Pro Shop ($506.96)
4/3/2007	A La Lucie	Lexington, KY	$38.70	Meal - 3 Employees
4/4/2007	Bellini's	Lexington, KY	$164.43	Meal - 6 Employees
4/4/2007	NCCI	Unknown	$3,750.00	Unknown Purchase
4/6/2007	Durango's	Lexington, KY	$57.59	Meal - 4 Employees
4/10/2007	A La Lucie	Lexington, KY	$69.08	Meal - 3 Employees
4/18/2007	Morton's	San Antonio, TX	$1,156.22	Meal - Unknown Attendees
4/19/2007	Lyndon B Johnson National Historic Park	Johnson City, TX	$51.00	Unknown Purchase; Finance Board Field Trip

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
4/21/2007	Keeneland - Equestrian Room	Lexington, KY	$228.54	Entertainment - Unknown Attendees
4/21/2007	Liquor Barn	Lexington, KY	$297.51	Liquor ($96.79), Party Supplies, Food; Derby Party
4/21/2007	Marriott	San Antonio, TX	$197.50	Lobby bar Charges (4- $197.50)
5/3/2007	Down Under Restaurant	Fernandina, FL	$550.69	Meal - Unknown Attendees; KLCIS Trustees
5/6/2007	Amelia Island Resort	Amelia Island, FL	$1,140.08	Beach Club charges (4- $1,021.45); Multiple charges to the Amelia Inn ($115.10); M&Ms ($3.53)
5/6/2007	Dona Maria's	Jacksonville, FL	$53.00	Meal - 1 Employee
5/7/2007	Alfalfa's	Lexington, KY	$42.73	Unknown Purchase
5/10/2007	Charlotte News	Charlotte, NC	$13.36	Unknown Purchase
5/11/2007	Azur Restaurant & Patio	Lexington, KY	$929.81	Meal - Unknown Attendees
5/13/2007	Azur Restaurant & Patio	Lexington, KY	$687.73	Meal - Unknown Attendees
5/15/2007	Hanna's on Lime	Lexington, KY	$31.15	Meal - 3 Employees
5/21/2007	Durango's	Lexington, KY	$49.98	Meal - 3 Employees
5/31/2007	Azur Restaurant & Patio	Lexington, KY	$12.00	Meal - 1 Employee
5/31/2007	Azur Restaurant & Patio	Lexington, KY	$449.68	Meal - 4 Employees, 1 Other
6/1/2007	Bellini's	Lexington, KY	$86.02	Meal - Unknown Attendees
6/7/2007	A La Lucie	Lexington, KY	$176.39	Meal - 1 Employee, 1 NLC Member
6/7/2007	Azur Restaurant & Patio	Lexington, KY	$32.13	Meal - 1 Employee, 1 NLC Member
6/7/2007	Azur Restaurant & Patio	Lexington, KY	$505.24	Meal - 4 Employees, 1 Spouse, 1 NLC Member
6/11/2007	Impact Store Inc	Natrona Heights, MA	$39.90	Unknown Purchase
6/14/2007	Sheraton	Boston, MA	$141.01	Sidebar Lounge charges (2- $141.01)
6/19/2007	Azur Restaurant & Patio	Lexington, KY	$144.85	Meal - 1 Employee, 1 Board Member
6/22/2007	Bellini's	Lexington, KY	$46.16	Meal - 2 Employees
7/2/2007	A La Lucie	Lexington, KY	$70.35	Meal - 3 Employees, 1 Insurance Agent
7/5/2007	Azur Restaurant & Patio	Lexington, KY	$340.38	Meal - 2 Employees, 1 Other
7/5/2007	Azur Restaurant & Patio	Lexington, KY	$35.95	Meal - 2 Employees, 1 Other
7/5/2007	Azur Restaurant & Patio	Lexington, KY	$41.07	Meal - 2 Employees, 1 Spouse, 1 Other
7/5/2007	Durango's	Lexington, KY	$44.10	Meal - 4 Employees
7/9/2007	Bellini's	Lexington, KY	$71.89	Meal - 3 Employees
7/16/2007	Durango's	Lexington, KY	$63.49	Meal - 7 Employees
7/22/2007	The Equinox Resort	Manchester Village, VT	$1,354.15	Four Night Stay ($1,303.64); One Meal
7/22/2007	The Equinox Resort	Manchester Village, VT	$56.75	Tavern Pub charge
7/30/2007	Hooters	Asheville, NC	$84.83	Meal - 1 Employee, 1 Other

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
8/1/2007	Grove Park Hotel	Asheville, NC	$139.12	Great Hall Bar charges (2- $133.67), Ancient Page charge ($5.45)
8/1/2007	Grove Park Hotel	Asheville, NC	$542.03	Lodging; Restaurant
8/2/2007	A La Lucie	Lexington, KY	$125.15	Meal - 4 Employees, 1 Other
8/3/2007	Durango's	Lexington, KY	$17.95	Meal - 2 Employees
8/6/2007	Bellini's	Lexington, KY	$182.70	Meal - 2 Employees, 3 Others
8/8/2007	Bellini's	Lexington, KY	$133.42	Meal - 5 Employees
8/15/2007	Azur Restaurant & Patio	Lexington, KY	$367.85	Meal - Unknown Attendees
8/17/2007	Triple Crown Lounge	Lexington, KY	$73.24	Unknown Attendees; Party
8/20/2007	Wendy's	Lexington, KY	$5.13	Meal - 1 Employee
8/21/2007	Azur Restaurant & Patio	Lexington, KY	$2,343.78	Meal - Unknown Attendees; Retirement Party
8/21/2007	Bellini's	Lexington, KY	$150.14	Meal - 5 Employees, 1 Other
8/22/2007	Azur Restaurant & Patio	Lexington, KY	$163.65	Meal - Unknown Attendees
8/22/2007	Hanna's on Lime	Lexington, KY	$17.32	Meal - 2 Employees
8/22/2007	Merrick Inn	Lexington, KY	$106.92	Meal - Unknown Attendees
9/6/2007	deSha's	Lexington, KY	$106.23	Meal - 6 Employees, 1 Mayor
9/7/2007	Durango's	Lexington, KY	$37.12	Meal - 4 Employees
9/12/2007	First Chance Last Chance Liquors	Lexington, KY	$53.97	Unknown Purchase
9/12/2007	Kroger	Georgetown, KY	$39.81	Food & Beverage- Unknown Attendees
10/3/2007	Hartland Café @ University Plaza Hotel	Bowling Green, KY	$30.33	Meal - 2 Employees, 1 Other
10/7/2007	Keeneland - Equestrian Room	Lexington, KY	$191.39	Entertainment - 2 Employees, 1 Vendor
10/8/2007	Liquor Barn	Lexington, KY	$119.64	Alcohol
10/9/2007	Triple Crown Lounge	Lexington, KY	$11.78	Unknown Purchase; 3 Employees
10/14/2007	Marriott	Covington, KY	$90.00	Parking Charge; Receipt amount differs from Credit Card Statement
10/16/2007	Bellini's	Lexington, KY	$30.38	Meal - 2 Employees
10/16/2007	Shoppers Village Liquor	Lexington, KY	$82.99	Unknown Purchase
10/16/2007	Walmart	Lexington, KY	$26.18	Food & Beverage
10/21/2007	Olympia Café	Savannah, GA	$189.38	Meal - 3 Employees
10/26/2007	Westin	Savannah, GA	$187.84	Midnight Sun bar charges (5- $179.89), Honor Bar charge ($7.95)
10/29/2007	A La Lucie	Lexington, KY	$74.22	Meal - 3 Employees, 1 Other
10/30/2007	Durango's	Lexington, KY	$28.07	Meal - 3 Employees
11/5/2007	Bellini's	Lexington, KY	$110.22	Meal - 4 Employees, 1 Board Member Spouse
11/14/2007	LeBooze @ Royal Sonesta Hotel	New Orleans, LA	$18.00	Unknown Purchase
11/17/2007	Marriott	New Orleans, LA	$91.83	One Lobby Bar Charge

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
11/19/2007	Bellini's	Lexington, KY	$97.50	Meal - 4 Employees, 1 Other
11/19/2007	Malone's	Lexington, KY	$189.27	Unknown Purchase
11/26/2007	Bellini's	Lexington, KY	$99.74	Meal - 2 Employees, 2 Others
12/3/2007	Bellini's	Lexington, KY	$75.60	Meal - 4 Employees
12/8/2007	Hotel Contessa	San Antonio, TX	$46.94	Gift Shop Charges (3- $18.44), Cork Bar charge ($28.50)
12/8/2007	Las Palapas	San Antonio, TX	$21.55	Meal - Unknown Attendees
12/11/2007	O'Charley's	Georgetown, KY	$129.30	Meal - 2 Employees, 1 Vendor
12/12/2007	Azur Restaurant & Patio	Lexington, KY	$562.06	Meal - 3 Employees, 1 Spouse, 1 Other
12/13/2007	Azur Restaurant & Patio	Lexington, KY	$639.93	Meal - 6 Employees
12/13/2007	Azur Restaurant & Patio	Lexington, KY	$122.50	Meal - Unknown Attendees
12/14/2007	Ramsey's Restaurant	Lexington, KY	$72.63	Meal - 3 Employees, 1 Vendor
12/17/2007	Durango's	Lexington, KY	$88.30	Meal - 8 Employees
12/20/2007	Azur Restaurant & Patio	Lexington, KY	$35.45	Meal - 2 Employees
1/2/2008	Jonathan at Gratz Park	Lexington, KY	$66.18	Meal - 4 Employees
1/9/2008	Azur Restaurant & Patio	Lexington, KY	$1,084.60	Meal - 5 Employees, 7 Others
1/14/2008	Applebee's	Lexington, KY	$31.34	Meal - 3 Employees
1/17/2008	Sheraton Hotels	Raleigh, NC	$26.50	$26.50 bill from The Bar
1/25/2008	Durango's	Lexington, KY	$58.13	Meal - 3 Employees, 1 Vendor
1/28/2008	Bellini's	Lexington, KY	$154.98	Meal - 9 Attendees
2/5/2008	Portifino	Lexington, KY	$40.98	Meal - 3 Employees
2/6/2008	Azur Restaurant & Patio	Lexington, KY	$242.20	Meal - Unknown Attendees
2/6/2008	Azur Restaurant & Patio	Lexington, KY	$1,347.66	Meals - 5 Attendees; "Trustee Meeting"
2/13/2008	Griffin Gate Resort	Lexington, KY	$42.19	Meal - 2 Employees
3/6/2008	Bellini's	Lexington, KY	$36.74	Meal - 2 Employees
3/8/2008	Citronelle	Washington, D.C.	$572.90	Meal - 2 Employees
3/9/2008	Madam's Organ	Washington, D.C.	$72.00	Unknown Purchase; Unknown Attendees
3/10/2008	Ruth's Chris Steak House	Washington, D.C.	$36.80	Meal - 3 Employees
3/10/2008	Ruth's Chris Steak House	Washington, D.C.	$202.54	Meal - 3 Employees
3/13/2008	Hilton Hotel	Washington, D.C.	$191.15	Capital Court Lounge Charges (3)
3/13/2008	Hilton Hotel	Washington, D.C.	$12.66	Gift Shop Purchase; Local Phone charge
4/2/2008	Azur Restaurant & Patio	Lexington, KY	$114.75	Meal - 5 Employees
4/3/2008	Durango's	Lexington, KY	$39.24	Meal - 3 Employees
4/10/2008	Ramsey's Restaurant	Lexington, KY	$68.66	Meal - 6 Employees
4/11/2008	China Buffet	Lexington, KY	$22.89	Meal - 3 Employees
4/16/2008	Wendy's	Lexington, KY	$9.52	Meal - 1 Employee
4/17/2008	Azur Restaurant & Patio	Lexington, KY	$28.00	Meal - 2 Employees
4/18/2008	Durango's	Lexington, KY	$67.61	Meal - 3 Employees
4/18/2008	Marriott Louisville	Louisville, KY	$188.76	Lodging
4/19/2008	Liquor Barn	Lexington, KY	$294.57	Liquor ($42.98), Party Supplies, Food; Derby Party

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
4/19/2008	Meijer	Lexington, KY	$72.71	Cello bags, Ty Beanie, & Tote bag; Trustees Meeting; No Purpose
4/22/2008	Azur Restaurant & Patio	Lexington, KY	$393.94	Meal - 4 Employees, 1 Vendor
4/22/2008	Azur Restaurant & Patio	Lexington, KY	$91.87	Meal - 4 Employees, 1 Vendor
4/27/2008	USS Midway	San Diego, CA	$30.00	Two Adult General Admin; 1 Employee, 1 Vendor
5/1/2008	Hotel del Coronado - CA	San Diego, CA	$54.26	Babcock & Story Lounge Beer
5/1/2008	Hotel del Coronado - CA	San Diego, CA	$1,970.22	Five Night Stay- $304/night; Meals
5/2/2008	El Charro	Tucson, AZ	$710.78	Meals - Unknown Attendees
5/3/2008	Kingfisher Bar & Grill	Tucson, AZ	$725.72	Meal - Unknown Attendees; Trustees Dinner
5/14/2008	Azur Restaurant & Patio	Lexington, KY	$84.90	Meal - Unknown Attendees
5/14/2008	Azur Restaurant & Patio	Lexington, KY	$830.26	Meal - Unknown Attendees
5/16/2008	Bellini's	Lexington, KY	$90.32	Meal - 5 Employees, 1 Other
5/21/2008	Durango's	Lexington, KY	$65.57	Meal - Unknown Attendees
5/29/2008	Radisson Plaza	Lexington, KY	$62.53	Unknown Purchase; Receipt does not match Credit Card Statement
6/4/2008	Generation Why	Unknown	$40.00	Unknown Purchase
6/6/2008	Sawyer's	Lexington, KY	$36.87	Meal - 3 Employees, 1 Vendor
6/13/2008	Chili's	Lexington, KY	$74.42	Meal - 5 Employees
6/16/2008	Portifino	Lexington, KY	$30.44	Meal - 1 Employee, 1 Vendor
6/19/2008	Azur Restaurant & Patio	Lexington, KY	$140.30	Meal - 2 Employees
6/24/2008	Hanna's on Lime	Lexington, KY	$39.81	Meal - 4 Employees
6/27/2008	Azur Restaurant & Patio	Lexington, KY	$103.23	Meal - 4 Employees, 1 Board Member, 1 Other
7/3/2008	Durango's	Lexington, KY	$33.56	Meal - 3 Employees
7/6/2008	deSha's	Lexington, KY	$13.09	Meal - 1 Employee
7/6/2008	deSha's	Lexington, KY	$16.55	Meal - 2 Employees
7/21/2008	Picadome	Lexington, KY	$42.00	Golf Fee & Cart Rental
7/23/2008	A La Lucie	Lexington, KY	$63.58	Meal - 3 Employees
7/28/2008	Crazy Crab	Hilton Head, SC	$106.77	Meal - 2 Employees
7/28/2008	deSha's	Lexington, KY	$11.53	Meal - 1 Employee
8/1/2008	Bistro 147	Lexington, KY	$23.08	Meal - 2 Employees
8/6/2008	Azur Restaurant & Patio	Lexington, KY	$1,105.10	Meal - Unknown Attendees
8/8/2008	Durango's	Lexington, KY	$20.49	Meal - 2 Employees
8/8/2008	Galvin's	Georgetown, KY	$15.32	Unknown Purchase; Amount on receipt differs from credit card statement
8/14/2008	Durango's	Lexington, KY	$20.00	Meal - 1 Employee, 1 Other
9/18/2008	Durango's	Lexington, KY	$61.41	Meal - 2 Employees, 3 Vendors, 1 Other
9/19/2008	Levy Golf	Chicago, IL	$32.50	Unknown Purchase- 2 Employees
10/18/2008	Champions Restaurant	Louisville, KY	$184.39	Meal - 1 Employee, 2 Board Members
10/18/2008	Howl at the Moon	Louisville, KY	$19.00	Unknown Purchase

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
10/20/2008	Blue Oval - San Diego	San Diego, CA	$56.13	Travel - Transportation; Rented car to drive to LA and eat at Seven Restaurant
10/20/2008	Seven Restaurant	Los Angeles, CA	$111.10	Meal - 1 Employee
10/29/2008	Azur Restaurant & Patio	Lexington, KY	$46.95	Meal - 2 Employees, 1 Board Member
10/29/2008	Azur Restaurant & Patio	Lexington, KY	$249.84	Meal - 2 Employees, 1 Board Member
11/10/2008	Ramsey's Restaurant	Lexington, KY	$27.90	Meal - 2 Employees
11/11/2008	TGI Friday's	Lexington, KY	$23.97	Meal - 1 Employee
11/12/2008	Walt Disney World Park - Shula's Steakhouse	Orlando, FL	$2,450.98	Meals - Unknown Attendees; KLCIS Board Dinner
11/13/2008	RRBC ODF/Pleasure Island Live	Buena Vista, FL	$72.50	$58.50- Beer, Bourbon, Vodka purchases
11/13/2008	RRBC ODF/Pleasure Island Live	Buena Vista, FL	$79.25	$67.25- Beer, Bourbon, Vodka purchases
11/17/2008	Marriott Orlando World Center	Orlando, FL	$2,092.58	Meals - Total $939.34; Lodging - $230.63/night
11/17/2008	Sal's Restaurant	Lexington, KY	$139.45	Meals - Unknown Attendees; New Employee Lunch
11/20/2008	Durango's	Lexington, KY	$39.55	Meal - 4 Employees
12/3/2008	Doodles	Lexington, KY	$58.04	Meal - Unknown Attendees
12/5/2008	Bellini's	Lexington, KY	$78.72	Meal - Unknown Attendees; "Executive Staff"
12/12/2008	Bellini's	Lexington, KY	$64.06	Meal - 3 Employees
12/12/2008	NTW	Georgetown, KY	$334.40	Tires; Handwritten note- Loss Control; No Vehicle Description on receipt
12/12/2008	NTW	Georgetown, KY	$579.55	Tires; Handwritten note- Loss Control; No Vehicle Description on receipt
12/17/2008	Azur Restaurant & Patio	Lexington, KY	$2,568.71	Meal - 11 Attendees; Retirement Party; $424 Tip
12/23/2008	Durango's	Lexington, KY	$16.73	Meal - 2 Employees
12/23/2008	Lexington Hotel	Lexington, KY	$30.25	Unknown Purchase
2/2/2009	Malone's	Lexington, KY	$227.11	Unknown Purchase
2/3/2009	Lexington Hotel	Lexington, KY	$97.07	Meal - 1 Employee, 2 Vendors, 1 Other
2/4/2009	Azur Restaurant & Patio	Lexington, KY	$100.95	Meal - 1 Employee, 1 Vendor
2/10/2009	Portifino	Lexington, KY	$57.70	Meal - 3 Employees, 1 Vendor
3/9/2009	Bellini's	Lexington, KY	$60.88	Meal - 3 Employees, 1 Mayor
3/10/2009	Griffin Gate Resort	Lexington, KY	$159.39	Meal - 4 Employees, 1 Board Member
3/10/2009	Marriott Griffin Gate	Lexington, KY	$396.27	Meals - 6 Employees
3/13/2009	Griffin Gate Resort	Lexington, KY	$28.85	Meal - 1 Employee, 1 Other
3/15/2009	Mr. Smith's of Georgetown	Georgetown, KY	$90.84	Meals - Unknown Attendees
3/21/2009	Marriott	Washington, D.C.	$791.94	Meal - Unknown Attendees
4/7/2009	Bellini's	Lexington, KY	$72.42	Meal - 3 Employees, 1 Board Member

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
4/10/2009	Best Buy	Fultondale, AL	$141.87	iPod Connecter, GPS case, GPS mount
4/23/2009	Sun Studio	Memphis, TN	$35.88	Unknown Purchase
5/4/2009	Bellini's	Lexington, KY	$91.32	Meal - 4 Employees
5/6/2009	Howl at the Moon	Louisville, KY	$122.50	Meals/Drinks - 5 Attendees
5/6/2009	Jeff Ruby's Louisville	Louisville, KY	$4,236.20	Meals - Unknown Attendees; KLCIS Board Dinner
5/8/2009	Proof on Main	Louisville, KY	$24.14	Meal - 3 Employees
5/8/2009	Proof on Main	Louisville, KY	$753.62	Meal - 9 Attendees
5/11/2009	A La Lucie	Lexington, KY	$81.37	Meal - 3 Employees, 1 Board Member Spouse, 1 Other
5/14/2009	KICC Ticket Office	Unknown	$8.00	Unknown Purchase
5/22/2009	Durango's	Lexington, KY	$118.48	Meal - 11 Employees
6/2/2009	The Sixth Floor Museum at Dealey Plaza	Dallas, TX	$27.00	Two Adult Audio General Admission
6/3/2009	Hilton Anatole Dallas	Dallas, TX	$92.00	Bar Charges
Total	**297 transactions**		**$68,892.52**	

Chief Insurance Services Officer
Credit Card Expenditures With No Supporting Documentation
July 1, 2006 – June 30, 2009

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
6/6/2006	Kentucky Dam State Resort Park	Gilbertsville, KY	$176.28	Unknown- No Receipt
6/15/2006	Speedway	Georgetown, KY	$33.09	Unknown- No Receipt
7/4/2006	Landside Food Court	Unknown	$13.00	Unknown- No Receipt
8/22/2006	Louisville International Airport	Louisville, KY	$54.00	Unknown- No Receipt
8/30/2006	Ticketmaster	Unknown	$202.45	Unknown- No Receipt
10/1/2006	Amoco Oil	Georgetown, KY	$40.95	Unknown- No Receipt
10/1/2006	Kroger	Georgetown, KY	$155.36	Unknown- No Receipt
12/4/2006	Central Parking System	Lexington, KY	$3.00	Unknown- No Receipt
12/7/2006	SL Rum Bullions	Reno, NV	$51.50	Unknown- No Receipt
3/14/2007	Wash Metro	Washington, D.C.	$19.50	Unknown- No Receipt
3/28/2007	Metro West	Orlando, FL	$489.90	Unknown- No Receipt
4/17/2007	Yellow Checker Cab	San Antonio, TX	$23.30	Unknown- No Receipt
4/20/2007	Yellow Checker Cab	San Antonio, TX	$21.66	Unknown- No Receipt
4/21/2007	Marriott	San Antonio, TX	$718.02	Unknown- No Receipt
4/21/2007	Marriott	San Antonio, TX	$827.76	Unknown- No Receipt
5/5/2007	Marriott	New Orleans, LA	$1,195.91	Unknown- No Receipt
5/18/2007	Cincinnati Airport	Cincinnati, OH	$36.00	Unknown- No Receipt
5/18/2007	Conoco	Denver, CO	$38.87	Unknown- No Receipt
5/18/2007	Hertz Car Rental	Denver, CO	$255.87	Unknown- No Receipt
5/18/2007	St Julien Hotel	Boulder, CO	$218.30	Unknown- No Receipt
7/3/2007	St Julien Hotel	Boulder, CO	$218.30	Unknown- No Receipt
7/22/2007	Alamo Car Rental	Albany, NY	$336.62	Unknown- No Receipt
7/22/2007	Continental Airlines	Albany, NY	$25.00	Unknown- No Receipt
7/22/2007	RPS of Lexington	Lexington, KY	$64.00	Unknown- No Receipt
8/1/2007	Grove Park Hotel	Asheville, NC	$515.79	Unknown- No Receipt
10/17/2007	Sheraton	Philadelphia, PA	$158.46	Unknown- No Receipt
10/23/2007	Westin	Savannah, GA	$3.15	Unknown- No Receipt
11/12/2007	Pat O'Briens Bar	New Orleans, LA	$18.00	Unknown- No Receipt
1/3/2008	A La Lucie	Lexington, KY	$124.46	Unknown- No Receipt
1/3/2008	Duff's Service Station	Lexington, KY	$765.10	Unknown- No Receipt
2/17/2008	Ritz Carlton Hotel	Naples, FL	$353.80	Unknown- No Receipt
2/27/2008	NCCI Holdings	Boca Raton, FL	$75.00	Unknown- No Receipt
3/23/2008	Pilot	Simpsonville, KY	$47.03	Unknown- No Receipt
3/25/2008	NCCI Holdings	Boca Raton, FL	$75.00	Unknown- No Receipt
3/25/2008	NCCI Holdings	Boca Raton, FL	$75.00	Unknown- No Receipt
3/26/2008	NCCI Holdings	Boca Raton, FL	$675.00	Unknown- No Receipt
4/6/2008	Marathon	Bowling Green, KY	$48.68	Unknown- No Receipt
4/18/2008	Marriott Louisville	Louisville, KY	$91.95	Unknown- No Receipt
6/1/2008	7-Eleven	Anaheim, CA	$16.15	Unknown- No Receipt
6/9/2008	Chevron	Lexington, KY	$57.15	Unknown- No Receipt
9/6/2008	Kroger	Georgetown, KY	$54.52	Unknown- No Receipt
10/24/2008	Omni Hotels	San Diego, CA	$849.87	Unknown- No Receipt
Total	**42 transactions**		**$9,222.75**	

Reimbursements With An Unclear Business Purpose, Inadequate Documentation or Excessive
July 1, 2006 – June 30, 2009

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
7/4/2006	Eurest Dining Circle	Unknown	$18.00	3 Beers
7/4/2006	No merchant on receipt	Unknown	$9.00	1 Beer & Chips
7/9/2006	Hardees	Lexington, KY	$11.63	Lunch
9/15/2006	Larry's Detail Shop	Unknown	$140.00	Detail 2005 Avalon- Chief Insurance Services Officer
12/19/2006	Fred Siegleman	Versailles, KY	$250.00	Band Expense- Christmas Party
3/28/2007	UK Athletics Association	Lexington, KY	$852.00	UK Football Season Tickets, RV Parking, Processing Fee
5/14/2007	Radio Shack	Unknown	$63.59	Wireless adapter for Home Office
11/17/2007	Unknown	New Orleans, LA	$75.00	New Orleans Entertainment
4/21/2008	UK Athletic Association	Lexington, KY	$980.00	UK Football Season Tickets
Total	**9 transactions**		**$2,399.22**	

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
No such expenditures were noted.				

All Other Employees Issued Cards   Appendix 4

Credit Card Expenditures With An Unclear Business Purpose, Inadequate Documentation or Excessive

July 1, 2006 – June 30, 2009

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
6/2/2006	Reno's Roadhouse	Morehead, KY	$39.29	Meal - Unknown Attendees; Board Meeting
6/7/2006	Liquor Barn	Lexington, KY	$67.98	Makers Mark VIP
6/13/2006	Paypal	Unknown	$59.95	Monthly Fee
6/16/2006	Rafferty's #52	Unknown	$80.77	Meal - 6 Attendees
6/19/2006	Marco Meeting	Unknown	$1,852.50	Down Payment on 1,500 water bottle catch all totes for Convention
6/21/2006	Portifino	Lexington, KY	$99.29	Meals - Lunch
6/30/2006	Meijer	Lexington, KY	$16.94	Frames
7/3/2006	Alfalfa's	Lexington, KY	$21.73	Meal - 2 Employees
7/6/2006	Portifino	Lexington, KY	$30.39	Lunch
7/10/2006	Liquor Barn	Lexington, KY	$1,288.39	Wine, Cola, Solo Cups
7/11/2006	Kroger	Lexington, KY	$111.32	Beer
7/12/2006	Good Food Chapter	Lexington, KY	$17.27	Meal - Unknown Attendees
7/13/2006	Good Food Chapter	Lexington, KY	$18.32	Meal - Unknown Attendees
7/20/2006	Bellini's	Lexington, KY	$38.80	Meal - 2 Employees
7/31/2006	B & H Photo & Video	Unknown	$499.95	Technology - Lavalier Microphone
7/31/2006	B & H Photo & Video	Unknown	$834.95	Technology - Light Kit
7/31/2006	B & H Photo & Video	Unknown	$239.95	Technology - Microphone
7/31/2006	Zoomania	Unknown	$5,394.00	Technology - Professional Widescreen Mini Camcorder Professional Kit
8/17/2006	Bellini's	Lexington, KY	$38.30	Meal - 2 Employees
8/22/2006	Paypal	Unknown	$59.95	Monthly Fee
8/23/2006	Best Western Univ Inn	Moscow, ID	$445.49	Two Night Stay; Meals; Bar Bill- $56; Unknown purpose for trip
8/24/2006	21C Museum Hotel	Louisville, KY	$1,825.20	Hotel Room for Breeders Cup; Executive Director/CEO
9/1/2006	Liquor Barn	Lexington, KY	$174.95	5 Makers Mark VIP as gifts for "one of our big partners"
9/5/2006	Good Food Chapter	Lexington, KY	$16.21	Meal - 2 Employees
9/7/2006	Portofino's	Lexington, KY	$80.17	Meal - 2 Employees, 1 Other
9/8/2006	Stucky's Beauty Salon	Morehead, KY	$214.12	Satchel, Duffel, & Travel Case; Gift for Board Member Spouse
9/12/2006	Crestline Company	Unknown	$375.28	M&M's for Member Services Convention
9/14/2006	Paypal	Unknown	$59.95	Monthly Fee
9/15/2006	Courtyard by Marriott	Bowling Green, KY	$266.67	Lodging; Employee; No Purpose
9/17/2006	Robert Company	Unknown	$283.50	3 plaques for Office Supplies
9/19/2006	Joe Bologna's	Lexington, KY	$31.12	Meal - 2 Employees, 1 Other
9/28/2006	HH Gregg	Lexington, KY	$953.86	MP3 Player, 2 LCD TV's, Clock Radio, DVD/VCR Combo,

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
9/29/2006	Sam's Club	Lexington, KY	$779.27	30 Bottle wine cooler, 1 GB SD Card, HP Photosmart M425XI Digital Camera, 8" Portable DVD Player, 1700 PSI; Monte Carlo Night
10/2/2006	Sam's Club	Lexington, KY	$534.89	3- 2G iPod Nanos, Nuts, Goldfish
10/2/2006	Walgreens	Lexington, KY	$10.98	Gift wrap; Board Member's Spouse gift
10/3/2006	deSha's	Lexington, KY	$153.67	Meal - 6 Employees
10/3/2006	Good Food Chapter	Lexington, KY	$17.68	Meal - 2 Employees
10/4/2006	Liquor Barn	Lexington, KY	$746.46	Assorted liquor: Jack Daniels, Grey Goose, Absolut Vodka, Wines & Beers
10/5/2006	Ashland The Henry Clay Estate	Lexington, KY	$136.89	Meal - 13 Attending; Spouses
10/5/2006	Ashland The Henry Clay Estate	Lexington, KY	$72.00	Tours - 12 Attending; Spouses
10/6/2006	Equus Run Vineyards	Midway, KY	$150.00	15 Wine Tastings- $10 each
10/6/2006	The Glitz	Versailles, KY	$400.00	Unknown Purchase; "Spouses"
10/6/2006	Wal Mart	Lexington, KY	$15.08	Door Mirrors & Mounting Hardware
10/13/2006	Bellini's	Lexington, KY	$34.62	Meal - 1 Employee, 1 Other
10/17/2006	Starbucks Coffee Company	Unknown	$8.64	Two coffees; Unknown Attendees
10/20/2006	Keeneland/ Turf Catering	Lexington, KY	$135.42	Desserts, Sodas, Makers Double, Bloody Mary, Michelob, Woodford Reserve
10/23/2006	Azur Restaurant & Patio	Lexington, KY	$30.17	Meal - 1 Employee, 1 NCI Board Member
10/25/2006	Cosi Restaurant	Lexington, KY	$42.41	Meal - Unknown Attendees
10/25/2006	Keeneland/ Turf Catering	Lexington, KY	$168.09	Soups, Sandwiches, Soda, Tea, Bud Light, Bloody Mary, Michelob Ultra
10/25/2006	Ted's Montana Grill	Lexington, KY	$40.40	Meal - 2 Employees
10/26/2006	Applebee's #103	Lexington, KY	$31.40	Meal - 2 Employees
10/26/2006	Campbell House	Lexington, KY	$26.62	Meal - 1 Employee, 1 Other
10/30/2006	Portofino's	Lexington, KY	$33.56	Meal - 2 Employees
11/2/2006	Applebee's	Lexington, KY	$32.56	Meal - 2 Employees
11/3/2006	Portofino's	Lexington, KY	$29.27	Meal - 1 Employee, 1 Other
11/6/2006	Good Food Chapter	Lexington, KY	$16.63	Meal - Unknown Attendees
11/10/2006	Bellini's	Lexington, KY	$33.56	Meal - Unknown Attendees
11/10/2006	Hanna's on Lime	Lexington, KY	$35.37	Meal - 5 Employees
11/18/2006	Paypal	Unknown	$59.95	Monthly Fee
11/21/2006	Guitar Center	Unknown	$586.87	Technology - Mixer; Lavalier Wireless system
12/1/2006	Holiday Inn Hurstbourne	Louisville, KY	$199.89	Lodging; Employee; In Room Movie- $12.35

All Other Employees Issued Cards

Credit Card Expenditures With An Unclear Business Purpose, Inadequate Documentation or Excessive
July 1, 2006 – June 30, 2009

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
12/12/2006	Good Food Chapter	Lexington, KY	$16.89	Meal - Unknown Attendees
12/13/2006	Wal Mart	Lexington, KY	$38.09	Wrapping paper, gift boxes, tissue; Board Members' gifts
12/14/2006	Bellini's	Lexington, KY	$41.98	Meal - 2 Employees
12/16/2006	Paypal	Unknown	$59.95	Monthly Fee
12/17/2006	Marriott Lexington	Lexington, KY	$896.00	Rooms for Board Members and Spouses for Board Meeting/Christmas Party
12/21/2006	Hanna's on Lime	Lexington, KY	$26.00	Meal - Unknown Attendees
1/9/2007	Alfalfa's	Lexington, KY	$15.93	Meal - Unknown Attendees
1/10/2007	Gibby's	Frankfort, KY	$26.72	Meal - 3 Employees
1/11/2007	Good Food Chapter	Lexington, KY	$16.42	Meal - Unknown Attendees
1/16/2007	Greenwood Spirits	Bowling Green, KY	$99.05	Wine, Liquor
1/16/2007	Jim's Seafood	Frankfort, KY	$22.21	Meal - 2 Employees
1/16/2007	Montana Grille	Bowling Green, KY	$230.44	Meal - 7 Attendees; Meals; Drinks (beer, mixed drinks)
1/16/2007	Wal Mart	Bowling Green, KY	$231.35	Beer, Soda
1/17/2007	Sam's Club	Bowling Green, KY	$98.56	Captain Morgan, Yellow Tail Chardonnay, Crown Royal Whisky
1/18/2007	Sam's Club	Bowling Green, KY	$121.53	Jack Daniels, Crown Royal Whisky, Makers Mark
1/22/2007	B & H Photo & Video	Unknown	$86.70	Photography Backdrop
1/23/2007	Barnes & Noble	Lexington, KY	$150.00	6 Gift Cards
1/23/2007	Good Food Chapter	Lexington, KY	$15.69	Meal - Unknown Attendees
2/8/2007	Bellini's	Lexington, KY	$43.54	Meal - 2 Employees
2/8/2007	Kroger	Unknown	$25.38	Diet Coke
2/13/2007	Paypal	Unknown	$59.95	Monthly Fee
2/14/2007	Alfalfa's	Lexington, KY	$17.32	Meal - Unknown Attendees
2/22/2007	Paypal, Inc.	Unknown	$649.00	Renew payflow account
2/24/2007	Lowe's	Unknown	$200.00	Gift Cards (3); No Purpose
2/28/2007	NIPR	Unknown	$181.13	License Renewal
3/6/2007	Lena's Card and Gift Shop	Frankfort, KY	$19.04	CD's
3/6/2007	Liquor Barn #4	Lexington, KY	$130.64	Liquor
3/6/2007	Red Dot Liquors, Inc	Frankfort, KY	$102.66	Wine & Cups
3/12/2007	Buca Washington DC	Washington, D.C.	$1,466.08	Meal - Unknown Attendees; Reception
3/16/2007	Paypal	Unknown	$59.95	Monthly Fee
3/19/2007	A La Lucie	Lexington, KY	$30.33	Meal - 2 Employees
3/22/2007	Ramsey's	Lexington, KY	$33.14	Meal - 2 Employees
3/26/2007	Kroger	Frankfort, KY	$61.48	Band Aids, Cakes
4/3/2007	Good Food Chapter	Lexington, KY	$15.91	Meal - Unknown Attendees
4/12/2007	Paypal	Unknown	$59.95	Monthly Fee
4/25/2007	Thomson West	Unknown	$83.74	Book
5/2/2007	Hanna's on Lime	Lexington, KY	$21.90	Meal - 3 Employees
5/4/2007	Boulevard's Café (Sheraton)	Atlantic City, NJ	$18.00	Meal - 1 Employee

Credit Card Expenditures With An Unclear Business Purpose, Inadequate Documentation or Excessive
July 1, 2006 – June 30, 2009

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
5/7/2007	Sheraton Atlantic City	Atlantic City, NJ	$659.57	Five Night Stay; No Purpose
5/9/2007	Bellini's	Lexington, KY	$27.26	Meal - 2 Employees
5/12/2007	Paypal	Unknown	$59.95	Monthly Fee
5/17/2007	Lexington Legends	Lexington, KY	$2,664.00	Party on Pepsi Deck
5/29/2007	B & H Photo & Video	Unknown	$352.20	Technology - Background Set
5/30/2007	Azur Restaurant & Patio	Lexington, KY	$1,708.36	Meal - Unknown Attendees
6/4/2007	Heavenly Ham	Lexington, KY	$148.00	15 Box Lunches
6/5/2007	Starway Transportation	Orlando, FL	$32.00	Luxury Cab ride when car has been rented
6/25/2007	Hanna's on Lime	Lexington, KY	$56.00	Meals
6/29/2007	Bellini's	Lexington, KY	$39.86	Meal - 2 Employees
7/9/2007	DW Sound	Unknown	$125.38	Microphone for Employee
7/10/2007	Liquor Barn	Lexington, KY	$26.91	Champagne, corkscrew, napkins
7/10/2007	Liquor Barn	Lexington, KY	$10.13	Table Cover
7/10/2007	Wal Mart	Unknown	$10.56	Knife server
7/12/2007	A La Lucie	Lexington, KY	$31.33	Meal - 2 Employees
7/12/2007	Ky Medical Services	Unknown	$72.00	Medical record; No Purpose
7/12/2007	Paypal	Unknown	$59.95	Monthly Fee
7/18/2007	Cumberland Inn	Williamsburg, KY	$65.04	Receipt does not match Credit Card Statement; Says Employee Cancelled
7/24/2007	Liquor Barn	Lexington, KY	$38.39	Woodford Reserve
7/31/2007	Bellini's	Lexington, KY	$58.76	Meal - 3 Employees
8/7/2007	Hanna's on Lime	Lexington, KY	$30.83	Meal - Unknown Attendees
8/7/2007	Keeneland Association	Lexington, KY	$600.00	Reservation for Lexington & Kentucky Room During 2007 Keeneland Meet
8/10/2007	Dudley's	Lexington, KY	$58.76	Meal - 3 Employees, 1 Other
8/14/2007	Paypal	Unknown	$59.95	Monthly Fee
8/16/2007	Good Food Chapter	Lexington, KY	$17.69	Meal - Unknown Attendees
8/20/2007	Good Food Chapter	Lexington, KY	$15.11	Meal - Unknown Attendees
8/21/2007	Liquor Barn	Lexington, KY	$1,008.42	Liquor
8/21/2007	Wal Mart	Lexington, KY	$37.78	Golf Umbrellas for Employee
8/22/2007	B & H Photo & Video	Unknown	$2,569.30	Technology - 2 Camcorders
8/22/2007	B & H Photo & Video	Unknown	$499.95	Technology - Lavalier Microphone
8/27/2007	Kroger	Unknown	$77.89	Soft Drinks, Gatorade
8/27/2007	Rite Aid	Unknown	$244.86	Beer
8/28/2007	Cherry Blossom Golf & Country Club	Georgetown, KY	$471.80	8 Gift Certificates, Nike Golf Balls
8/28/2007	Wal Mart	Unknown	$42.00	Gatorade, Ice, Water
8/30/2007	Liquor Barn	Lexington, KY	$7.60	Jack Daniels Black
8/31/2007	Marriott	Lexington, KY	$15.72	Unknown Purchase
9/13/2007	Paypal	Unknown	$59.95	Monthly Fee
9/24/2007	HH Gregg	Lexington, KY	$1,432.97	Casino Raffle Prizes
9/27/2007	Amazon.com	Internet	$713.98	Two Nintendo Wii's

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
9/27/2007	Sam's Club	Lexington, KY	$1,250.84	Computer Monitor, Turkey Fryer, Camera, Phone, Wine Cooler; Prizes
10/1/2007	Best Buy	Lexington, KY	$667.77	iPod, DVD Home Theater System, TV; Casino Night Gifts
10/1/2007	Liquor Barn	Lexington, KY	$528.91	Gift Baskets for Casino Night
10/3/2007	For Friends	Lexington, KY	$147.17	Unknown Purchase; Gift for Board Member's Spouse
10/8/2007	Liquor Barn	Lexington, KY	$249.49	Unknown Purchase
10/8/2007	The Covington Group	Unknown	$3,373.25	500 copies of The Little Red Book of Everyday Heroes
10/9/2007	Brio Tuscan Grille	Newport, KY	$69.23	Meal - Unknown Attendees
10/9/2007	Chez Nora	Covington, KY	$524.99	Meal - Unknown Attendees
10/9/2007	National City Bank	Lexington, KY	$1,000.00	Cash Advance to Purchase 2-$500 Visa Gift Cards
10/13/2007	Paypal	Unknown	$59.95	Monthly Fee
10/22/2007	Heavenly Ham	Lexington, KY	$121.63	Meal - Unknown Attendees
10/22/2007	Sam's Club	Lexington, KY	$30.87	Celebration Cake
10/23/2007	Joe Bologna's	Lexington, KY	$37.85	Meal - Unknown Attendees
11/13/2007	Paypal	Unknown	$59.95	Monthly Fee
11/20/2007	Walmart	Unknown	$50.19	Cake, Crackers, Pimento cheese, etc for Thanksgiving
12/4/2007	Heavenly Ham	Lexington, KY	$42.35	Meal - Unknown Attendees
12/6/2007	Promo Direct	Unknown	$457.00	250 Light-up Shot Glasses
12/12/2007	Paypal	Unknown	$59.95	Monthly Fee
1/8/2008	Hanna's on Lime	Lexington, KY	$29.80	Meal - Unknown Attendees
1/9/2008	Walmart	Unknown	$14.20	Picture Hangers
1/10/2008	Portofino's	Lexington, KY	$30.44	Meal - 2 Employees
1/12/2008	Paypal	Unknown	$59.95	Monthly Fee
1/16/2008	Heavenly Ham	Lexington, KY	$133.00	Meal - Unknown Attendees
1/18/2008	Bellini's	Lexington, KY	$76.60	Meal - 2 Employees; 1 Other
1/18/2008	Marriott	Lexington, KY	$6.77	Meal - 2 Employees
1/31/2008	Bellini's	Lexington, KY	$75.60	Meal - 2 Employees, 2 Others
2/4/2008	Sam's Deli	Unknown	$31.90	Lunch - Unknown Attendees
2/6/2008	Marriott	Lexington, KY	$13.60	Meal - Unknown Attendees
2/12/2008	Paypal	Unknown	$59.95	Monthly Fee
2/19/2008	Kmart	Unknown	$138.28	Sodas
2/19/2008	Serafini's	Frankfort, KY	$47.92	Meal - 2 Employees
2/22/2008	Liquor Barn	Lexington, KY	$2,220.06	Assorted Liquor/Wine
2/25/2008	Dick's Sporting Goods	Lexington, KY	$13.22	Darts
2/25/2008	Portofino's	Lexington, KY	$27.26	Meal - 2 Employees
2/27/2008	Kroger	Unknown	$81.36	Deli Chicken, Tobasco sauce, Cholula sauce
3/11/2008	Good Food Chapter	Lexington, KY	$9.30	Meal - Unknown Attendees
3/11/2008	NIPR	Unknown	$4,993.88	Appointment Renewal
3/12/2008	Paypal	Unknown	$59.95	Monthly Fee
3/18/2008	Portofino's	Lexington, KY	$50.87	Meal - 2 Employees
3/25/2008	Good Food Chapter	Lexington, KY	$9.30	Meal - Unknown Attendees

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
3/26/2008	Heavenly Ham	Lexington, KY	$120.00	Meal - Unknown Attendees
4/2/2008	Dudley's	Lexington, KY	$41.98	Meal - 2 Employees, 1 Other
4/4/2008	Keeneland/ Turf Catering	Lexington, KY	$212.64	Meal - 6 Attendees; Bloody Mary, beer, wine
4/10/2008	Keeneland - Turf Catering	Lexington, KY	$235.11	Keeneland Staff Outing
4/11/2008	Neutral Zone	Louisville, KY	$281.95	25 Black Coffee mugs/ $10
4/13/2008	Paypal	Unknown	$59.95	Monthly Fee
4/13/2008	Paypal, Inc.	Unknown	$59.95	Monthly Fee
4/14/2008	deSha's	Lexington, KY	$65.12	Meal - Unknown Attendees
4/15/2008	Clean Sweep on Broadway	Lexington, KY	$144.99	Car Wash/Detail for Van
4/15/2008	Kroger	Lexington, KY	$15.99	Sheet Cake for Employee's Birthday
4/19/2008	Giacomo's Deli	Lexington, KY	$187.83	Meal - Unknown Attendees
4/19/2008	Gold Shield Transportation	Lexington, KY	$154.50	Ground transportation from Keeneland to Radisson Hotel on April 18, 2008
4/19/2008	Gold Shield Transportation	Lexington, KY	$299.00	Ground transportation from Radisson Hotel to Azur Restaurant on April 17, 2008
4/19/2008	Gold Shield Transportation	Lexington, KY	$86.25	Ground transportation from Radisson Hotel to Keeneland on April 18, 2008
4/23/2008	Cheapside	Lexington, KY	$46.71	Meal - Unknown Attendees
4/24/2008	Paypal	Unknown	$262.50	Purchased clear envelopes from Shaw Shack Stampin and Scrappin
5/1/2008	The Courtyard Deli	Lexington, KY	$27.00	Meal - Unknown Attendees
5/9/2008	Bellini's	Lexington, KY	$53.52	Meal - 2 Employees
5/13/2008	Paypal	Unknown	$59.95	Monthly Fee
5/13/2008	Paypal, Inc.	Unknown	$59.95	Monthly Fee
5/13/2008	Restaurant Eve	Washington, D.C.	$162.27	Meal - 2 Employees, 1 Other
5/14/2008	Hanna's on Lime	Lexington, KY	$18.00	Meal - 2 Attendees
5/14/2008	Hanna's on Lime	Lexington, KY	$27.58	Meal - Unknown Attendees
5/21/2008	Bellini's	Lexington, KY	$87.08	Meal - 4 Employees
5/28/2008	Panera	Unknown	$6.88	Meal - Unknown Attendees
5/29/2008	B & H Photo & Video	Unknown	$194.24	Technology - DVD/VCR Recorder
6/2/2008	Giacomo's Deli	Lexington, KY	$139.00	15 Sandwiches; Board Meeting
6/3/2008	Sawyers	Lexington, KY	$28.13	Meal - 3 Employees, 1 Other
6/12/2008	Paypal	Unknown	$59.95	Monthly Fee
6/17/2008	Sawyers	Lexington, KY	$11.60	Meal - 2 Employees
6/18/2008	Good Food Chapter	Lexington, KY	$20.43	Meal - 3 Employees
6/18/2008	Liquor Barn	Lexington, KY	$180.54	Liquor, beer, soda, mixed nuts, can opener
6/19/2008	Azur Restaurant & Patio	Lexington, KY	$3,711.89	Meal - 75 Meals w/drinks
6/19/2008	Gumbo Ya Ya	Lexington, KY	$6.00	Meal - Unknown Attendees
6/24/2008	Heavenly Ham	Lexington, KY	$122.00	Meal - Unknown Attendees
6/30/2008	Papa John's	Unknown	$230.15	Meal - Unknown Attendees
7/10/2008	Durango's	Lexington, KY	$18.58	Meal - 2 Employees

Credit Card Expenditures With An Unclear Business Purpose, Inadequate Documentation or Excessive
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Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
7/11/2008	Gumbo Ya Ya	Lexington, KY	$18.25	Meal - Unknown Attendees
7/11/2008	Intelligent Change INI	Unknown	$596.00	Two All-Access Passes to the Idea Festival in Louisville for Employee
7/11/2008	Kroger	Unknown	$16.57	Ice Cream Social
7/11/2008	Kroger	Unknown	$107.78	Ice Cream Social
7/14/2008	ASAE	Unknown	$46.70	"7 Measures of Success Power Package" ordered for Employee #1 by Employee #2 on Employee #3's credit Card
7/14/2008	Ted's Montana Grill	Lexington, KY	$62.44	Meal - Unknown Attendees
7/15/2008	Argonaut Wine & Liquors	Denver, CO	$459.39	Makers Mark Mini (175)
7/15/2008	Durango's	Lexington, KY	$16.72	Meal - Unknown Attendees
7/15/2008	Paypal	Unknown	$59.95	Monthly Fee
7/15/2008	Paypal, Inc.	Unknown	$59.95	Monthly Fee
7/17/2008	Bellini's	Lexington, KY	$163.74	Meal - Unknown Attendees
7/18/2008	Best Buy	Unknown	$684.73	Garmin Nuvi GPS & Accessories; For Employee
7/22/2008	Bellini's	Lexington, KY	$72.42	Meal - Unknown Attendees
7/22/2008	Big Horse Brew Pub	Hood River, OR	$104.90	Meal - Unknown Attendees
7/22/2008	Liquor Barn	Lexington, KY	$69.95	Gift Basket
7/22/2008	two-twenty-two	Georgetown, KY	$129.71	Meal - 2 Employees, 1 Vendor
7/23/2008	Best Buy	Unknown	$1,314.36	Garmin Nuvi GPS & Accessories (2); For Employee
7/25/2008	Bellini's	Lexington, KY	$41.92	Meal - 1 Employee, 1 Other
7/26/2008	NWA	Unknown	$100.00	Fee to change return flight to following day; Employee
7/31/2008	Giacomo's Deli	Lexington, KY	$30.00	Meal - 2 Employees, 1 Other
8/1/2008	Gumbo Ya Ya	Lexington, KY	$13.25	Meal - Unknown Attendees
8/4/2008	Galt House	Louisville, KY	$380.15	Lodging; No Purpose
8/5/2008	Liquor Barn	Louisville, KY	$387.94	Alcohol and snacks for Kentucky Local Issues Conference
8/5/2008	Vincenzo's	Louisville, KY	$149.07	Meal - 2 Employees
8/6/2008	Galt House	Louisville, KY	$458.56	Lodging; Meals; No Purpose
8/8/2008	Keeneland Association	Lexington, KY	$360.00	Reserve table at Lexington/Kentucky Room at Keeneland
8/11/2008	Jared	Lexington, KY	$585.65	Watch for Employee Retirement Gift
8/12/2008	Best Buy	Unknown	$84.79	Technology - Rangebooster USB Adapter for Employee's House
8/12/2008	Paypal, Inc.	Unknown	$59.95	Monthly Fee
8/14/2008	Bellini's	Lexington, KY	$72.42	Meal - 3 Employees
8/15/2008	The Dragon Bar & Grill	Frankfort, KY	$653.25	Retirement Party
8/20/2008	Durango's	Lexington, KY	$22.02	Meal - 2 Employees, 1 Other
8/21/2008	Bellini's	Lexington, KY	$47.22	Meal - 3 Employees
8/24/2008	Jon Milliards Art Gallery	Lexington, KY	$312.70	Print for Convention

Credit Card Expenditures With An Unclear Business Purpose, Inadequate Documentation or Excessive
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Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
8/25/2008	Bellini's	Lexington, KY	$44.16	Meal - Unknown Attendees
8/27/2008	Applebee's	Unknown	$23.63	Meal - Unknown Attendees
8/27/2008	Beef O'Brady's	Georgetown, KY	$24.85	Meal - 1 Employee, 1 Vendor
8/28/2008	Durango's	Lexington, KY	$30.00	Meal - Unknown Attendees
9/2/2008	Durango's - Lexington	Lexington, KY	$18.58	Meal - Unknown Attendees
9/3/2008	Mitchell's Fish Market	Newport, KY	$64.40	Meal - 2 Employees, 1 Other
9/8/2008	Gumbo Ya Ya	Lexington, KY	$15.25	Meal - 2 Attendees
9/8/2008	Logan's Roadhouse	Lexington, KY	$66.03	Meal - Unknown Attendees; Going Away Party
9/12/2008	Paypal, Inc.	Unknown	$59.95	Monthly Fee
9/15/2008	Azur Restaurant & Patio	Lexington, KY	$1,191.66	Meal - Unknown Attendees
9/16/2008	Planet Thai	Lexington, KY	$24.03	Meal - 2 Employees
9/22/2008	Hanna's on lime	Lexington, KY	$19.96	Meal - Unknown Attendees
9/24/2008	Durango's	Lexington, KY	$17.58	Meal - Unknown Attendees
9/25/2008	Kroger	Unknown	$6.07	Unknown Purchase
9/25/2008	Walmart	Unknown	$124.28	Unknown Purchase
10/2/2008	FL Tax Exempt Organizations: New Form 990	Unknown	$1,398.00	Conference Registration - 2 Employees
10/3/2008	Dick's Sporting Goods	Lexington, KY	$148.38	Walkie Talkies (2 sets)
10/3/2008	Liquor Barn	Lexington, KY	$250.01	Convention/ Gift baskets & Incidentals; Buffalo Trace, Makers Mark, Woodford Reserve, wines, Tanqueray
10/6/2008	Store.NASCAR.com	Internet	$82.98	NASCAR racing collectible; Note said Gift for Board Member
10/9/2008	FL Tax Exempt Organizations: New Form 990	Unknown	$699.00	Conference Registration - 1 Employees
10/10/2008	HH Gregg	Lexington, KY	$659.97	LG 32' LCD TV
10/13/2008	Wal Mart	Lexington, KY	$10.60	2- 11x14 Frames
10/14/2008	Paypal, Inc.	Unknown	$59.95	Monthly Fee
10/14/2008	Spirits Liquor N Party	Nicholasville, KY	$388.89	Alcohol
10/15/2008	Buca Di Beppo	Louisville, KY	$121.68	Meal - Unknown Attendees
10/15/2008	Sawyers	Lexington, KY	$19.40	Meal - 2 Employees
10/17/2008	Bristol Bar & Grille	Louisville, KY	$326.27	Meal - 6 Employees
10/17/2008	Bristol Bar & Grille	Louisville, KY	$202.30	Meal - 8 Employees
10/22/2008	Hanna's On Lime	Lexington, KY	$15.80	Meal - 2 Employees
10/23/2008	Turf Catering/Keeneland	Lexington, KY	$219.67	Meal - Unknown Attendees
10/24/2008	Azur Restaurant & Patio	Lexington, KY	$328.25	Meal - 1 Employee, 1 Other
10/24/2008	Hanna's on Lime	Lexington, KY	$38.00	Meal - Unknown Attendees
10/24/2008	Keeneland - Turf Catering	Lexington, KY	$165.45	Keeneland Staff Outing - 1 Employee, 1 Other
10/28/2008	Buffalo Trace Distillery Gift Shop	Frankfort, KY	$58.40	Marinade, Barbeque Sauce, Shot Glass, Playing Cards, Bottle Jersey, Fleece Throw; Promotion
10/29/2008	Dudley's	Lexington, KY	$34.62	Meal - 2 Employees

Credit Card Expenditures With An Unclear Business Purpose, Inadequate Documentation or Excessive
July 1, 2006 – June 30, 2009

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
11/1/2008	deSha's	Lexington, KY	$9.16	Meal - Unknown Attendees
11/2/2008	Charley's Steak House	Orlando, FL	$276.55	Meal - 3 Employees
11/7/2008	Ramsey's	Lexington, KY	$29.75	Meal - 2 Employees
11/12/2008	Paypal	Unknown	$59.95	Monthly Fee
11/12/2008	Paypal, Inc.	Unknown	$59.95	Monthly Fee
11/13/2008	Sal's Italian Chophouse	Lexington, KY	$90.00	Meal - 8 Employees
11/17/2008	Durango's - Richmond	Richmond, KY	$39.82	Meal - 4 Employees
11/18/2008	Clean Sweep on Broadway	Lexington, KY	$199.99	Car Detail on 2005 Volvo 90 Series
11/24/2008	Fazoli's- Lexington	Lexington, KY	$34.86	Breadsticks
12/1/2008	Popcorn Papa	Unknown	$80.37	Holiday Gifts for Vendor
12/1/2008	Popcorn Papa	Unknown	$103.36	Holiday Gifts for Vendor
12/1/2008	Popcorn Papa	Unknown	$325.87	Holiday Gifts for Vendor
12/3/2008	Hanna's on Lime	Lexington, KY	$22.85	Meal - 3 Employees
12/12/2008	Exxon Mobile	Unknown	$20.94	Gas Purchase; Receipt differs from Credit Card Statement
12/12/2008	Paypal	Unknown	$59.95	Monthly Fee
12/12/2008	Paypal, Inc.	Unknown	$59.95	Monthly Fee
12/15/2008	Marriott - Griffin Gate	Lexington, KY	$39.86	Meal - 2 Employees, 1 Other
12/17/2008	Hanna's on Lime	Lexington, KY	$16.86	Meal - 1 Employee, 1 Other
12/23/2008	Bellini's	Lexington, KY	$90.26	Meal - 2 Employees, 3 Others
1/6/2009	Guitarcenter.com	Unknown	$128.72	Technology - Hand Held Wireless system
1/13/2009	Embassy Suites	Unknown	$118.32	Meal - 3 Employees
1/13/2009	Paypal	Unknown	$59.95	Monthly Fee
1/13/2009	Paypal, Inc.	Unknown	$59.95	Monthly Fee
1/16/2009	Hanna's on Lime	Lexington, KY	$24.44	Meal - 3 Employees
1/16/2009	Hanna's on Lime	Lexington, KY	$3.56	Meal - 3 Employees
1/29/2009	Farm of Beverly Hills	Los Angeles, CA	$25.00	Bar bill - 2 Employees
1/29/2009	Hotel bar	Los Angeles, CA	$34.40	Bar bill - 2 Employees
2/9/2009	Capital Plaza Hotel	Frankfort, KY	$69.00	No Show Fee
2/9/2009	Liquor Barn	Lexington, KY	$1,576.78	Liquor, wine, beer, sodas
2/13/2009	Paypal	Unknown	$59.95	Monthly Fee
2/13/2009	Paypal, Inc.	Unknown	$59.95	Monthly Fee
2/17/2009	Greater Louisville Inc.	Louisville, KY	$150.00	Meeting Registration for Employee/Spouse
2/17/2009	The Walk the Talk	Unknown	$50.90	Purchased The Power of 10% Personal Development Kit and The Richest Man In Town
2/20/2009	Bellini's	Lexington, KY	$78.72	Meal - 2 Employees, 1 Other
2/27/2009	Bourbon N Toulouse	Lexington, KY	$480.00	No detailed receipt
3/5/2009	Wal Mart	Unknown	$87.59	Beer (5 cases)
3/12/2009	Paypal	Unknown	$59.95	Monthly Fee
3/16/2009	Murphy's	Washington, D.C.	$918.99	Alcohol for KLC Reception
3/25/2009	GFS Marketplace	Unknown	$36.82	Table Cover; Mustard; Cleaner
3/25/2009	Hanna's on Lime	Lexington, KY	$36.00	Meal - 4 Employees
4/1/2009	Rite Aid	Unknown	$219.80	4 Visa Gift Cards

Credit Card Expenditures With An Unclear Business Purpose, Inadequate Documentation or Excessive
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Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
4/1/2009	Wal-Mart	Unknown	$306.34	WII system - Grand prize for Clerk's Conf.
4/2/2009	Hanna's on Lime	Lexington, KY	$15.06	Meal - 2 Employees
4/3/2009	Country Cupboard	Madisonville, KY	$311.33	Meal - Unknown Attendees
4/8/2009	Keeneland	Lexington, KY	$207.29	Keeneland Staff Outing
4/8/2009	Walmart	Unknown	$94.59	Easter Egg Dyeing and Easter Candy
4/14/2009	Paypal	Unknown	$59.95	Monthly Fee
4/14/2009	Paypal, Inc.	Unknown	$59.95	Monthly Fee
4/17/2009	Hanna's on Lime	Lexington, KY	$15.06	Meal - Unknown Attendees
4/17/2009	Keeneland	Lexington, KY	$332.95	Keeneland Staff Outing - 10 Attending
4/21/2009	NIPR	Unknown	$105.00	License Renewal
4/27/2009	Liquor Barn	Lexington, KY	$108.09	3 Makers Mark VIP's
4/30/2009	Sandwich Block Deli	Unknown	$263.20	Meal - Unknown Attendees
5/12/2009	Hanna's on Lime	Lexington, KY	$52.86	Meal - Unknown Attendees
5/12/2009	Paypal	Unknown	$59.95	Monthly Fee
5/13/2009	Rite Aid	Lexington, KY	$118.26	Alcohol for KLC Board meetings
5/15/2009	Boone Tavern Hotel	Berea, KY	$70.04	Board Meeting Spouse Outing
6/12/2009	Paypal, Inc.	Unknown	$59.95	Monthly Fee
6/12/2009	Subway	Lexington, KY	$5.86	Meal - 1 Employee
Total	**343 transactions**		**$87,100.90**	

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
6/9/2006	Sawyer's	Lexington, KY	$19.74	Unknown- No Receipt
6/19/2006	Super 8 Motels	Unknown	$65.67	Unknown- No Receipt
6/22/2006	Cableorganizer.com	Unknown	$85.99	Unknown- No Receipt
6/22/2006	Good Food Chapter	Lexington, KY	$17.27	Unknown- No Receipt
6/29/2006	Professional Convention Management Association	Unknown	$350.00	Unknown- No Receipt
7/6/2006	Delta Air	Lewiston, ID	$1,199.19	Unknown- No Receipt
7/16/2006	Days Inn	Kuttawa, KY	$56.32	Unknown- No Receipt
7/16/2006	Days Inn	Kuttawa, KY	$56.32	Unknown- No Receipt
7/18/2006	Paypal, Inc.	Unknown	$59.95	Monthly Fee
7/20/2006	Experts Exchange LLC	Unknown	$99.50	Unknown- No Receipt
7/31/2006	Boone Tavern	Berea, KY	$107.91	Unknown- No Receipt
8/1/2006	Executive Inn Hotel	Louisville, KY	$101.44	Unknown- No Receipt
8/2/2006	Microsoft - Tech Support	Unknown	$245.00	Unknown- No Receipt
8/24/2006	Anglers Rest	Gilbertsville, KY	$381.86	Unknown- No Receipt
8/27/2006	Microsoft - Tech Support	Unknown	$490.00	Unknown- No Receipt
8/31/2006	Days Inn	Beaver Dam, KY	$61.04	Unknown- No Receipt
8/31/2006	Days Inn	Beaver Dam, KY	$60.50	Unknown- No Receipt
8/31/2006	Days Inn	Beaver Dam, KY	$60.50	Unknown- No Receipt
9/9/2006	Paypal, Inc.	Unknown	$350.00	No receipt
9/11/2006	Liquor Barn	Lexington, KY	$1,451.09	Unknown- No Receipt
9/12/2006	Root-A-Bakers	Morehead, KY	$32.16	Unknown- No Receipt
9/21/2006	Microsoft - Tech Support	Unknown	$245.00	Unknown- No Receipt
9/22/2006	Microsoft - Tech Support	Unknown	$245.00	Unknown- No Receipt
10/3/2006	Rent-A-Center	Lexington, KY	$220.00	Unknown- No Receipt
10/4/2006	Bourbon n Toulouse	Lexington, KY	$12.00	Unknown- No Receipt
10/4/2006	Kroger #315	Lexington, KY	$5.28	Unknown- No Receipt
10/4/2006	Kroger #315	Lexington, KY	$120.74	Unknown- No Receipt
10/16/2006	Hyatt	Lexington, KY	$45.81	Unknown- No Receipt
10/20/2006	Shell	Georgetown, KY	$31.60	Gas
10/20/2006	T-Mobile Hot Spot	Unknown	$19.98	Unknown- No Receipt
10/30/2006	Hanna's on Lime	Lexington, KY	$39.19	Unknown- No Receipt
11/1/2006	Fifth Avenue Salon Inc	Louisville, KY	$349.00	Unknown- No Receipt
11/1/2006	HMS HOST - ATL Airport	Atlanta, GA	$10.67	Unknown- No Receipt
11/29/2006	Drury Inn	Paducah, KY	$73.72	Unknown- No Receipt
11/29/2006	Drury Inn	Paducah, KY	$73.72	Unknown- No Receipt
11/29/2006	Drury Inn	Paducah, KY	$73.72	Unknown- No Receipt
12/4/2006	PBD*ICMA Publications	Unknown	$77.50	Unknown- No Receipt
12/20/2006	USPS	Unknown	$588.00	Unknown- No Receipt
1/10/2007	Commonwealth Schools	Unknown	$313.00	Unknown- No Receipt
1/18/2007	Montana Grille	Bowling Green, KY	$400.16	Unknown- No Receipt
1/18/2007	Paypal, Inc.	Unknown	$59.95	Monthly Fee
1/19/2007	Holiday Inn	Bowling Green, KY	$87.93	Unknown- No Receipt
1/19/2007	Holiday Inn	Bowling Green, KY	$87.93	Unknown- No Receipt
3/1/2007	Country Hearth Inn & Suites	Elizabethtown, KY	$68.47	Lodging
3/2/2007	Speedway 9622	Unknown	$25.38	Unknown- No Receipt

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
3/3/2007	Country Hearth Inn & Suites	Elizabethtown, KY	$248.04	Unknown- No Receipt
3/3/2007	Country Hearth Inn & Suites	Elizabethtown, KY	$68.47	Unknown- No Receipt
3/3/2007	Country Hearth Inn & Suites	Elizabethtown, KY	$68.47	Unknown- No Receipt
3/7/2007	IIA/CPCU Institute	Unknown	$70.00	Unknown- No Receipt
3/20/2007	Cracker Barrel	Unknown	$29.45	Unknown- No Receipt
4/5/2007	Fred Pryor Seminars	Unknown	$99.00	Unknown- No Receipt
4/10/2007	Delta Airlines	Lexington, KY to Orlando, FL	$364.80	Travel
4/10/2007	Delta Airlines	Lexington, KY to Orlando, FL	$364.80	Travel
4/11/2007	Fred Pryor Seminars	Unknown	$129.00	Unknown- No Receipt
4/12/2007	O'Charleys	Unknown	$69.36	Unknown- No Receipt
5/1/2007	Natchez Eola	Natchez, MS	$367.05	Unknown- No Receipt
5/5/2007	Amelia Island Resort	Amelia Island, FL	$721.65	Unknown- No Receipt
6/12/2007	Paypal, Inc.	Unknown	$59.95	Monthly Fee
6/28/2007	Target	Unknown	$13.77	No receipt, but note: "Cell phone charger, $12.99 +tax"
FY 2007	AT & T	Unknown	$24.95	Internet Service for Unknown Employee - 1 transaction
FY 2007	BellSouth	Unknown	$240.67	Internet Service for Unknown Employee - 6 transactions
FY 2007	BellSouth	Unknown	$468.39	Internet Service for Employee #1 11 transactions
FY 2007	BellSouth	Unknown	$478.39	Internet Service for Employee #2 11 transactions
FY 2007	BellSouth	Unknown	$378.39	Internet Service for Employee #3 11 transactions
8/16/2007	IIA/CPCU Institute	Unknown	$142.00	Unknown- No Receipt
9/27/2007	Clean Sweep on Broadway	Lexington, KY	$159.00	Unknown- No Receipt
10/9/2007	Sam's Club	Lexington, KY	$37.90	Unknown- No Receipt
10/11/2007	Behle Street Café	Covington, KY	$78.78	No receipt
10/11/2007	Embassy Sts Cinn River	Covington, KY	$229.22	Unknown- No Receipt
10/12/2007	Courtyard by Marriott-DWT	Covington, KY	$236.66	Unknown- No Receipt
10/12/2007	Marriott Cincinnati/Rvrct	Covington, KY	$168.06	Unknown- No Receipt
10/13/2007	Holiday Inn- Riverfront	Covington, KY	$154.71	Unknown- No Receipt
10/13/2007	Holiday Inn- Riverfront	Covington, KY	$235.96	Unknown- No Receipt
10/13/2007	Marriott	Cincinnati, OH	$100.00	Unknown- No Receipt
10/14/2007	Holiday Inn- Riverfront	Covington, KY	$132.06	Unknown- No Receipt
10/16/2007	Sam's Club	Lexington, KY	$40.25	Unknown- No Receipt
10/18/2007	American Airlines	Unknown	$163.80	Unknown- No Receipt
10/18/2007	Stamats	Unknown	$129.00	Unknown- No Receipt
10/18/2007	Stamats	Unknown	$129.00	Unknown- No Receipt
10/18/2007	Stamats	Unknown	$129.00	Unknown- No Receipt
11/10/2007	Hilton Hotels	Unknown	$275.33	Unknown- No Receipt
11/14/2007	Hilton Hotels	Baton Rouge, LA	$274.44	Lodging

All Other Employees Issued Cards

Appendix 4

Credit Card Expenditures With No Supporting Documentation
July 1, 2006 – June 30, 2009

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
11/26/2007	Knights Inn	Morehead, KY	$55.73	Unknown- No Receipt
12/12/2007	Holiday Inn	Frankfort, KY	$78.26	Unknown- No Receipt
1/30/2008	Pacer	Unknown	$19.44	Unknown- No Receipt
3/31/2008	Marriott	Hebron, KY	$224.82	Unknown- No Receipt
3/31/2008	Public Risk Management Association	Unknown	$2,650.00	Unknown- No Receipt
4/2/2008	Dudley's	Lexington, KY	$317.80	Unknown- No Receipt
4/19/2008	Kroger #315	Lexington, KY	$52.47	Unknown- No Receipt
4/22/2008	Sam's Club	Lexington, KY	$42.08	Unknown- No Receipt
5/1/2008	Microvision Inc.	Unknown	$32.42	Unknown- No Receipt
5/23/2008	The Education Trust	Unknown	$250.00	Unknown- No Receipt
6/2/2008	Columbia House Video Club	Unknown	$9.95	Unknown- No Receipt
6/12/2008	Paypal, Inc.	Unknown	$59.95	Monthly Fee
FY 2008	AT & T	Unknown	$42.40	Internet Service for Unknown Employee - 1 transaction
FY 2008	AT & T	Unknown	$85.90	Internet Service for Employee #1 2 transactions
FY 2008	AT & T	Unknown	$85.90	Internet Service for Employee #2 2 transactions
FY 2008	AT & T	Unknown	$85.90	Internet Service for Employee #3 2 transactions
FY 2008	BellSouth	Unknown	$429.50	Internet Service for Employee #1 10 transactions
FY 2008	BellSouth	Unknown	$429.50	Internet Service for Employee #2 10 transactions
FY 2008	BellSouth	Unknown	$419.50	Internet Service for Employee #3 9 transactions
7/2/2008	National Conference of State - CO	Unknown	$100.00	Unknown- No Receipt
7/12/2008	Supershuttle	Unknown	$58.00	Unknown- No Receipt
7/23/2008	Skamania Lodge	Stevenson, WA	$1,008.39	Lodging
7/23/2008	Skamania Lodge	Stevenson, WA	$919.29	Lodging
7/23/2008	Skamania Lodge	Stevenson, WA	$34.89	Lodging
7/24/2008	Pat Obrien's	New Orleans, LA	$27.00	Bar bill
8/29/2008	Hanna's on Lime	Lexington, KY	$10.44	Unknown- No Receipt
9/5/2008	Surefire LLC	Unknown	$73.73	Unknown- No Receipt
9/25/2008	Cheapside Bar and Grill	Lexington, KY	$24.94	Unknown- No Receipt
9/29/2008	Los Alazanes Resteraunt	Lexington, KY	$16.93	Unknown- No Receipt
10/9/2008	Los Alazanes Resteraunt	Lexington, KY	$21.86	Unknown- No Receipt
10/14/2008	Paypal, Inc.	Unknown	$59.95	Monthly Fee
10/18/2008	Kentucky Intl CC Strb Conc	Louisville, KY	$8.27	Unknown- No Receipt
10/28/2008	EBAGS.COM	Unknown	$239.93	Unknown- No Receipt
11/1/2008	Delta Airline	Atlanta, GA	$450.00	Airfare
11/5/2008	Hilton Hotels	Orlando, FL	$267.76	Lodging
12/17/2008	General Butler State Park	Carrollton, KY	$500.00	Unknown- No Receipt
2/2/2009	Society of CIC	Unknown	$144.00	Unknown- No Receipt
3/12/2009	Paypal, Inc.	Unknown	$59.95	Monthly Fee

Credit Card Expenditures With No Supporting Documentation
July 1, 2006 – June 30, 2009

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
3/27/2009	AT & T	Unknown	$15.89	adaptor for Neil's iphone
4/30/2009	Chevron	Lexington, KY	$20.00	Unknown- No Receipt
5/12/2009	Paypal, Inc.	Unknown	$59.95	Monthly Fee
5/16/2009	Starbucks	Unknown	$184.44	Lost receipt; Note said coffee, pastries for Legislative Board
FY 2009	AT & T	Unknown	$429.50	Internet Service for Employee #1 10 transactions
FY 2009	AT & T	Unknown	$472.45	Internet Service for Employee #2 11 transactions
FY 2009	AT & T	Unknown	$472.45	Internet Service for Employee #3 11 transactions
FY 2009	AT & T	Unknown	$42.95	Internet Service for Employee #4 1 transaction
Total	**221 transactions**		**$26,799.45**	

Reimbursements With An Unclear Business Purpose, Inadequate Documentation or Excessive
July 1, 2006 – June 30, 2009

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
October 2005 - June 2006	Multiple	Unknown	$3,000.00	Moving expenses; Storage Unit; Hotel; Movers; Lowe's Purchases
6/2/2006	Ruby Tuesday's	Unknown	$22.55	Meal - 2 Employees
6/7/2006	Ramsey's	Lexington, KY	$41.40	Meal - 2 Employees
6/11/2006	Le Bar du Sport	Las Vegas, NV	$18.00	Alcohol - 1 Daiquiri & 2 Bud Lights
6/12/2006	Malone's	Lexington, KY	$33.31	Meal - 2 Employees
6/14/2006	Le Cabaret	Las Vegas, NV	$6.00	Alcohol - 1 Sam Adams
6/23/2006	Insight Communications	Unknown	$34.95	Internet Service
6/28/2006	Hanna's on Lime	Lexington, KY	$19.59	Meal - 2 Employees
June 2006	AT&T	Unknown	$35.92	Internet Service
7/7/2006	Planet Thai	Lexington, KY	$21.91	Meal - 2 Employees
7/12/2006	Unknown	Unknown	$40.00	Canoe; Team Building; Unknown Purchase
7/14/2006	A La Lucie	Lexington, KY	$42.88	Meal - Unknown Attendees
7/15/2006	The Courier-Journal	Louisville, KY	$39.00	Newspaper Home Delivery; Weekend Service
7/17/2006	Nagasaki Inn	Lexington, KY	$19.17	Meal - 2 Employees
7/21/2006	Hanna's on Lime	Lexington, KY	$28.03	Meal - 1 Employee, 1 Other
7/23/2006	Insight Communications	Unknown	$34.95	Internet Service
7/24/2006	The Mousetrap	Lexington, KY	$19.72	Meal - 1 Employee, 1 Other
7/25/2006	Unknown	Unknown	$14.90	Meal - 1 Employee, 1 Other
7/25/2006	Kroger	Lexington, KY	$8.47	Power strip for Employee's home
7/25/2006	Staples	Lexington, KY	$74.18	Wireless router for Employee's home
7/26/2006	Hanna's on Lime	Lexington, KY	$12.09	Meal - 1 Employee, 1 Other
7/31/2006	Ramsey's	Lexington, KY	$19.21	Meal - 2 Employees
July 2006	AT&T	Unknown	$35.92	Internet Service
8/9/2006	Cherry Blossom Golf & Country Club	Georgetown, KY	$98.28	9 Holes with Cart Rental, water, Diet Mt Dew, candy, hot dogs
8/9/2006	Radisson Plaza - Bigg Blue Martini	Lexington, KY	$22.50	Hospitality - 1 Employee, 4 Board Members
8/14/2006	Coffee Times Coffee House	Lexington, KY	$10.17	Meal - 2 Employees
8/14/2006	CompUSA	Lexington, KY	$211.98	Wireless networking equipment for Employee's home
8/17/2006	Rincon Mexicano	Lexington, KY	$15.00	Gift Card for Departing Employee
8/21/2006	Montgomery Inn	Unknown	$22.29	Hospitality - 1 Employee, 1 Board Member
8/22/2006	Unknown	Unknown	$19.00	Unknown Purchase
8/23/2006	Insight Communications	Unknown	$34.95	Internet Service
8/24/2006	A La Lucie	Lexington, KY	$37.75	Meal - 2 Employees
8/25/2006	Southwest Airlines	Washington, D.C.	$250.20	Airfare to Washington, D.C.
8/28/2006	Lunas & Tonios	Lexington, KY	$15.68	Meal - 2 Employees
8/29/2006	Portofino	Lexington, KY	$26.21	Meal - 2 Employees

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
8/29/2006	UK Athletics Association	Lexington, KY	$802.00	Purchased 2 tickets for the season (18 games) @ $22/ticket; $10 processing fee
8/31/2006	Taste of Thai	Lexington, KY	$15.47	Meal - 2 Employees
August 2006	Multiple	Unknown	$992.41	This is for the entire reimb: mileage, meals, hotel, parking, cab fare
August 2006	AT&T	Unknown	$35.92	Internet Service
9/1/2006	Unknown	Unknown	$24.99	Internet Service
9/1/2006	Mai Thai	Lexington, KY	$21.23	Meal - 2 Employees
9/7/2006	Keeneland Association	Lexington, KY	$210.00	Keeneland Tickets for Employee
9/9/2006	Dave & Busters	Unknown	$104.30	Meal - Unknown Attendees
9/11/2006	Ellendale's Restaurant	Unknown	$152.09	Meal - Unknown Attendees
9/15/2006	Crystal on Vine	Lexington, KY	$71.29	Eclectic Bowl for Mayor
9/18/2006	Garden Ridge	Lexington, KY	$53.21	Picture Hangers
9/20/2006	Mellow Mushroom	Lexington, KY	$17.23	Meal - 2 Employees
9/20/2006	Mellow Mushroom	Lexington, KY	$17.23	Meal - 2 Employees
9/22/2006	Antigua	Orlando, FL	$55.00	Night Club
9/23/2006	Insight Communications	Unknown	$34.95	Internet Service
9/26/2006	Mark Stanley	Unknown	$320.00	Purchased 8 tickets @ $40; Unknown Tickets; Giveaway
9/26/2006	Grotto	Lexington, KY	$44.00	Meal - 3 Employees
9/30/2006	Convention Gift	Unknown	$200.00	Corn Hole Game w/KLC logo
September 2006	AT&T	Unknown	$32.95	Internet Service
10/1/2006	Unknown	Unknown	$24.99	Internet Service
10/2/2006	My Old Kentucky Chocolates	Lexington, KY	$150.00	Gifts
10/3/2006	Leather Inc	Lexington, KY	$141.93	2 Waterman Hemisphere Stainless Pen ($32 each) & 2 Portfolios ($34.98 each)
10/4/2006	Hyatt Regency Glass Garden Bar	Unknown	$7.25	Cocktail for convention delegate
10/7/2006	Keeneland	Lexington, KY	$215.24	Entertainment - 1 Employee, 1 Mayor, 1 Other
10/18/2006	Hanna's on Lime	Lexington, KY	$21.37	Meal - 3 Employees
10/18/2006	Dick's Sporting Goods	Unknown	$49.99	Unknown Purchase
10/18/2006	The Courier-Journal	Louisville, KY	$39.00	Newspaper Home Delivery; Weekend Service
10/23/2006	Insight Communications	Unknown	$34.95	Internet Service
10/24/2006	Inside CNN Atlanta	Atlanta, GA	$36.00	Tour
10/24/2006	Ruth's Chris Steak House	Unknown	$334.01	Meal - Unknown Attendees
10/30/2006	Hanna's on Lime	Lexington, KY	$16.47	Meal - 2 Employees
10/30/2006	Community Trust Bank	Lexington, KY	$107.90	Purchase 2- $50 American Express Gift Cards for Halloween Costume Winner
October 2006	AT&T	Unknown	$32.95	Internet Service
11/1/2006	Bellini's	Lexington, KY	$26.26	Meal - 2 Employees

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
11/2/2006	Macy's	Lexington, KY	$100.00	$100 Gift Card to Macy's for KLC Survey Contest Winner
11/2/2006	Pete's Dueling Piano	Austin, TX	$65.00	Meal - Unknown Attendees
11/2/2006	Pete's Dueling Piano	Austin, TX	$610.00	Meal - Unknown Attendees
11/8/2006	Radisson Plaza - Bigg Blue Martini	Lexington, KY	$21.00	Hospitality - 1 Employee, 3 Board Members
11/15/2006	Unknown	Unknown	$9.12	Breakfast
11/15/2006	Southwest Airlines	Washington, D.C.	$250.20	Airfare to Washington, D.C.; Double reimbursed on 9/1/06
11/16/2006	Galt House	Louisville, KY	$11.62	Drinks
11/17/2006	Harry's	Lexington, KY	$25.20	Meal
11/23/2006	Insight Communications	Unknown	$34.95	Internet Service
11/28/2006	Applebee's	Unknown	$14.36	Food & Alcohol
November 2006	AT&T	Unknown	$32.95	Internet Service
12/1/2006	Unknown	Unknown	$25.00	Internet Service
12/1/2006	Cielito Lindo	Lexington, KY	$38.47	Meal - Unknown Attendees
12/8/2006	Unknown	Unknown	$9.25	Meal - Unknown Attendees
12/13/2006	Ramsey's	Lexington, KY	$9.69	Meal
12/14/2006	My Old Kentucky Chocolates	Lexington, KY	$771.45	Christmas Gifts for Cornerstone Partners
12/18/2006	Azur	Lexington, KY	$141.95	Meal - 1 Employee, 1 Vendor, 1 Other
12/19/2006	Malone's	Lexington, KY	$85.66	Staff Christmas Lunch
12/20/2006	Great Harvest Bread	Unknown	$30.88	Christmas Gifts for Vendor
12/23/2006	Insight Communications	Unknown	$34.95	Internet Service
December 2006	AT&T	Unknown	$32.95	Internet Service
1/1/2007	Unknown	Unknown	$25.00	Internet Service
1/5/2007	Unknown	Unknown	$37.00	Meal - 2 Employees, 1 Other
1/11/2007	superbookdeals.com	Internet	$61.54	Purchase Chase's Calendar of Events 2007 Set
1/18/2007	University Plaza Hotel	Bowling Green, KY	$21.58	Meal - 1 Employee, 2 Other
1/18/2007	Sahara Steakhouse	Cave City, KY	$27.82	Meal - 1 Employee, 1 Other
1/20/2007	Dick's Sporting Goods	Lexington, KY	$108.04	Unknown Purchase
1/23/2007	The Courier-Journal	Louisville, KY	$39.00	Newspaper Home Delivery; Weekend Service
1/23/2007	Staples	Unknown	$84.78	Wireless router for Employee's home
1/23/2007	Insight Communications	Unknown	$34.95	Internet Service
1/25/2007	Ramsey's	Lexington, KY	$29.75	Meal - 3 Employees
1/25/2007	Rally's	Lexington, KY	$4.23	Meal- Employee
1/25/2007	Rally's	Lexington, KY	$3.26	Meal- Employee
January 2007	AT&T	Unknown	$32.95	Internet Service
2/2/2007	USPS	Bowling Green, KY	$132.00	Post Office Box Renewal for Employee
2/4/2007	Unknown	Unknown	$212.00	Corn Hole Game w/KLC logo & 3 extra bags
2/7/2007	Radisson Plaza - Bigg Blue Martini	Lexington, KY	$8.00	Hospitality - 1 Employee, 2 Board Members
2/8/2007	Blood Horse Publications	Lexington, KY	$19.65	Token for Vendor

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
2/9/2007	Hanna's on Lime	Lexington, KY	$20.00	Meal - 2 Employees
2/14/2007	Taste of Thai	Lexington, KY	$33.72	Meal - 1 Employee, 3 Others
2/14/2007	Grotto	Lexington, KY	$36.75	Meal - 2 Employees
2/20/2007	Unknown	Unknown	$19.50	Unknown Purchase
2/20/2007	Fleming's Prime Steakhouse and Wine Bar	Austin, TX	$172.33	Meal - 2 Employees
2/23/2007	Insight Communications	Unknown	$34.95	Internet Service
2/28/2007	Fergie's Grill	Elizabethtown, KY	$278.94	KMESHA Meals; Unknown Attendees
February 2007	AT&T	Unknown	$32.95	Internet Service
3/1/2007	Dudley's	Lexington, KY	$40.54	Meal - 3 Employees
3/1/2007	Coca Cola Memorabilia	Unknown	$340.00	Unknown Purchase
3/1/2007	Unknown	Unknown	$25.00	Internet Service
3/5/2007	Montana Grille	Unknown	$256.62	Meal - 4 Employees, 4 Others
3/5/2007	Bellini's	Lexington, KY	$17.00	Drinks
3/7/2007	McDonald's	Lexington, KY	$10.18	Meal - 2 Employees
3/10/2007	Harry's	Lexington, KY	$18.95	Meal - 2 Employees
3/10/2007	I Ricchi Inc.	Washington, D.C.	$1,224.85	Meal - 3 Employees, 5 Board Members
3/23/2007	Insight Communications	Unknown	$34.95	Internet Service
3/28/2007	McDonald's	Lexington, KY	$10.40	Lunch -2 Employees
3/30/2007	UK Athletics Association	Lexington, KY	$510.00	2007 Football; Parking
March 2007	AT&T	Unknown	$32.95	Internet Service
4/1/2007	Unknown	Unknown	$25.00	Internet Service
4/4/2007	Hanna's on Lime	Lexington, KY	$16.94	Meal - 2 Employees
4/12/2007	The Courier-Journal	Louisville, KY	$39.00	Newspaper Home Delivery; Weekend Service
4/13/2007	Kentucky Association of Government Communicators	Unknown	$80.00	Award Nomination Application Fee
4/13/2007	UK Athletics Association	Lexington, KY	$909.00	2007 Football Tickets; Parking
4/23/2007	Insight Communications	Unknown	$34.95	Internet Service
4/24/2007	The Courier-Journal	Louisville, KY	$39.00	Newspaper Home Delivery; Weekend Service
4/24/2007	Ramsey's	Lexington, KY	$23.93	Meal - 2 Employees
4/26/2007	Alfalfa's	Lexington, KY	$21.86	Meal - 2 Employees
4/26/2007	Azur	Lexington, KY	$109.01	Meal - 1 Employee, 1 Vendor, 2 Others
4/27/2007	ASAE & The Center for Association Leadership	Unknown	$400.00	Gold Circle Awards Program Award Application
April 2007	Enterprise Rent-A-Car	Unknown	$78.33	Car Rental for Two Guests
April 2007	AT&T	Unknown	$32.95	Internet Service
5/1/2007	Unknown	Unknown	$25.00	Internet Service
5/10/2007	Hanna's on Lime	Lexington, KY	$15.27	Meal - 2 Employees
5/16/2007	Unknown	Unknown	$32.50	Internet Service
5/18/2007	Unknown	Unknown	$15.00	Unknown Purchase
5/24/2007	Portofino	Lexington, KY	$67.24	Meal - 3 Employees, 1 Other
5/30/2007	Radisson Plaza - Bigg Blue Martini	Lexington, KY	$40.00	Hospitality - 1 Employee, 4 Board Members

All Other Employees Issued Cards

Reimbursements With An Unclear Business Purpose, Inadequate Documentation or Excessive
July 1, 2006 – June 30, 2009

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
5/30/2007	Durangos	Lexington, KY	$29.20	Meal - 1 Employee; 1 Vendor
May 2007	AT&T	Unknown	$32.95	Internet Service
6/8/2007	Bookbinder's	Philadelphia, PA	$185.40	Meal - 1 Employee, 1 Other
6/12/2007	Jonathans at Gratz Park	Lexington, KY	$23.98	Meal - 1 Employee, 1 Other
6/19/2007	Unknown	Unknown	$10.97	Unknown Purchase
6/19/2007	Azur	Lexington, KY	$166.53	Meal - 2 Employees, 1 Board Member, 1 Other
6/23/2007	Insight Communications	Unknown	$34.95	Internet Service
6/28/2007	Unknown	Unknown	$17.97	Meal - 2 Employees
6/29/2007	Unknown	Unknown	$15.00	Lottery Tickets
June 2007	Enterprise Rent-A-Car	Unknown	$120.81	Car rental for Employee for Western KY visit
7/3/2007	Hanna's on Lime	Lexington, KY	$32.88	Meal - 3 Employees
7/13/2007	Ramsey's	Lexington, KY	$29.01	Meal - 3 Employees
7/16/2007	Insight Communications	Unknown	$30.00	Internet Service
7/17/2007	The Courier-Journal	Louisville, KY	$39.00	Newspaper Home Delivery; Weekend Service
7/19/2007	espeakers.com	Unknown	$430.00	espeakers contract
July-August 2007	Multiple	Unknown	$189.89	Meals; Internet Service ($21.45)
July-August 2007	Multiple	Unknown	$355.35	Meals; Internet Service (2 Months- $42.90); Mileage; Double reimbursed for $186.89 of prior reimbursement
July-August 2007	Multiple	Unknown	$153.85	Mileage ($26.67 reimbursed twice); Meals; No Purpose
8/1/2007	Unknown	Unknown	$148.00	Two UK-UL Football Tickets
8/2/2007	Java Brewing Co	Lexington, KY	$8.66	Meal - 2 Employees, 1 Other
8/3/2007	Portofino	Lexington, KY	$36.74	Meal - 2 Employees, 1 Other
8/9/2007	Cherry Blossom Golf & Country Club	Georgetown, KY	$38.51	Meal - 4 Employees
8/15/2007	A La Lucie	Lexington, KY	$34.63	Meal - 2 Employees
8/17/2007	Unknown	Unknown	$10.03	Meal - 1 Employee, 1 Other
8/17/2007	Insight Communications	Unknown	$30.00	Internet Service
8/22/2007	Merrick Inn	Lexington, KY	$28.32	Hospitality - 1 Employee, 3 Board Members
8/22/2007	University Club of KY	Lexington, KY	$7.48	Meal - 1 Employee, 1 Board Member
8/28/2007	Wal-Mart	Unknown	$17.88	Ice for KLC Golf Outing
8/29/2007	Saddle Ridge	Unknown	$37.50	Hospitality - 1 Employee, 3 Board Members
8/30/2007	Saddle Ridge	Unknown	$6.00	Hospitality - 1 Employee, 3 Board Members
9/1/2007	espeakers.com	Unknown	$310.00	Video upload for speakers bureau
9/5/2007	Malone's	Lexington, KY	$333.08	Dinner Meeting RCPI, LLRMI, KLC
9/11/2007	Malone's	Lexington, KY	$88.90	Meal - 3 Employees
9/17/2007	Insight Communications	Unknown	$30.00	Internet Service
9/20/2007	Alfalfa's	Lexington, KY	$27.59	Meal - 3 Employees

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
9/21/2007	Cheapside Bar & Grill	Lexington, KY	$72.27	Meal - 6 Employees
9/25/2007	A La Lucie	Lexington, KY	$38.70	Meal - 3 Employees
9/27/2007	Unknown	Unknown	$80.82	Cornhole Bags for KMESHA
9/28/2007	Unknown	Unknown	$1,139.00	2007 UK Basketball tickets per expense reports
9/30/2007	Unknown	Unknown	$6.00	Lottery Tickets
10/1/2007	Portofino	Lexington, KY	$28.00	Meal - Unknown Attendees
10/3/2007	Michael's	Lexington, KY	$12.14	Ribbon
10/5/2007	Unknown	Unknown	$50.00	Gift Cards
10/5/2007	Unknown	Unknown	$100.00	Gift Cards
10/8/2007	Wal-Mart	Unknown	$84.29	Two Nintendo Wii Accessories
10/17/2007	Insight Communications	Unknown	$35.00	Internet Service
10/18/2007	deSha's	Lexington, KY	$30.44	Meal - 2 Employees
10/18/2007	Keeneland/ Equestrian Room	Lexington, KY	$62.47	Meal - Unknown Attendees
10/19/2007	The Courier-Journal	Louisville, KY	$33.72	Newspaper Home Delivery; Weekend Service
10/23/2007	Savannah Ghost Tour	Savannah, GA	$130.00	NLC-RISC conference
10/24/2007	Keeneland/ Equestrian Room	Lexington, KY	$129.86	Meal - 6 Employees
10/25/2007	Keeneland Equestrian Room	Lexington, KY	$199.48	Guests at Keeneland
10/29/2007	Sarah Razor	Unknown	$31.69	Stationery and Envelopes; KLC Christmas Party
October 2007	Multiple	Unknown	$238.71	Meals; Internet Service ($21.45), 2 U of L vs Georgetown & 2 U of L vs Carleton basketball tickets (for door prizes)
11/2/2007	Sarah Razor	Unknown	$164.85	VISA gift card and $4.95 fee per card
11/6/2007	Hananoki Japanese Restaurant	Lexington, KY	$93.00	Meal - Unknown Attendees
11/7/2007	Good Food	Lexington, KY	$17.25	Meal - 2 Employees
11/7/2007	Creative Croissants	Lexington, KY	$19.24	Meal
11/7/2007	Nick's Fishmarket	Unknown	$290.00	Meal - 3 Employees
11/13/2007	Ruby Tuesday's	Unknown	$26.43	Meal - 2 Employees
11/14/2007	300 Club	New Orleans, LA	$114.96	Meal - 1 Employee, 1 Other
11/16/2007	Budweiser Brewhouse	Atlanta, GA	$11.17	Meal - 1 Employee
11/16/2007	Marriott Hotel	New Orleans, LA	$531.34	Two Night Stay
11/19/2007	Insight Communications	Unknown	$35.00	Internet Service
12/3/2007	Unknown	Unknown	$33.35	Books for Employee - Money Talks: How to Make Money as a Speaker; Marketing and Promoting Your Own Seminars and Workshops
12/7/2007	Bella Notte	Lexington, KY	$42.51	Meal - Unknown Attendees
12/7/2007	Dolfinger's	Louisville, KY	$21.20	Unknown Purchase; 1 Employee, 1 Other; Afternoon Tea

Reimbursements With An Unclear Business Purpose, Inadequate Documentation or Excessive
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Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
12/9/2007	Unknown	Unknown	$12.00	Lottery Tickets
12/11/2007	Kroger	Unknown	$33.65	Supplies for Inauguration Party; Unknown Purchase
12/17/2007	Insight Communications	Unknown	$35.00	Internet Service
1/15/2008	Insight Communications	Unknown	$35.00	Internet Service
1/16/2008	The Courier-Journal	Louisville, KY	$36.46	Newspaper Home Delivery; Weekend Service
1/17/2008	Good Food	Lexington, KY	$8.75	Meal - 2 Employees
1/31/2008	Unknown	Unknown	$1,000.00	KMESHA Corvette Plant Tour
January 2008	Multiple	Unknown	$228.31	Mileage; Meals; Internet Service ($21.45); 2 Tickets for U of L vs Georgetown (for Board Member)
2/6/2008	Radisson Plaza - Bigg Blue Martini	Lexington, KY	$55.50	Hospitality - 2 Employees, 3 Board Members
2/12/2008	Radisson Plaza Hotel	Lexington, KY	$99.81	Lodging
2/18/2008	Insight Communications	Unknown	$35.00	Internet Service
2/23/2008	Lowe's	Lexington, KY	$150.00	1- $50 Gift Card & 1- $100 Gift Card; KMESHA Giveaway
2/24/2008	Unknown	Unknown	$250.00	Sound Level Meter; No Receipt, only hand written note
2/28/2008	Best Buy	Unknown	$188.98	Powershot A560, with 2 year warranty
February-March 2008	Multiple	Unknown	$401.54	Mileage; Meals; Internet Service (2 Months $42.90); Cell Phone Ear Piece ($99)
3/3/2008	Wal-Mart	Unknown	$14.12	Cards for Poker tournament for KMESHA
3/3/2008	Dick's Sporting Goods	Lexington, KY	$137.78	Handheld Radios for Convention
3/3/2008	Wal-Mart	Unknown	$80.32	$25.00 Wal-Mart gift card
3/4/2008	Chucks Liquor Outlets	Bowling Green, KY	$27.07	Alcohol; KMESHA
3/4/2008	Kroger	Unknown	$70.86	Supplies; KMESHA; Unknown Purchase
3/4/2008	Kroger	Unknown	$20.39	Supplies; KMESHA; Unknown Purchase
3/6/2008	CVS	Unknown	$10.73	Supplies; KMESHA; Unknown Purchase
3/17/2008	Dudley's	Lexington, KY	$43.10	Meal - 2 Employees, 1 Other
3/18/2008	Insight Communications	Unknown	$35.00	Internet Service
3/19/2008	Hyatt Regency - Glass Garden Bar	Unknown	$34.00	Hospitality - Unknown Attendees
3/24/2008	Pazzo's Pizza Pub	Lexington, KY	$18.53	Meal - 2 Employees
3/25/2008	Unknown	Unknown	$10.00	Lottery Tickets
3/27/2008	Insight Communications	Unknown	$36.95	Internet Service
March-April 2008	Multiple	Unknown	$206.96	Mileage; Internet Service ($21.45); Meals
4/4/2008	Unknown	Unknown	$13.00	Lottery Tickets
4/4/2008	Unknown	Unknown	$4.77	Birthday Cards
4/9/2008	Proof	Louisville, KY	$270.64	Unknown - 7 Employees

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
4/10/2008	Bistro 301	Unknown	$230.15	Unknown - 7 Employees; 1 Other
4/10/2008	Insight Communications	Unknown	$36.95	Internet Service
4/11/2008	Unknown	Lexington, KY	$620.00	2008 UK Football tickets; $100 K Fund Donation
4/17/2008	Insight Communications	Unknown	$35.00	Internet Service
4/21/2008	Unknown	Unknown	$33.53	Earth Day Snack
4/22/2008	Unknown	Unknown	$1,390.00	2008 UK Football tickets; $500 K Fund Donation
4/23/2008	Embassy Suites	Nashville, TN	$38.62	Meal - Unknown Attendees
4/24/2008	Embassy Suites	Nashville, TN	$162.20	Lodging
4/25/2008	Embassy Suites	Unknown	$263.42	Lodging; Meals
4/28/2008	O'Charley's	Lexington, KY	$26.11	Meal - 2 Employees
5/1/2008	Hanna's on Lime	Lexington, KY	$18.27	Lunch - 1 Employee, 1 Other
5/13/2008	Joseph Beth Booksellers	Lexington, KY	$315.00	21- $15 Gift Cards to Joseph Beth
5/13/2008	Walgreens	Lexington, KY	$22.28	Photo Frame/Photo Finishing/ Glue Dots Poster
5/14/2008	Unknown	Unknown	$615.84	Custom Framing 14 City Prints as gifts for Agents at Open House
5/15/2008	University of Louisville	Louisville, KY	$1,410.00	Season Football Tickets U of L and parking
5/15/2008	Wal-Mart	Lexington, KY	$42.01	2 Floral purchases; Food
5/19/2008	Insight Communications	Unknown	$35.00	Internet Service
5/20/2008	Multiple	Unknown	$405.35	Mileage; Internet Service ($21.45); Meals; Parking; Coffee
5/22/2008	Happy Dragon	Lexington, KY	$16.98	Meal - 2 Employees
6/2/2008	House of Blues	Anaheim, CA	$44.00	Concert tickets to see Nonpoint
6/2/2008	House of Blues	Anaheim, CA	$10.00	2 beers at concert
6/13/2008	Insight Communications	Unknown	$36.95	Internet Service
6/30/2008	Glen Eagle Chevron	Lexington, KY	$20.00	20 Lottery Tickets
7/11/2008	Insight Communications	Unknown	$36.95	Internet Service
7/12/2008	The Courier-Journal	Louisville, KY	$38.68	Newspaper Home Delivery; Weekend Service
7/24/2008	Bellini's	Lexington, KY	$33.62	Meal - 1 Employee, 1 Other
7/29/2008	Stellas Kentucky Deli	Lexington, KY	$29.80	Meal - 1 Employee, 1 Other
8/5/2008	Howl at the Moon Saloon	Louisville, KY	$42.00	Hospitality - Unknown Attendees
8/12/2008	Pro Golf of Lexington	Lexington, KY	$169.52	Prizes for Golf Tournament
8/12/2008	Sam's Club	Lexington, KY	$76.42	Prizes for Golf Tournament
8/13/2008	Malone's	Lexington, KY	$20.99	Meal - 1 Employee, 1 Board Member
8/15/2008	Insight Communications	Unknown	$36.95	Internet Service
8/15/2008	AAA Allied Group	Unknown	$3,024.75	Five Gift Cards for Retirees
8/24/2008	Glen Eagle Chevron	Lexington, KY	$20.00	20 Lottery Tickets
August-September 2008	Multiple	Unknown	$356.85	Mileage ($26.67 reimbursed twice); Meals; No Purpose

Reimbursements With An Unclear Business Purpose, Inadequate Documentation or Excessive
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Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
9/4/2008	UK Athletics Association	Lexington, KY	$1,132.00	2 UK Basketball season tickets
9/7/2008	Unknown	Unknown	$57.00	Meal - Unknown Attendees; 2 Beers
9/10/2008	Insight Communications	Unknown	$36.95	Internet Service
9/10/2008	Ramsey's	Lexington, KY	$30.00	Drinks
9/16/2008	Fourth Street Live	Louisville, KY	$14.50	Unknown Purchase
September-October 2008	Multiple	Unknown	$580.87	Mileage ($48.50 reimbursed twice); Meals; No Purpose
10/10/2008	Insight Communications	Unknown	$36.95	Internet Service
10/14/2008	Rite Aid	Louisville, KY	$289.50	10- $25 American Express Gift Cards
10/14/2008	Box Stop	Unknown	$15.58	Convention supplies - Box for frame
10/15/2008	Kroger	Unknown	$9.71	Convention supplies; Unknown Purchase
10/16/2008	Fourth Street Live	Louisville, KY	$29.89	No detailed receipt
10/17/2008	Fourth Street Live	Louisville, KY	$32.69	No detailed receipt
10/17/2008	Howl at the Moon Saloon	Louisville, KY	$46.00	Group tab from Convention
10/19/2008	The Courier-Journal	Louisville, KY	$32.00	Newspaper Home Delivery; Weekend Service
10/22/2008	Keeneland/ Equestrian Room	Lexington, KY	$220.24	Meal - Unknown Attendees
10/29/2008	Glen Eagle Chevron	Lexington, KY	$15.00	15 Lottery Tickets
10/29/2008	Rite Aid	Lexington, KY	$83.90	1- $25 American Express Gift Card & 1- $50 American Express Gift Card
October-November 2008	Multiple	Unknown	$318.24	Mileage ($48.50 reimbursed twice); Meals; No Purpose
11/7/2008	TGIF Friday's	Unknown	$15.59	Meal - Dinner
11/11/2008	Insight Communications	Unknown	$36.95	Internet Service
11/30/2008	Glen Eagle Chevron	Lexington, KY	$15.00	15 Lottery Tickets
12/11/2008	Heritage House Hotels	Unknown	$94.75	Lodging; Liquor Purchase ($23.75)
12/12/2008	Insight Communications	Unknown	$36.95	Internet Service
12/13/2008	Wal-Mart	Unknown	$76.00	Skyy Vodka, Canadian Clb, Glenlivet, Choc. Liqueur
1/12/2009	Shoppers Village Liquor	Lexington, KY	$51.30	Alcohol; COA
1/16/2009	The Courier-Journal	Louisville, KY	$43.78	Newspaper Home Delivery; Weekend Service
1/23/2009	Insight Communications	Unknown	$36.95	Internet Service
2/2/2009	A La Lucie	Lexington, KY	$39.81	Meal - 2 Employees
2/10/2009	Dudley's	Lexington, KY	$30.50	Meal - 2 Employees
2/11/2009	Insight Communications	Unknown	$36.95	Internet Service
3/30/2009	National Workwear	Lexington, KY	$70.00	Steel Toe Shoes
3/30/2009	National Workwear	Lexington, KY	$99.99	Steel Toe Shoes
4/14/2009	Liquor Barn	Lexington, KY	$214.93	Hospitality - Unknown Attendees
4/23/2009	Café on the Park	Lexington, KY	$51.96	Meal - Unknown Attendees
5/4/2009	Glen Eagle Chevron	Lexington, KY	$15.00	15 Lottery Tickets

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
5/8/2009	Insight Communications	Unknown	$36.95	Internet Service
6/12/2009	The Messenger	Madisonville, KY	$5.95	Madisonville Newspaper; One Month Subscription
7/15/2009	Little Missouri Saloon	Medora, ND	$12.00	Hospitality - Unknown Attendees
Total	**318 transactions**		**$41,535.19**	

All Other Employees Issued Cards

Appendix 4

Reimbursements With No Supporting Documentation

July 1, 2006 – June 30, 2009

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
7/7/2006	Unknown	Unknown	$8.69	Espresso
7/7/2006	Unknown	Unknown	$10.00	Tax on Dinner
7/7/2006	Unknown	Unknown	$7.94	Espresso
8/5/2006	Blue Grass Airport Parking	Lexington, KY	$24.00	CFDA Course in Washington, D.C.
8/20/2006	BellSouth	Unknown	$18.98	FastAccess DSL Xtreme (1/2-$37.95)
8/24/2006	Kentucky State Fair	Louisville, KY	$12.00	No Receipt
9/20/2006	BellSouth	Unknown	$18.98	FastAccess DSL Xtreme (1/2-$37.95)
9/24/2006	Courtyard	Orlando, FL	$300.39	Florida League of Cities Trip
10/5/2006	Marriott	Lexington, KY	$248.39	Unknown Purchase
10/6/2006	Hyatt Regency	Lexington, KY	$472.89	Unknown Purchase
10/25/2006	Unknown	Unknown	$6.50	Unknown Purchase; Moe's is written on reimbursement form
11/1/2006	AMRE- Gr. Amer- Cincy	Cincinnati, OH	$20.00	Unknown Purchase
11/2/2006	Unknown	Unknown	$80.00	Cost of replacing phone $10 next 8 months
11/13/2006	Holiday Inn	Bowling Green, KY	$168.32	KY Parks & Rec; Unknown Purchase
12/7/2006	Market Street Brewery	Nashville, TN	$32.00	CLE; Unknown Purchase
12/8/2006	Double Tree Hotel	Nashville, TN	$425.97	CLE; Unknown Purchase
1/18/2007	Intercontinental Hotel Group	Columbus, OH	$120.91	Unknown Purchase
1/20/2007	Still Bills	Bardstown, KY	$20.00	Luncheon
4/2/2007	Time Warner Cable	Unknown	$44.95	Road Runner Internet
8/5/2007	Maggiano's	Boston, MA	$21.32	Unknown Purchase; National Conference of State Legislatures
9/18/2007	Logan's	Unknown	$25.00	Unknown Purchase
9/19/2007	Marriott	Unknown	$28.00	Unknown Purchase
9/23/2007	Taxi	Munich, Germany	$93.80	Taxi from Airport in Munich
9/24/2007	Esso Tankstelle	Munich, Germany	$36.10	Unknown Purchase
9/25/2007	Buchbinder Rent a Car	Munich, Germany	$114.07	Unknown Purchase
9/28/2007	Juwelier Angela U. Jakob Atzl Gbr	Munich, Germany	$191.80	Unknown Purchase
9/29/2007	National Alamo	Munich, Germany	$207.42	Unknown Purchase
9/29/2007	National Alamo, Munchen	Munich, Germany	$207.42	Unknown Purchase
9/29/2007	Sofitel Tegersee Ueberfahrt	Munich, Germany	$422.12	Unknown Purchase
10/9/2007	Unknown	Unknown	$32.50	Unknown Purchase
10/12/2007	Embassy Suites	Unknown	$67.00	Tips
10/12/2007	Unknown	Unknown	$136.00	Unknown Purchase
10/12/2007	The Waterfront	Covington, KY	$111.00	Unknown Purchase
10/12/2007	The Waterfront	Covington, KY	$25.00	Unknown Purchase
10/14/2007	Unknown	Unknown	$37.00	Unknown Purchase
10/16/2007	Unknown	Unknown	$34.00	Unknown Purchase
10/17/2007	Sheraton Hotels	Philadelphia, PA	$173.46	Unknown Purchase
11/25/2007	Unknown	Unknown	$11.38	2008 Calendar
12/6/2007	Renaissance	Nashville, TN	$40.00	Unknown Purchase
12/7/2007	Renaissance	Nashville, TN	$31.14	Unknown Purchase

All Other Employees Issued Cards

Reimbursements With No Supporting Documentation

July 1, 2006 – June 30, 2009

Transaction Date	Vendor Name	Vendor Location	Transaction Amount	Description
12/7/2007	Doubletree Hotel	Nashville, TN	$506.40	Unknown Purchase
12/7/2007	Pilot Travel Center	Sonora, KY	$48.00	Unknown Purchase
12/8/2007	Hilton Hotels	Lexington, KY	$100.94	"Nicholasville Trip"
12/10/2007	espeakers.com	Unknown	$249.00	Speakers fee for eblast
12/19/2007	Lexington Advertising Club	Lexington, KY	$30.00	Fee for Advertising Club
2/1/2008	Unknown	Unknown	$45.00	No receipt
2/10/2008	Sheraton Hotels	Philadelphia, PA	$226.94	Unknown Purchase
2/10/2008	Creative Hosts	Unknown	$15.00	Unknown Purchase
2/12/2008	O'Charley's	Unknown	$36.00	Unknown Purchase
2/19/2008	Holiday Inn Capital	Washington, D.C.	$20.00	Unknown Purchase
3/1/2008	Unknown	Unknown	$45.00	No receipt
4/1/2008	Unknown	Unknown	$45.00	No receipt
4/17/2008	Red Cross	Lexington, KY	$15.00	Event- 2 Employees
4/24/2008	Unknown	Unknown	$7.00	valet parking
6/12/2008	Unknown	Las Vegas, NV	$10.10	Snack
7/2/2008	University Club KY	Lexington, KY	$56.00	Unknown Purchase; Golf Course
7/11/2008	University Club KY	Lexington, KY	$59.00	Unknown Purchase; Golf Course
8/4/2008	espeakers.com	Unknown	$430.00	Unknown Purchase
9/10/2008	Freeman- Washington	Dallas, TX	$333.38	Booth Rental
9/10/2008	Drinks & Valet	Unknown	$47.00	Meal- $30/ Other- $17
9/23/2008	US Airways	Unknown	$30.00	Unknown
9/23/2008	Unknown - Taxi from Airport Munich	Germany	$93.80	Unknown Purchase
9/23/2008	Crowne Plaza Hotel	Richmond, VA	$545.91	No receipt; Reimbursed twice- 10/10/08-$545.91. Some charges were taken off- food for spouse, etc.
9/24/2008	Esso Tankestelle, Freising	Germany	$36.10	Unknown Purchase
9/28/2008	Juwelier Angela U Jakob ATZL	Germany	$191.08	Per Reimbursement Form - Group meal
9/29/2008	Sofitel Tegersee Ueberfahrt	Germany	$422.12	Unknown Purchase
10/18/2008	Unknown	Unknown	$40.00	
11/1/2008	Unknown	Unknown	$1,320.00	UK Basketball Tickets
Total	**68 transactions**		**$9,090.21**	

Executive Director/CEO

From August 2002 to July 2006, the Executive Director/CEO was paid an annual bonus as per the Executive Board approved Compensation Program. The Compensation Program provided for a bonus to be paid over a period of five years in an amount equal to the cost of purchasing five years of Nonqualified Service in CERS. The annual net-of-tax amount paid to the Executive Director/CEO was approximately $25,000 for a total amount of $126,784. The amounts paid were supplemented in order to "offset any federal, state and local tax costs and interest costs associated with the bonus or with forgiveness of a portion of the loan principal each year." While the net amount received by the Executive Director/CEO was $25,000 per year, the actual cost to KLC including the supplement for taxes ranged from $43,000 to over $45,000 annually for a total amount of $218,098.

The dates and amounts of the bonus payments are detailed in Table 42.

Table 42: Schedule of Bonus Payments to the KLC Executive Director/CEO

Date of Payment	Gross Payment by KLC	Net Amount of Check
August 26, 2002	$45,571	$26,784
July 28, 2003	43,373	25,000
July 23, 2004	43,000	25,000
July 22, 2005	43,154	25,000
July 10, 2006	43,000	25,000
Totals	**$218,098**	**$126,784**

Source: Auditor of Public Accounts based on information supplied by KLC.

Per the Compensation Program, the Executive Director/CEO's payment must be treated as a "bonus" because "as an officer of KLC under the organization's bylaws and in accordance with KRS 273.241 the Executive Director/CEO may not be the recipient of a loan from the organization." All other participants in the Compensation Program executed a Loan Agreement and a Promissory Note detailing the terms of the loans. The only documentation KLC provided the auditors in support of the Executive Director/CEO's bonus were copies of checks in the amounts detailed above. While the Compensation Program specifies that the Executive Director/CEO's award must be treated as a "bonus" in order to comply with Kentucky statutes, KLC purported that a portion of the Executive Director/CEO's bonus was repaid to KLC in the same manner as the other participants as explained in the following paragraph.

The Compensation Program specifies that the low interest loans made to the other participants would be forgiven over five years. KLC forgave the annual loan amounts for the first 23 months of the Compensation Program. In October 2004, after questions from the Board President, the loan forgiveness and the bonus award processes were changed for the Deputy Executive Director, the Chief Insurance Services Officer and the Executive Director/CEO. The Executive Staff implemented a "repayment" process, yet there was no documentation that the change was approved by the Executive Board. This process allowed for the bonus and loans to be reportedly repaid by offsetting the repayment amounts against the consultant's suggested salary increase and not the employee's actual salary. For example, the consultant suggested the Executive Director/CEO's annual base pay as of October 1, 2004 be $261,873. The annual bonus amount that KLC reported to be repaid was $25,000. KLC did not increase the Executive Director/CEO's annual base pay to the consultant's recommended $261,873 salary, thus the $25,000 bonus was considered to be repaid. (See Exhibit 10 for additional details).

Applying this process over the following four years, KLC considered $79,167 of the $126,784 net amount of the $218,098 bonus repaid or "recaptured." Only $4,167, or two months of the 2004 annual $25,000 amortization was reported to be recaptured. The $4,167 plus three full additional years of the purported $25,000 recapture totals $79,167. It should be noted that even if this process was determined to be a recapture of the bonus provided, the process was applied only to the $126,784 net amount of the Executive Director/CEO's bonus and not the actual bonus amount of $218,098.

This reported "recapture" process was in place in 2005 and 2006 when the Executive Director/CEO also received $25,000 checks for the annual bonus payments. It is not clear why this recapture process was followed when KLC could have simply stopped making the bonus payments to the Executive Director/CEO during those years and would then not have had to recapture this amount.

Listed in Table 43 are the consultant's recommended base salaries for the Executive Director/CEO and the amount of reported bonus repayments for each year subsequent to the change in procedures:

Table 43: Consultant Recommended Salary and Bonus "Repayments"
Executive Director/CEO

Effective Date	Description	Amount
November 3, 2004	Recommended base salary	$261,873
	Less: Annual bonus "repayment"	(25,000)
	Actual base salary	**$236,873**
June 29, 2005	Recommended base salary	$268,979
	Less: Annual bonus "repayment"	(25,000)
	Actual base salary	**$243,979**
June 28, 2006	Recommended base salary	$277,048
	Less: Annual bonus "repayment"	(23,310)*
	Actual base salary	**$253,738**
July 7, 2007	Recommended base salary	$329,135
	Less: Annual bonus "repayment"	(42,785)*
	Actual base salary	**$286,350**

Source: Auditor of Public Accounts based on information supplied by KLC.
* Variance from the stated $25,000 bonus was not explained by KLC.
Note: Executive Staff reported amount "repaid" based on not receiving salary increases suggested by a consultant.

As illustrated in Table 43, the Executive Director/CEO's salary increased 21 percent during the period the bonus was reportedly being "repaid." In July 2008, the first year after the bonus was purportedly repaid, the Executive Director/CEO's base salary was increased from $286,350 to $331,186 or 16 percent.

Deputy Executive Director

Based on the Compensation Program approved by the KLC Executive Board, the Deputy Executive Director received a check for $89,000 on August 19, 2002 that was equal to the cost of purchasing five years of "Air Time" in the CERS. The Loan Agreement allowed the funds to be used for "such other purposes as the Borrower deems desirable." Per the Compensation Program, the Deputy Executive Director's advance was deemed to be a forgivable loan and as such a Promissory Note and Loan Agreement detailing the terms and conditions of the loan were executed on July 1, 2002.

As with all the other participants in the Compensation Program, the Deputy Executive Director's annual loan amount due for repayment was forgiven by KLC for the first 23 months of the Compensation Program.

In October 2004, after questions from the Board President, the loan forgiveness and the bonus award processes were changed for the Deputy Executive Director, the Chief Insurance Services Officer and the Executive Director/CEO. The Executive Staff implemented a process that was not approved by the Executive Board. This process allowed for the bonus and loans to be reportedly repaid by offsetting the repayment amounts against the consultant's suggested salary increase and not the employee's actual salary. For example, the Deputy Executive Director's annual base pay as of October 1, 2004 was recommended by the consultant to be $198,340. This recommended amount was offset by the annual amount of his loan to be forgiven, $17,800, and thus the loan amount was reportedly repaid. Only $2,967, or two months of the $17,800 annual loan principal forgiven, was reported to be a "repayment." The $2,967 in 2004, plus three full additional years of the purported "repayment" totaled $56,367. (See Exhibit 10 for additional details).

Listed in Table 44 are the consultant's recommended base salaries for the Deputy Executive Director and the amount of reported loan repayments for each year subsequent to the change in procedures:

**Table 44: Consultant Recommended Base Salary and Loan "Repayments"
Deputy Executive Director**

Effective Date	Description	Amount
November 3, 2004	Recommended base salary	$198,340
	Less: Annual loan "repayment"	(17,800)
	Actual base salary	**$180,540**
June 29, 2005	Recommended base salary	$203,756
	Less: Annual loan "repayment"	(17,800)
	Actual base salary	**$185,956**
June 28, 2006	Recommended base salary	$219,031
	Less: Annual loan "repayment"	(17,800)
	Actual base salary	**$201,231**
July 7, 2007	Recommended base salary	$226,262
	Less: Annual loan "repayment"	(18,994)*
	Actual base salary	**$207,268**

Source: Auditor of Public Accounts based on information supplied by KLC.
* Variance from the stated $17,800 loan repayment amount was not explained by KLC.
Note: Executive Staff reported amount "repaid" based on not receiving salary increases suggested by a consultant.

As illustrated in Table 44, the Deputy Executive Director's salary increased 15 percent during the period the bonus was reportedly being "repaid." In January 2008, the first year after completion of the purported loan repayments and six months after the last salary increase, the Deputy Executive Director's base salary was increased from $207,268 to $231,594, a 12 percent increase. Per KLC, the purpose of this interim salary increase was to restore the base salary to an appropriate level. Six months later, in June 2008, the Deputy Executive Director's base salary was again increased to $255,258, a 10 percent increase.

Per the Compensation Program, the salaries of the participants were to be supplemented for taxes and interest related to the employee's loan. Instead of supplementing the participant's salaries, KLC included this amount on the individual's W-2 form as "Other" non-cash income. However, the tax supplement should have been included in the individual's salary to offset the tax liability as was required by the Compensation Program.

Regarding the loan interest supplement, the interest payments due to KLC were forgiven. KLC then added $11,010 in interest from August 2002 to December 2004, to the Deputy Executive Director's W-2 as "Other" non-cash income. During the remaining years of the loan, KLC continued to forgive the interest payments; however, from January 2005 through July 2007, interest was not included as income on the employee's W-2. Therefore, the employee's W-2 was understated by the amount of interest forgiven from January 2005 through July 2007.

Table 45 details the loan principal forgiven, the annual loan repayment, and the W-2 supplement:

Table 45: Schedule of Loan Principal Forgiven and Tax Reporting
Deputy Executive Director

Tax Year	Loan Principal Forgiven	Annual Reported Loan "Repayment"	W-2 "Other" Income Supplement
2003	$17,800	$0	$23,390
2004	17,800	2,967	24,326
2005	17,800	17,800	24,326
2006	17,800	17,800	24,326
2007	17,800	17,800	24,326
Total	**$89,000**	**$56,367**	**$120,694**

Source: Auditor of Public Accounts based on information supplied by KLC.
Note: Executive Staff reported amount "repaid" based on not receiving salary increases suggested by a consultant.

Chief Insurance Services Officer

Based on the Compensation Program approved by the KLC Executive Board, the Chief Insurance Services Officer received a check for $58,000 on August 19, 2002 that was equal to the cost of purchasing five years of "Air Time" in the CERS. The Loan Agreement allowed the funds to be used for "such other purposes as the Borrower deems desirable." Per the Compensation Program, the Chief Insurance Services Officer's advance was deemed to be a forgivable loan and as such a Promissory Note and Loan Agreement detailing the terms and conditions of the loan were executed on July 1, 2002.

As with all the other participants in the Compensation program, the Chief Insurance Services Officer's annual loan amount due for repayment was forgiven by KLC for the first twenty-three months of the Compensation program.

In October 2004, after questions from the Board President, the loan forgiveness and the bonus award processes were changed for the Deputy Executive Director, the Chief Insurance Services Officer and the Executive Director/CEO. The Executive Staff implemented a process that was not approved by the Executive Board. This process allowed for the bonus and loans to be reportedly repaid by offsetting the repayment amounts against the consultant's suggested salary increase and not the employee's actual salary. For example, the Chief Insurance Services Officer's annual base pay as of October 1, 2004 was recommended by the consultant to be $182,866. The recommended amount was offset by the annual amount of his loan to be forgiven, $11,600, and thus the loan amount was reportedly repaid. Only $1,933, or two months of the $11,600 annual loan principal forgiven, was reported to be a "repayment." The $1,933 in 2004, plus three full additional years of the purported "repayment" totaled $36,733. (See Exhibit 10 for additional details).

Listed in Table 46 are the consultant recommended base salaries for the Chief Insurance Services Officer and the amount of reported loan repayments for each year subsequent to the change in procedures:

Table 46: Consultant Recommended Salary and Bonus "Repayments"
Chief Insurance Services Officer

Effective Date	Description	Amount
November 3, 2004	Recommended base salary	$182,866
	Less: Annual loan "repayment"	(11,600)
	Actual base salary	**$171,266**
June 29, 2005	Recommended base salary	$187,974
	Less: Annual loan "repayment"	(11,600)
	Actual base salary	**$176,374**
June 28, 2006	Recommended base salary	$195,028
	Less: Annual loan "repayment"	(11,600)
	Actual base salary	**$183,428**
July 7, 2007	Recommended base salary	$216,017
	Less: Annual loan "repayment"	(22,617)*
	Actual base salary	**$193,400**

Source: Auditor of Public Accounts based on information supplied by KLC.
* Variance from the stated $11,600 loan repayment amount was not explained by KLC.
Note: Executive Staff reported amount "repaid" based on not receiving salary increases suggested by a consultant.

As illustrated in Table 46, the Chief Insurance Services Officer's salary increased 13 percent during the period the bonus was reportedly being "repaid." In January 2008, the first year after the loan was purportedly repaid and six months after the last consultant suggested salary increase, the Chief Insurance Services Officer's base salary was increased from $193,400 to $209,253 or an eight percent increase. Per KLC, the purpose of this interim salary increase was to bring the base salary to an appropriate level. Six months later, in June 2008, the Chief Insurance Services Officer's base salary was again increased to $238,867 or an increase of 14 percent.

Per the Compensation Program, the salaries of the participants were to be supplemented for taxes and interest related to the employee's loan. Instead of supplementing the participant's salaries, KLC included this amount on the individual's W-2 form as "Other" non-cash income. However, the tax supplement should have been included in the individual's salary to offset the tax liability as was required by the Compensation Program.

Regarding the loan interest supplement, the interest payments due to KLC were forgiven. KLC then added $7,175 in interest from August 2002 to December 2004, to the Chief Insurance Services Officer's W-2 as "Other" non-cash income. During the remaining years of the loan, KLC continued to forgive the interest payments; however, from January 2005 through July 2007, interest was not included as income on the employee's W-2. Therefore, the employee's W-2 was understated by the amount of interest forgiven from January 2005 through July 2007.

Table 47 details the loan principal forgiven, the annual loan repayment, and the W-2 supplement:

Table 47: Schedule of Loan Principal Forgiven and Tax Reporting Chief Insurance Services Officer

Tax Year	Loan Principal Forgiven	Annual Reported Loan "Repayment"	W-2 "Other" Income Supplement
2003	$11,600	$0	$15,243
2004	11,600	1,933	15,853
2005	11,600	11,600	15,853
2006	11,600	11,600	15,853
2007	11,600	11,600	15,853
Total	**$58,000**	**$36,733**	**$78,655**

Source: Auditor of Public Accounts based on information supplied by KLC.
Note: Executive Staff reported amount "repaid" based on not receiving salary increases suggested by a consultant.

Former General Counsel

Based on the Compensation Program approved by the KLC Executive Board, the former General Counsel received a check for $69,000 on August 19, 2002 that was equal to the cost of purchasing five years of "Air Time" in the CERS. The Loan Agreement allowed the funds to be used for "such other purposes as the Borrower deems desirable." Per the Compensation Program, the former General Counsel's advance was deemed to be a forgivable loan and as such a Promissory Note and Loan Agreement detailing the terms and conditions of the loan were executed on July 1, 2002.

In October 2004, after questions from the Board President, the loan forgiveness and the bonus award processes were changed for the Deputy Executive Director, the Chief Insurance Services Officer and the Executive Director/CEO. A determination was made by KLC Executive Staff that the base salaries and the suggested rates of salary increase for the former General Counsel and the former Director of Finance and Administration were significantly lower than those of the Executive Staff and as such their loan balances would continue to be forgiven under the same procedure that was previously in place. The former General Counsel left KLC on October 31, 2005, but continued to work for KLC performing lobbying services under the terms of a Professional Service Agreement through June 2006. Per the Professional Service Agreement and during the elapsed eight months of that contract, $8,492 of principal loan payments were deducted from the former General Counsel's contract pay. This is equal to the scheduled loan forgiveness amount for that period of time. The former General Counsel's Services Agreement was modified in June 2006, effectively terminating his services and specifically included language to forgive the remaining balance of his original loan. The remaining loan balance at that time was $21,230. (See Exhibit 11 for additional details).

In December 2007, 18 months after the June 2006 end date of the former General Counsel's Professional Service Agreement, $10,615, one-half of the remaining loan balance, was forgiven by KLC and a 1099 issued to the former General Counsel. In December 2008, the former General Counsel was issued a 1099 for $10,615, representing the remaining balance of the loan forgiven by KLC.

Per the Compensation Program, the salaries of the participants were to be supplemented for taxes and interest related to the employee's loan. Instead of supplementing the participant's salaries, KLC included this amount on the individual's W-2 form as "Other" non-cash income. However, the tax supplement should have been included in the individual's salary to offset the tax liability as was required by the Compensation Program.

Regarding the loan interest supplement, the interest payments due to KLC were forgiven. KLC then added $5,256 in interest from August 2002 to December 2004, to the former General Counsel's W-2 as "Other" non-cash income. During the remaining years of the loan, KLC continued to forgive the interest payments; however, from January 2005 through July 2007, interest on the unforgiven loan balance was not reported as income. Therefore, the employee's income was understated by the amount of interest forgiven from January 2005 through December 2008 when the remaining loan balance was forgiven.

The loan principal amounts forgiven, annual loan repayment, W-2 supplement, and the amount of 1099's issued are detailed in Table 48:

Table 48: Schedule of Loan Principal Forgiven and Tax Reporting Former General Counsel

Tax Year	Loan Principal Forgiven	Annual Reported Loan "Repayment"	W-2 "Other" Income Supplement	1099's Issued
2003	$13,800	$0	$18,134	NA
2004	13,800	0	18,860	NA
2005	11,677	2,123	16,684	NA
2006	0	6,369	NA	NA
2007	10,615	0	NA	10,615
2008	10,615	0	NA	10,615
Total	**$60,507**	**$8,492**	**$53,678**	**$21,230**

Source: Auditor of Public Accounts based on information supplied by KLC.

Former Director of Finance and Administration currently employed as Senior Accounting Analyst

Based on the Compensation Program approved by the KLC Executive Board, the former Director of Finance and Administration received a check for $47,000 on August 19, 2002 that was equal to the cost of purchasing five years of "Air Time" in the CERS. The Loan Agreement allowed the funds to be used for "such other purposes as the Borrower deems desirable." Per the Compensation Program, the former Director of Finance and Administration's advance was deemed to be a forgivable loan and as such a Promissory Note and Loan Agreement detailing the terms and conditions of the loan were executed on July 1, 2002.

In October 2004, after questions from the Board President, the loan forgiveness and the bonus award processes were changed for the Deputy Executive Director, the Chief Insurance Services Officer and the Executive Director/CEO. A determination was made by KLC Executive Staff that the base salaries and the suggested rates of salary increase for the former General Counsel and the former Director of Finance and Administration were significantly lower than those of the Executive Staff and as such their loan balances would continue to be forgiven under the same procedure that was previously in place.

Per the Compensation Program, the salaries of the participants were to be supplemented for taxes and interest related to the employee's loan. Instead of supplementing the participant's salaries, KLC included this amount on the individual's W-2 form as "Other" non-cash income. However, the tax supplement should have been included in the individual's salary to offset the tax liability as was required by the Compensation Program.

Regarding the loan interest supplement, the interest payments due to KLC were forgiven. KLC added $6,626 in interest from August 2002 to December 2008, to the former Director of Finance and Administration's W-2 as "Other" non-cash income.

The loan principal forgiven, annual loan repayment, W-2 supplement, and principal plus tax supplement are detailed in Table 49.

Table 49: Schedule of Loan Principal Forgiven and Tax Reporting
Former Director of Finance and Administration

Tax Year	Loan Principal Forgiven	Annual Reported Loan "Repayment"	W-2 "Other" Income Supplement	Position
2003	$9,400	0	12,179	Dir. Finance and Administration
2004	9,400	0	12,667	Dir. Finance and Administration
2005	9,400	0	12,667	Dir. Finance and Administration
2006	9,648	0	12,026	Dir. Fin. And Admin./ Sr. Acctg. Anal.
2007	11,547	0	15,560	Sr. Accounting Analyst
2008	10,659	0	14,740	Sr. Accounting Analyst
Total	**$60,054**	**$0**	**$79,839**	

Source: Auditor of Public Accounts based on information supplied by KLC.

The former Director of Finance and Administration retired in October 2006 prior to fulfilling her five-year obligation required by the Compensation Program and was rehired in November 2006 as a Senior Accounting Analyst. An "Employment Agreement" dated August 23, 2006 was executed between KLC and the former Director of Finance and Administration. The agreement included the provision for a loan to the former Director of Finance and Administration in the amount of $28,869 contingent on her agreeing to work for KLC for a period of 30 months from the November 1, 2006 effective date of the agreement. The new loan amount was comprised of the remaining $11,569 balance from the Compensation Program loan and an additional loan of $17,300. The terms of that agreement called for the loan to be repaid over the 30-month term of the Employment Agreement. While the new loan was not specifically identified as being related to the Compensation Program, a significant portion of the new loan consisted of the remaining balance on the original Compensation Program loan.

Per the executed Employment Agreement, which it noted as superseding all previous agreements, the new loan amount was to be repaid over the 30 months of the agreement through bi-weekly payroll deductions. However, the loan was, and continues to be, forgiven by KLC and not repaid as was required by the Employment Agreement. In addition, the loan is being forgiven over a period longer than the 30 month "repayment period" stipulated in the agreement.

The KLC General Counsel indicated that the terms of the agreement as written and executed were not the true intent of the agreement and as such the loan is being forgiven and not repaid. No explanation was offered as to why the Employment Agreement did not represent what the General Counsel reported to be the true intent of the agreement. There is no documentation of a review or approval of this employment agreement by the Executive Board even though it is a significant alteration of the terms of the board approved Compensation Program.

Director of Policy Development

Although similar in structure and purpose, the “Retirement Agreement” entered into with the Director of Policy Development is not a loan and was not considered by KLC executive staff to be subject to the terms of KLC’s Compensation Program. A review of this “Retirement Agreement” is being included because the terms and purpose are similar to the terms of the Compensation Program.

In 2008, the KLC Deputy Executive Director approved a “Retirement Agreement” for the Director of Policy Development whereby KLC would contribute $35,600 to the employee’s Section 457 retirement account for the purpose of purchasing time in the CERS in exchange for the director’s “agreement to retire from his employment at KLC, at such time as he becomes eligible for full retirement benefits ….” The agreement required the director to continue employment with KLC until reaching his earliest retirement date which was estimated to be in 2013, unless KLC exercises its option to waive the end date if in the best interest of KLC. Although not obligated after that date, the director has the option to continue employment if KLC decides to waive the terms of the agreement. The purpose of the agreement is to ensure the director retires when eligible in order to “create incentive for less tenured employees to remain employed with KLC.” (See Exhibit 8 for the Retirement Agreement).

KLC paid the Director of Policy Development $20,100 in 2008 and $15,500 in 2009 and reported this additional income on his W-2. The agreement states that the amounts advanced are deemed a contribution and will not be repaid unless the Director leaves KLC within five years of the date of execution of the agreement.

While the terms of this agreement are not completely compatible with those of the Compensation Program, this agreement does stipulate the funds advanced are to be for an amount equal to the purchase of unqualified service in CERS. Given that this is an extraordinary benefit provided to an employee and considering that the Compensation Program’s “General Program Conditions” require “all recommendations will be submitted to the full Executive Board for final approval” it appears that this agreement should have been reviewed and approved by the Executive Board.

In contrast to the stated purpose of the Compensation Program wherein loans were provided to employees as a means to incent them to remain with KLC, this “contribution” is clearly designed to incent an employee to leave, unless KLC exercises its option to waive that condition.

There is no documentation that the Executive Board reviewed or approved this retirement agreement.

EXHIBITS

KLC Revenues and Expenses from Fiscal Year 1998 through Fiscal Year 2008 **Exhibit 1**

	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Revenues											
Administrative Fee - KLCIS	$794,874	$773,896	$1,110,230	$1,506,701	$2,211,630	$2,239,869	$2,533,400	$2,601,232	$3,469,233	$3,844,378	$3,765,466
Administrative Fee - KLCWCT	1,068,475	1,274,958	1,299,166	1,778,799	1,846,006	2,467,340	2,456,798	2,303,372	1,930,767	2,116,360	2,184,535
Administrative Fee - KLCMFC	986,831	1,180,158	886,302	747,360	830,050	1,666,887	818,017	871,271	1,032,662	787,237	753,596
Administrative Fee - KLCUCRT	44,139	44,899	49,499	52,212	68,577	94,083	96,487	100,316	108,069	101,731	126,996
Administrative Fee - Financial Services	-	-	-	-	-	-	-	482,000	22,897	101,399	-
Commissions (primarily from KLCIA)	612,628	680,856	1,026,827	1,656,645	2,054,191	2,273,023	2,773,889	2,864,471	2,863,751	2,786,023	2,774,549
Member Dues	322,581	304,161	309,044	320,477	340,668	364,428	381,097	394,111	405,124	419,531	430,512
Conference Income	297,810	381,414	229,539	295,237	226,618	240,885	247,373	268,269	220,166	277,342	280,825
Premium Finance Revenue	-	-	-	-	-	-	199,135	203,668	224,827	242,314	189,427
Other Income	13,513	130,506	480,108	1,023,391	1,262,247	1,145,571	345,481	145,647	113,504	138,669	116,566
Publication Income	17,716	15,294	25,630	36,319	24,365	8,180	10,725	22,844	15,383	22,891	8,620
Other Program Revenue	-	-	327,686	165,142	164,545	129,958	-	-	-	-	-
Loss Control Services	-	34,012	93,100	71,614	27,840	-	-	-	-	-	-
Net Investment (Non-Operating) Income	154,464	206,696	199,213	(25,759)	(110,273)	292,149	645,756	763,010	(248,109)	1,114,467	355,011
Transfer of Funds to NewCities	-	-	-	(100,000)	(100,000)	(200,000)	(100,000)	(100,000)	(100,000)	(50,000)	-
Total Revenue	$4,313,031	$5,026,850	$6,036,344	$7,528,138	$8,846,464	$10,722,373	$10,408,158	$10,920,211	$10,058,274	$11,902,342	$10,986,103
Expenses											
Salaries	$1,689,026	$1,854,423	$2,336,669	$3,042,671	$3,341,050	$4,005,710	$4,269,719	$4,700,991	$5,055,647	$5,233,416	$5,245,487
In-kind Contributions to NewCities	-	-	-	-	467,889	654,043	569,272	727,860	922,191	1,140,448	1,190,109
Retirement	-	-	-	416,796	216,590	270,568	342,299	431,710	620,324	808,310	996,843
Deferred Compensation	162,743	153,944	156,534	-	-	-	-	-	-	-	-
Employee Benefits	174,746	171,434	263,768	387,189	460,846	607,853	753,248	788,680	863,594	934,124	841,166
Depreciation	146,758	162,399	325,502	495,176	560,916	686,202	643,584	550,290	615,234	467,617	593,276
Travel	151,833	143,400	168,408	224,895	231,117	257,144	273,444	310,014	376,180	414,586	457,460
Payroll Taxes	122,692	132,474	170,439	223,647	255,831	321,049	337,222	367,101	404,126	424,784	418,018
Other Expenses	248,781	337,211	354,280	184,974	284,485	461,541	380,195	303,307	372,092	360,102	403,880
Meetings	437,403	442,483	326,889	377,564	387,274	424,843	321,368	312,879	255,594	417,887	322,465
Professional Services	263,366	337,890	220,785	208,109	314,123	309,852	215,626	233,192	426,053	239,986	318,870
Building Management	-	-	-	515,013	597,275	616,974	205,251	218,064	114,851	92,860	236,583
Program and Development	-	70,635	454,399	386,396	290,482	239,828	181,693	195,060	292,893	115,702	202,453
Office Supplies	69,013	103,537	106,501	129,033	155,952	141,257	91,389	72,279	98,759	129,111	104,878
Legislative Services	80,429	35,901	32,304	26,830	9,001	20,745	32,219	23,738	27,334	29,090	98,338
Telephones	95,100	104,407	137,051	133,270	140,806	125,279	113,176	143,531	100,952	78,933	90,750
KLCPFC Finance Expenses	-	-	-	-	-	-	74,436	86,458	129,480	83,000	89,995
Dues	37,754	40,549	42,850	50,733	60,261	61,405	84,219	74,807	81,899	63,807	65,019
Postage	50,993	54,579	51,829	54,321	63,040	63,210	56,099	64,306	62,738	66,777	54,075
Bond Administration	40,361	40,000	40,000	89,077	98,683	111,229	130,365	197,702	94,102	41,347	28,345
Publications	90,039	91,023	290,704	293,696	234,972	259,949	223,736	218,245	172,716	166,040	23,040
Interest Expense	-	-	133,338	352,228	347,300	236,425	-	-	-	-	-
Repair and Maintenance	43,966	40,230	27,279	-	-	-	-	-	-	-	-
Total Expenses	$3,905,003	$4,316,519	$5,639,529	$7,591,618	$8,517,893	$9,875,106	$9,298,560	$10,020,214	$11,086,759	$11,307,927	$11,781,050

Source: Auditor of Public Accounts based on KLC's audited financial statements.

KENTUCKY LEAGUE OF CITIES
EXECUTIVE BOARD
MINUTES OF MEETING
June 7, 2002

Members Present: Mayor Charlie Beach, III, Mayor David Cartmell, Commissioner Robert Coleman, Mayor Robin Cooper, Mayor Karen Cunningham, David Fowler, Mayor Tom Guidugli, Mayor Curtis Hardwick, Mayor Tom Holocher, Gregory Jarvis, Mayor Bill Nighbert, Mayor Paul Osborne

Members Absent: Mayor David Armstrong, Mayor Bradley Collings, Mayor Pam Miller

Staff Present: Sylvia Lovely, Neil Hackworth, Bill Hamilton, Bill Thielen, Sharon Ferguson, Freda Meriwether

Mayor Tom Holocher, KLC President, called the Executive Board meeting to order at 11:00 a.m. Ms. Freda Meriwether called the roll. The next order of business was approval of prior meeting minutes. Mayor Robin Cooper made a motion to approve the minutes of the January 30, 2002, meeting. Motion carried. A motion was made by Mayor Karen Cunningham to approve the February 20, 2002, meeting minutes. Motion carried. Mayor Paul Osborne made a motion to approve the minutes of the March 20, 2002 meeting. Motion carried.

Mayor Nighbert presented the proposed 2002-2003 budget to the Board. Mayor Paul Osborne made a motion to approve the proposed budget. Motion carried.

After excusing the staff, the Executive Board discussed matters related to staff compensation. Mayor Nighbert made a motion to: 1) create a staff compensation review committee for the purpose of considering and making recommendations regarding a compensation enhancement program, including the possible purchase of retirement service credit for the Executive Director/CEO and other staff, and 2) set aside $400,000 of the 2001-2002 budget year operating surplus for the purpose of funding this program. Motion carried. In addition to himself, Mayor Holocher appointed the following Executive Board members to the compensation review committee: Mayor Bill Nighbert; Mayor Karen Cunningham; Mayor Robin Cooper; Mayor Paul Osborne; Mayor Charles Beach, III; and Mayor Curtis Hardwick

Sylvia Lovely discussed the KLC internal process for responding to questions from the media. Neil Hackworth discussed the internal process for responding to legal questions from city officials. Mr. Hackworth updated the board on the KLC Information Technology Business Plan.

A motion was made by Mayor Hardwick to adjourn the meeting. Motion carried.

Thomas E. Holocher
President

ATTEST:

Sylvia L. Lovely
Executive Director/CEO

KENTUCKY LEAGUE OF CITIES
EXECUTIVE BOARD
MINUTES OF MEETING
August 14, 2002

Members Present: Mayor Charlie Beach, III, Mayor David Cartmell, Commissioner Robert Coleman, Mayor Bradley Collins, Mayor Robin Cooper, Mayor Karen Cunningham, Mayor Tom Holocher, Mayor Pam Miller, Mayor Bill Nighbert, Mayor Paul Osborne

Members Absent: Mayor David Armstrong, Mayor Tom Guidugli, Mayor Curtis Hardwick, Mr. Gregory Jarvis, Mr. David Fowler

Staff Present: Sylvia Lovely, Bill Thielen

Mayor Tom Holocher, KLC President, called the Executive Board meeting to order at 12:00 noon. Bill Thielen, KLC General Counsel, called the roll and confirmed that a quorum was present.

The first order of business was consideration of proposed bylaw changes. Executive Director/CEO Sylvia Lovely and Deputy Executive Director Neil Hackworth briefly explained the need for the proposed changes. Following the explanation, Mayor Pam Miller made a motion to approve all changes as proposed. Since an amendment to the bylaws requires a two-thirds vote of the Executive Board membership, a roll call vote was conducted. Motion carried by a vote of 10 ayes and 0 nays.

Mayor Holocher called on Mr. Hackworth to update the Board on KLC's information technology activities, including the new reverse auction purchasing program. Ms. Lovely briefly discussed a new legislative issue raised by Mayor Jim Arnold of Franklin, Kentucky. Ms. Lovely indicated that KLC must review and consider lobbying for changes in the statutory authorizations for city-county merger. As currently written, these statutes are unbalanced and fail to ensure adequate representation in the merger process for city governments.

Ms. Lovely next discussed a proposed KLC policy statement on the issue of the possible purchase of Kentucky-American Water Company by the Lexington Fayette Urban County Government (copy attached). Mayor Robin Cooper made a motion to approve the proposed policy statement as presented with any minor modifications to the statement that may be suggested by Mayor Pam Miller. Motion carried.

The next order of business was consideration of the recommendation of the Compensation Review Committee created by the Executive Board at its June 7 meeting. After a review of the Committee recommendations by Mr. Thielen and Ms. Lovely, and following a discussion of the recommendation among Board members, Mayor Bill Nighbert made a motion to approve Executive Board Resolution No. 1-2002. Motion carried.

Mayor Holocher briefly discussed the need to fund the compensation program for the future, but concluded that this was a matter to be decided at a future Board meeting. Mayor Holocher also discussed the need to create some additional committees, including a budget review committee that would look at compensation issues as well as general budget matters, and possibly a bylaws committee, a program review committee and a strategic planning (futures) committee.

The Board decided by consensus that proposals regarding these committees should be put in writing and considered by the Board at a future meeting.

Mayor Holocher called on Ms. Bobbie Bryant, KLC Director of Communications, and Ms. Terri Johnson, Communications Manager, to update the Board on KLC's public relations efforts. Mayor Cooper discussed the need for KLC to assist mayors with media relations, including press releases regarding official activities that benefit their cities.

With no further business to be conducted, Mayor Holocher declared the meeting adjourned.

Thomas E. Holocher
President

ATTEST:

Sylvia L. Lovely
Executive Director/CEO

KENTUCKY LEAGUE OF CITIES, INC.
EXECUTIVE BOARD

RESOLUTION NO. 1-2002

WHEREAS, the Executive Board of the Kentucky League of Cities ("KLC") recognizes that the past success of this organization is attributable in significant part to the quality, hard work, and loyalty of its key executive staff; and

WHEREAS, the KLC Executive Board recognizes that leadership continuity is a critical factor in sustaining organizational success; and

WHEREAS, at its June 7, 2002 meeting, the KLC Executive Board voted to set aside a portion of the organization's surplus funds for use in connection with a key executive compensation enhancement program designed to reward long-term key executives and provide an incentive for these executives to remain with the organization; and

WHEREAS, at its June 7, 2002 meeting, the KLC Executive Board voted to create from among its members a committee to review the issue, develop a specific recommendation for the creation of a key executive compensation enhancement program and to report the recommendation to the full Executive Board for its consideration and final approval; and

WHEREAS, the Compensation Program Review Committee created by the Executive Board has concluded its study and, after examination of various materials, including materials provided by independent legal counsel, accountants, and a personnel consulting firm, that confirm the appropriateness of the proposed key executive compensation enhancement program, has transmitted its recommendation to the full KLC Executive Board.

NOW, THEREFORE, BE IT RESOLVED BY THE KLC EXECUTIVE BOARD:

SECTION 1. The KLC Executive Board hereby approves the key executive compensation enhancement program as described on Exhibits A and B, which are attached hereto and made a part of this resolution.

This resolution was duly adopted by a majority vote of the KLC Executive Board at a meeting held on the 14th day of August 2002.

Thomas Holocher
Mayor, City of Fort Mitchell
President, Kentucky League of Cities, Inc.

KENTUCKY LEAGUE OF CITIES
KEY EXECUTIVE COMPENSATION ENHANCEMENT PROGRAM

INTRODUCTION

KLC's current employment and employee compensation practices lack features common in other complex nonprofit and private enterprise organizations that are designed to attract and retain personnel in key positions and to reward key employees for high levels of performance that lead to organizational success. For example, it is typical for the chief executive officer of associations and corporations to have a contract for a period of years that contains such features as termination provisions, severance compensation arrangements, performance evaluation standards, and performance or incentive compensation arrangements. Despite the fact that executive employment contracts are extremely common, KLC has never utilized such a contract to create a well-defined employment arrangement with its Executive Director/CEO.

In the past, when KLC was a simple, single-unit organization, there was little need to consider such matters. Now, however, KLC has grown into an increasingly sophisticated, complex, and multi-faceted organization with annual revenues and expenses across all of its program areas approaching $30 million dollars. There is a growing need to make changes to ensure that KLC retains its experienced key employees and is able when the time is right to compete with other organizations to hire highly-trained and motivated professional employees.

PURPOSES OF THE PROGRAM

Provide Incentive to Stay. First, because leadership continuity is such an important factor in organizational success, this program is designed to provide an incentive for key executives to remain in the employ of KLC, both in anticipation of becoming eligible for the compensation enhancement program and afterward for a period of years in order to take full advantage of the financial benefit of the program.

Reward Past Loyalty and Dedication. The program is designed to reward key executives for past loyalty and dedication to the organization and to recognize their role in making the organization a success.

GENERAL PROGRAM CONDITIONS

Compensation Review Committee. The KLC Executive Board will create a Compensation Review Committee from among its members. The Compensation Review Committee will work with the Executive Director/CEO and Deputy Executive Director on an ongoing basis to develop general recommendations regarding program features and utilization. All recommendations will be submitted to the full Executive Board for final approval. In general, it is anticipated that funds will only be allocated to fulfill the purposes of the program from time-to-time when it is determined to be appropriate considering all the circumstances and when a sufficient budgetary surplus exists to justify approval and pay program costs.

PROGRAM FEATURES

ELIGIBILITY

The program will only be used when key executives of KLC become "eligible." To be eligible, a KLC employee must hold a key management position and must have satisfied minimum length of service requirements as follows:

ELIGIBLE KEY EXECUTIVES	MINIMUM SERVICE REQUIREMENT
Executive Director/CEO	After 5 years KLC service
Deputy Executive Director	"
Deputy Director	After 7 years of KLC service
General Counsel	"
Director of Finance & Administration	After 12 years of KLC service
Director of Advocacy	"
Director of Communications	"
Director of Insurance and Risk Management	"
Director of Research	"
Director of Insurance Marketing	"
Chief Information Officer	"

The KLC Executive Board will, of course, be free in the future to add or delete positions from the eligibility list as needs change. Establishing an eligibility requirement based on longevity is consistent with the purpose of rewarding employees who have been instrumental over a significant period of time in the organization's success.

EXECUTIVE DIRECTOR/CEO BONUS PROGRAM

- Upon becoming eligible and after utilization of the program has been approved by the Executive Board, the KLC Executive Director/CEO will receive a compensation bonus to be paid over a period of five (5) years.[1]

- The amount of the bonus for this initial utilization of the program will be equal to the cost of purchasing five (5) years of Nonqualified Service or "Airtime" in the County Employees Retirement System (CERS), plus the aggregate interest cost needed to finance the purchase of the Nonqualified Service with CERS over the five (5) year period. The aggregate interest cost is included because payment of the bonus over the five (5) year period will require the Executive Director/CEO to finance the purchase of the

[1] As an "officer" of KLC under the organization's bylaws and in accordance with KRS 273.227 and 273.241, the Executive Director/CEO may not be the recipient of a loan from the organization.

nonqualified service with CERS. In the future, the Executive Board may use a different factor to determine the amount of the bonus

- The first bonus payment will be made on or about July 1, 2002, and on or about July 1 of each year thereafter for four (4) additional years, provided that the Executive Director/CEO remains employed by KLC on the bonus payment date each year. Except as set forth below, if the Executive Director/CEO ceases to be employed by KLC, the right to the bonus is forfeited.

- In the case of death or total disability, the full amount of the bonus would become vested and immediately payable.

LOW INTEREST FORGIVABLE LOAN PROGRAM FOR OTHER KEY KLC EXECUTIVES

- Upon becoming eligible, key executives, other than the Executive Director/CEO, would receive a lump sum low-interest loan for a term years.

- The amount of the loan for this initial utilization of the program will be equal to the cost of purchasing five (5) years of Nonqualified Service or "Airtime" in the County Employees Retirement System (CERS) for the eligible key employee. In the future, the Executive Board may use a different factor to determine the amount of the loan.

- Each year after the loan is made (on the loan anniversary date), a percentage of the loan principal will be forgiven so that at the end of the loan term the key employee will owe nothing. The initial loans will be made for a term of five (5) years and the principal will be forgiven at the rate of twenty percent (20%) per year. *(Note: To account for situations where the key employee may leave KLC during the year, the annual percentage to be forgiven will be pro-rated on the basis of 1/12 of the annual amount for each month or portion thereof that the employee serves.)*

- During the term of the loan, the key employee will pay interest to KLC through payroll deduction, but there will be no principal payments. The interest rate on the loans will be set at the lowest rate that is acceptable under federal regulations.

- Each key employee participating in the program will be required to execute a legally binding loan agreement setting forth the terms of the loan and establishing the repayment obligation. Among other things, the loan agreement will provide that, if the key employee is terminated for cause related to misconduct, voluntarily resigns or dies before the loan is fully paid, the balance due on the note becomes payable.

SALARY ADJUSTMENT FEATURE

- The salaries of the key executive employees who have received a bonus or a low-interest loan will be supplemented during the period the bonus is paid or during the term of the loan to offset the annual federal, state and local tax costs and interest costs associated with the bonus or with forgiveness of a portion of the loan principal each year. This amount will simply be included in the annual budget each year.

NON-NEGOTIABLE
PROMISSORY NOTE

Lexington, Kentucky
July 1, 2002

FOR VALUE RECEIVED, the undersigned promises to pay to the Kentucky League of Cities, Inc. (the "League") at its main office in Lexington, Kentucky, the principal sum of Dollars , together with all accrued interest thereon computed and payable in the manner set forth below. Interest shall accrue as provided below and shall be payable through payroll deduction by the League on a biweekly basis and at maturity. If the undersigned is no longer employed by the League or fails to receive adequate pay from the League, the undersigned shall directly pay each interest payment to the League when due on a bi-weekly basis on the date the League payroll is paid to its employees. The unpaid principal balance of, and all accrued interest on the Note, unless sooner paid, shall be due and payable on July 1, 2007 (the "Maturity Date").

The unpaid principal amount of the Note as the same shall exist from time to time, shall bear interest at a rate equal to a fixed rate per annum of three percent (3.0%) from and after the date hereof until such time as the outstanding balance of this Note is paid in full. All interest shall be computed on the basis of actual days elapsed over an assumed year of 365 days.

Delinquent payments of principal or interest shall bear interest at the fixed rate of eight percent (8.0%) per annum until paid in full. All payments hereunder shall be made in legal tender of the United States of America.

Commencing on July 1, 2003, and annually thereafter and on the Maturity Date, the undersigned shall pay to the League principal payments on the Note in the amount of which shall be in addition to the interest payments.

This Note is issued pursuant to a Loan Agreement dated July 1, 2002, to which reference is made for a description of the circumstances under which payment of all or part of this Note may be forgiven or accelerated.

If there is any default in the payment of principal or interest hereunder, whether by reason of acceleration or otherwise, and this Note is placed in the hands of an attorney for collection, or is collected through court, including any bankruptcy court, the undersigned promises to pay to the holder hereof its reasonable attorneys' fees and court costs incurred in collecting or attempting to collect or secure this Note, provided and to the extent that such reimbursement is allowed by law.

The undersigned waives presentment, demand, notice of dishonor, protest, notice of protest and nonpayment, and all exemptions, defenses and offsets to which the undersigned may now or hereafter be entitled.

LOAN AGREEMENT

THIS LOAN AGREEMENT is made and entered into effective as of the 1st day of July, 2002, by and between: (i) the **Kentucky League of Cities, Inc.**, a Kentucky non-stock, non-profit corporation, with its principal office and place of business at 101 East Vine Street, Suite 600, Lexington, Kentucky 40507-3700 (the "League") and (ii) , an individual residing at (the "Borrower").

PRELIMINARY STATEMENT

A. The Borrower desires to obtain from the League a loan (the "Loan") in the amount of for the purpose of investing in Nonqualified Service or "Airtime" in the County Employees Retirement System or such other purposes as the Borrower deems desirable.

B. The League desires to make such Loan to the Borrower upon the terms and conditions contained herein.

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the League and the Borrower hereby agree as follows:

SECTION 1. Extension of Loan. Subject to the terms and conditions contained in this Loan Agreement and in the non-negotiable promissory note dated the Closing Date (as hereinafter defined) and substantially in the form attached hereto as Exhibit A (such promissory note, together with all renewals or modifications thereof and all substitutes therefore being hereafter referred to as the "Note"), the League agrees to lend to Borrower the sum of (the "Loan"). The Note will be delivered, and the Loan extended at the main office of the League on July 1, 2002 (the "Closing Date").

SECTION 2. Term of Loan. The term of the Loan shall be for five (5) years from the Closing Date and shall mature on July 1, 2007, unless sooner paid. The principal amount of the Loan shall be payable in five (5) annual installments of each due and payable on the anniversary date of the Closing Date. The League proposes to forgive the principal payment due on each annual principal payment date as long as each of the conditions set forth in Section 3 below are met by the Borrower.

SECTION 3. Forgiveness of Principal Payment on the Note. The League shall forgive the payment of each annual principal payment in the amount of , when each payment is due and payable, as long as each of the following conditions exist at the time the principal payment is due and payable:

1. The Borrower is an employee of the League at the time of any forgiveness and there is no announcement that the Borrower's departure is imminent.

2. The Borrower has made the due and punctual payment of all interest payments

under the Note as the same becomes due and payable; and

3. The Borrower has complied with all agreements and understanding contained in the Note and this Loan Agreement.

The proposal by the League to forgive future principal payments on the Loan shall not constitute a contract of employment or a right to continue to serve as an employee of the League and shall not confer on the undersigned any rights upon his or her termination of employment. If any of the conditions set forth above are not met, the undersigned shall have no preferred claim with respect to the future possibility of the forgiveness of a principal payment of the Loan.

SECTION 4. Taxation. Each Borrower agrees to consult his or her accountant or attorney with respect to the tax treatment of the 3% interest rate utilized in the Note and the tax treatment for the forgiveness of the principal payment on each anniversary date. The Borrower acknowledges that the League has made no representation or warranty with respect to the tax treatment of any aspect of the Loan.

The League shall have the right to take whatever action the League deems necessary or appropriate to satisfy any federal, state, or local tax withholding requirements with respect to this transaction.

SECTION 5. Defaults. If any one or more of the following events shall occur for any reasons whatsoever (whether such occurrence shall be voluntary or involuntary or come about or be effected by operation of law or pursuant to or in compliance with any judgment, decree or order of any court or any order, rule or regulation of any governmental body) the entire principal amount of the Note, together with all accrued interest thereon, shall without further notice of any kind, become immediately due and payable to the holder of the Note, unless the League in its sole discretion informs the Borrower in writing otherwise:

(a) If there is a failure to make the due and punctual payment of any installment of the principal of, or interest upon, the Note when and as the same becomes due and payable and such failure continues for a period of ten (10) days; or

(b) If the Borrower's employment with the League is terminated for any reason whatsoever; or upon the death of the Borrower; or upon any mental or physical disability on the part of the Borrower which results in the Borrower being unable to render services to the League as an employee for a period (which need not be collective) of ninety (90) days during any twelve (12) consecutive monthly period.

(c) Solvency. If the Borrower:

(i) makes a general assignment for the benefit of creditors; or

(ii) applies for or consent to the appointment of a custodian, receiver, trustee or liquidator of all or a substantial part of Borrower's assets; or

(iii) is adjudicated a bankrupt or insolvent; or

(iv) files a voluntary petition in bankruptcy or files a petition or an answer seeking a composition, reorganization or an arrangement with creditors or seeks to take advantage of any other law (whether federal or state) relating to relief for debtors, or admits (by answer, default or otherwise) the material allegations of any petition filed against it or them in any bankruptcy, reorganization, composition, insolvency or other proceeding (whether federal or state) relating to relief for debtors; or

(v) suffers or permits to continue unstayed and in effect for thirty (30) consecutive days any judgment, decree or order entered by a court or governmental agency of arrangement of Borrower or any other judicial modification of the rights of any of Borrower's respective creditors, or appoints a custodian, receiver, trustee or liquidator for Borrower or for all or a substantial part of any of Borrower's business or assets.

SECTION 6. RIGHTS AND REMEDIES.

Section 6.1 Suits for Enforcement. Upon the occurrence of any Default hereunder the League shall be entitled at its option and in addition to such other remedies as may be available at law or in equity, to do and perform any or all of the following:

(a) accelerate the due date for the payment of all principal and interest under the Note; and/or

(b) secure equitable relief against the Borrower to enjoin violation of any covenant or provision of this Agreement and/or the Note and/or to require specific performance of any such covenant or provisions.

Section 6.2 Attorneys' Fees and Costs of Collection. The Borrower hereby agrees that upon any Default it shall pay all reasonable attorneys' fees and other costs incurred by the holder of the Note in collecting, or attempting to collect, the amounts due under the Note or this Loan Agreement in addition to the principal and accrued interest due thereunder.

Section 6.3 Remedies Cumulative. Except where otherwise specified in this Loan Agreement, no remedy and Time of Essence herein conferred upon the holder of the Note is intended to be exclusive of any other remedy and each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute or otherwise. Time shall be of the essence in the performance of all of Borrower's obligations under this Loan Agreement and the Note.

Section 6.4 Remedies Not Waived. No course of dealing between Borrower and the holder of the Note or any delay on the part of such holder in exercising any rights hereunder or thereunder shall operate as a waiver of any rights of such holder, except to the extent expressly waived in writing by such holder.

SECTION 7. Miscellaneous.

Section 7.1 Entire. This Loan Agreement embodies the entire agreement and understanding of the parties hereto with respect to the subject matter herein contained, and supercedes all prior agreements, correspondence, arrangements and understandings relating to the subject matter hereof.

Section 7.2 Further Assurances. The Borrower agrees (a) to furnish upon the League's request such further information, (b) to execute and deliver such other documents, and (c) to do such other acts and things, all as the League may reasonably request for the purpose of carrying out the intent of this Loan Agreement and the documents referred to in this Loan Agreement.

Section 7.3 Governing Law. This Loan Agreement and the Note are executed and delivered in, and shall be governed by the laws of, the Commonwealth of Kentucky, without giving effect to any conflict of law or principle that might require the application of the laws of another jurisdiction.

Section 7.4 Headings. The headings in this Loan Agreement are included for purposes of convenience only and shall not be considered a part of this Loan Agreement in construing or interpreting any provision hereof.

Section 7.5 Invalidity of Provisions; Severability. If any provision of this Loan Agreement or the application thereof to any person or circumstance shall to any extent be held in any proceeding to be invalid, illegal or unenforceable, the remainder of this Loan Agreement, or the application of such provision to persons or circumstances other than those to which it was held to be invalid, illegal or unenforceable, shall not be affected thereby, and shall be valid, legal and enforceable to the fullest extent permitted by law, but only if and to the extent such enforcement would not materially and adversely frustrate the parties' essential objectives as expressed herein. Notwithstanding the foregoing, each party hereto agrees that it has reviewed the provisions of this Agreement, and that the same, taken as a whole, are fair and reasonable.

Section 7.6 Binding Effect. The provisions of this Loan Agreement shall bind and benefit Borrower and the League and their respective successors, heirs, personal representatives and assigns, including each subsequent holder, if any, of the Note.

Section 7.7 Modifications. This Loan Agreement may be modified only in writing executed by the League and Borrower.

Section 7.8 Time of Essence. Time is of the essence to the performance of the obligations set forth in this Loan Agreement and in the related Note.

Section 7.9 Waiver. The rights and remedies of the League hereunder are cumulative and not alternative. Neither the failure nor any delay by the League in exercising any right, power, or privilege under this Loan Agreement or the documents referred to in this Loan Agreement will operate as a waiver of such right, power, or privilege, and no single or partial exercise of any such right, power, or privilege will preclude any other or further exercise of such right, power, or privilege or the exercise of any other right, power or privilege. Each such right, power, remedy or privilege may be exercised by the League, either independently or concurrently with others, and as often and in such order as the League may deem expedient. To the maximum extent permitted by applicable law no waiver that may be given by a party will be applicable except in the specific instance for which it is given. No waiver or consent granted by the League with respect to this Loan Agreement, the Note or related writing shall be binding upon the League, unless specifically granted in writing by a duly authorized officer of the League, which writing shall be strictly construed.

Section 7.10 Interpretation. The parties hereby agree that this Loan Agreement shall be so interpreted to give effect and validity to all the provisions hereof to the fullest extent permitted by law.

Section 7.11 Assignment. Borrower shall not assign any of its rights under the Loan Agreement or the Note to any other party.

Section 7.12 Survival of Covenants, Agreements, Warranties and Representations. All covenants, agreements, warranties and representations made by the Borrower herein shall survive the making of the Loan and delivery of the Note, this Loan Agreement and any and all Security Instruments for the Note and other Indebtedness, and shall be deemed to be continuing covenants, agreements, representations and warranties at all times while any portion of the indebtedness, including the Note, remains unpaid.

Section 7.13 Jury Trial Waiver. **BORROWER HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVES THE RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION OR ANY OTHER PROCEEDING BASED ON, OR ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS LOAN AGREEMENT OR ANY OTHER LOAN DOCUMENT OR OUT OF ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER WRITTEN OR ORAL) OR ACTIONS OF THE BORROWER OR THE LEAGUE.**

IN WITNESS WHEREOF, the parties have entered into this Loan Agreement as of the date first written above.

BORROWER

KENTUCKY LEAGUE OF CITIES, INC.

Sylvia L. Lovely

Sylvia L. Lovely
Executive Director/CEO

273.241 Loans to directors and officers prohibited.

No loans shall be made by a corporation to its directors or officers. Any director or officer who assents to or participates in the making of any such loan shall be liable to the corporation for the amount of such loan until the repayment thereof.

History: Created 1968 Ky. Acts ch. 165, sec. 26.

RETIREMENT AGREEMENT

This Retirement Agreement is entered into by and between KENTUCKY LEAGUE OF CITIES, INC. ("KLC"), a non-stock, nonprofit corporation located at 100 East Vine Street, Suite 800, Lexington, Kentucky 40507, and , an individual and resident of

WHEREAS, KLC desires to facilitate an orderly succession in senior management positions of the organization and create incentive for less tenured employees to remain employed with KLC; and

WHEREAS, has rendered valuable service to KLC, over the last 10 years and desires to obtain additional service credit toward CERS retirement by purchasing "air time" as allowed by the statutes and rules relating to the Kentucky Retirement System; and

WHEREAS, the parties desire to enter into this Agreement for their mutual benefit of allowing to retire earlier than might otherwise be possible and creating an opening at the senior management level for other less tenured employees;

NOW, THEREFORE, in consideration of the premises stated above and the promises contained herein, KLC and mutually agree and contract as follows:

1. **General Agreement**. KLC agrees to make a contribution to a Section 457 retirement account in the total amount of $35,600.00 to be owned by for the purpose of purchasing time in the County Employees' Retirement System, in exchange for 's agreement to retire from his employment at KLC, at such time as he becomes eligible for full retirement benefits in accordance with the rules and regulations of the Kentucky Retirement System, if his employment is not sooner terminated by KLC or .

2. **Payment Terms**. The amount set forth in Paragraph 1 shall be paid in two (2) installments. The first installment shall be in the amount of $20,100.00 made within thirty days (30) following the date of the execution of this Agreement. The second installment shall in the amount of $15,500.00 be made within thirty (30) days after January 1, 2009. All payments are to be made directly to the ICMA retirement plan as tax deferred payments.

3. **Retirement Date.** agrees that his employment with KLC will cease on a date to be determined between and KLC executive management which shall be within the year in which shall become eligible for full time retirement benefits in the Kentucky Retirement System, currently estimated to be 2013. Provided however, KLC may, in its sole discretion, waive this requirement upon a determination that it would be in the best interest of KLC to do so. shall have no obligation to continue working beyond 2013 regardless of KLC's willingness to waive this requirement.

4. **Employment Status**. Nothing herein shall alter 's status as an at-will employee of KLC and this Agreement shall in no way be construed as an agreement for a term certain or as creating a property interest in employment. It is the intent of the parties that this agreement establish a limit on the maximum period of employment only and not to create a guarantee of employment for a minimum period. understands that his employment may be terminated by or KLC for any legal reason.

5. **Early Termination**. In the event that voluntarily terminates his employment relationship with KLC, shall refund to KLC, the total amount paid hereunder less an amount equal to one-fifth (1/5) of the total payment multiplied by the number of years served by after the date of this agreement.

6. **Entire Agreement.** This Agreement sets forth the entire understanding of the parties regarding the transactions contemplated hereby, and merges and supersedes all prior discussions, agreements, promises, representations, warranties and arrangements of whatever kind between the parties as to the subject matter of this Agreement, and neither party shall be bound by any condition, warranty or representation relating to such subject matter other than as expressly provided for in this Agreement.

7. **Amendment.** No amendment or waiver of any provision of this Agreement shall be effective unless the same is in writing and signed by both parties.

8. **Governing Law.** This Agreement shall be construed in accordance with the laws of the Commonwealth of Kentucky, and the rights, obligations, and remedies of the parties hereto shall be determined in accordance with such laws.

9. **Severability.** If any provision of this Agreement is held invalid or unenforceable by any court or other tribunal of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

"KLC"

____________________________ ____________________________

Deputy Executive Director/COO
KENTUCKY LEAGUE OF CITIES, INC.

____________________________ ____________________________

DATE DATE

EMPLOYMENT AGREEMENT

This Employment Agreement is entered into by and between **KENTUCKY LEAGUE OF CITIES, INC. ("KLC")**, a non-stock, nonprofit corporation located at 100 East Vine Street, Suite 800, Lexington, Kentucky 40507, and , an individual residing at

WHEREAS, is currently employed by KLC as Director of Accounting and is seeking to retire from that position and take a different position with KLC as a staff accountant provided that certain accommodations are made by KLC as set forth herein; and

WHEREAS, KLC desires to retain 's extensive historical knowledge and expertise in the capacity of a staff accountant for a minimum of 30 months beginning one month from the date of her retirement; and

WHEREAS, KLC and wish to enter into a mutually beneficial contractual agreement in furtherance of the above stated purposes.

NOW, THEREFORE, in consideration of the premises stated and the mutual covenants set forth herein, KLC and agree and contract as follows:

SECTION 1. **<u>Obligations of KLC.</u>**

1. KLC shall pay to in the amount of $28,869.40, which shall bear interest at the rate of 3% per annum, to be repaid on a biweekly basis by means of payroll deduction in equal amounts over the term of this agreement.

2. KLC shall re-employ at a salary of $48,414.00 per year, plus benefits, for a period beginning the November 1, 2006 and continuing for thirty (30) months thereafter unless sooner terminated in a manner provided herein. The amount of compensation may be increased periodically per KLC policy, at the sole discretion of KLC.

3. KLC shall provide to , twenty days of vacation annually, beginning on the first day of each calendar year. Any vacation days not used within the calendar year shall carry over to the subsequent calendar year.

SECTION 2. **<u>Obligations of</u>**

1. shall retire on October 1, 2006.

2. shall return to employment with KLC in the capacity of a staff accountant for a minimum of 30 months beginning on November 1, 2006.

3. shall agree to a bi-weekly payroll deduction in the amount set forth in Section 1. 2. above, to be paid to KLC as repayment for the loan described in Section 1, 2., above.

SECTION 3. **EFFECTIVE DATE AND INITIAL TERM.** The effective date of this Agreement shall be November 1, 2006. The term of this Agreement shall be thirty (30) months, unless terminated in accordance with Section 4 of this Agreement.

SECTION 4. **TERMINATION.** The parties of this Agreement may terminate it for good cause only upon thirty (30) days written notice to the other party. If the Agreement is terminated under this provision, shall be compensated up to and including the effective date of termination. shall also be reimbursed for all expenses actually incurred up to the effective date of termination.

SECTION 5. **REMEDY FOR BREACH.** In the event of breach of this agreement by , the loan and payments described in Section 1, 2. and Section 2, 3. above shall be accelerated and the entire principal balance and all accrued interest shall become immediately due and payable. agrees that any amounts due and owing to KLC following breach of this agreement, may be offset against any amounts owed by KLC to .

SECTION 6. **ASSIGNMENT OF RIGHTS AND OBLIGATIONS.** Except as otherwise set forth herein, no party to this Agreement shall assign any of its rights and obligations hereunder, unless the other party shall have given its prior written consent.

SECTION 7. **ENTIRE AGREEMENT.** This Agreement sets forth the entire understanding of the parties regarding the transactions contemplated hereby, and merges and supersedes all prior discussions, agreements, promises, representations, warranties and arrangements of whatever kind between the parties as to the subject matter of this Agreement, and neither party shall be bound by any condition, warranty or representation relating to such subject matter other than as expressly provided for in this Agreement.

SECTION 8. **AMENDMENT.** No amendment or waiver of any provision of this Agreement shall be effective unless the same is in writing and signed by both parties.

SECTION 9. **NOTICES.** Any notice required to be given hereunder shall be hand-delivered or sent by first-class mail, postage prepaid, as follows:

If to KLC: 100 East Vine Street, Suite 800, Lexington, KY 40507.

If to :

SECTION 10. **GOVERNING LAW.** This Agreement shall be construed in accordance with the laws of the Commonwealth of Kentucky, and the rights, obligations, and remedies of the parties hereto shall be determined in accordance with such laws.

SECTION 11. **SEVERABILITY.** In the event any provision of this Agreement is held invalid or unenforceable by any court or other tribunal of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

ACCEPTED AND APPROVED:

KENTUCKY LEAGUE OF CITIES

Deputy Executive Director

8/23/06
DATE

8/23/06
DATE

KLC Forgivable Loan Recapture/Repayment Summary
August 28, 2009

	Date						
Original Amount of Loan August 19, 2002		89,000		58,000			
Original Amount of Bonus August 19, 2002						125,000	
Annual Forgivable Loan Amount Over 5 Years Starting January 1, 2003							
Annual Bonus Amount		17,800		11,600		25,000	
Starting November 3, 2004 The Forgivable Loan Amount Was Deducted From The Employees Midpoint To Determine Cash Salaries							
2004							
Midpoint Per Salary Report	10/1/2004	198,340		182,866		261,873	
Cash Salary	11/3/2004	180,540		171,266		236,873	
Cash Salary Reduced By Loan		17,800		11,600		25,000	
Amont of Loan Recaptured By KLC During 2004		2,967		1,933		4,167	
2005							
Adjusted for 3% COLA		203,756	3%	187,974	3%	268,979	3%
Cash Salary	6/29/2005	185,956		176,374		243,979	
Cash Salary Reduced By Loan		17,800		11,600		25,000	
Amont of Loan Recaptured By KLC During 2005		17,800		11,600		25,000	
2006							
Adjusted for 4% COLA	5/12/2006	219,031		195,028	3%	277,048	3%
Cash Salary	6/28/2006	201,231		183,428		253,738	
Cash Salary Reduced By Loan		17,800		11,600		23,310	
Amont of Loan Recaptured By KLC During 2006		17,800		11,600		25,000	
2007							
Midpoint Per Salary Report	5/2/2007	226,262		216,017		329,135	
Cash Salary	7/7/2007	207,268		193,400		286,350	
Cash Salary Reduced By Loan		18,994		22,617		42,785	
Amont of Loan Recaptured By KLC During 2007		17,800		11,600		25,000	
Employees Cash Salaries Were Less Than Midpoint Over 4 Year Period Reducing The Forgivable Loan Amount		56,367		36,733		79,167	
Amount of Loan Actually Forgiven & Not Included As a Reduction from The Midpoint		32,633		21,267		45,833	
Percentage "Recaptured" By KLC		63%		63%		63%	

Blue - Midpoint Determined By Outside Compensation Report

PROFESSIONAL SERVICE AGREEMENT

This Professional Service Agreement is entered into by and between **KENTUCKY LEAGUE OF CITIES, INC. ("KLC")**, a nonstock, nonprofit corporation located at 101 East Vine Street, Suite 600, Lexington, Kentucky 40507, and , an individual residing at

WHEREAS, KLC has a need for professional consulting services; and

WHEREAS, has the desired expertise and is willing to provide the consulting services needed by KLC; and

WHEREAS, KLC and wish to enter into a mutually beneficial contractual arrangement in furtherance of the business of both KLC and .

NOW, THEREFORE, in consideration of the premises stated and the mutual covenants set forth herein, KLC and agree and contract as follows:

SECTION 1. **SERVICES TO BE PROVIDED BY** .
agrees to provide to KLC during the term of this Agreement a minimum of one thousand four hundred and forty (1440) hours of professional consulting services annually. The professional consulting services to be provided by shall include, but are not necessarily limited to:

a. conducting research and producing reports and other materials to assist KLC in developing municipal policy on a variety of issues, including the modernization of Kentucky local government tax structure, the reclassification of Kentucky cities, and merger and consolidation of Kentucky city and county governments;

b. assisting KLC executive, legislative and legal staff to develop and implement specific legal, legislative and regulatory proposals designed to further Kentucky municipal policy and the overall objectives of KLC;

b. working in a cooperative manner with interest groups, associations and government agencies to assist KLC in achieving its legal, legislative and regulatory objectives;

c. working in a supporting role with KLC's legislative and regulatory affairs personnel to represent KLC's interests with state government, as needed; and

d. performing other specific assignments as determined by KLC management.

KLC and agree that the minimum number of hours – 1440 – set forth above shall be exceeded only upon approval, in writing, by KLC.

SECTION 2. <u>COMPENSATION AND EXPENSES.</u>

(a) In return for the services described in Section 1, KLC agrees to compensate at the rate of Sixty Four Dollars ($64.00) per hour during the term of this Agreement. The amount shall be paid bi-monthly (two times each month) in equal payments of Three Thousand Eight Hundred Forty Dollars and No Cents ($3,840.00). The first payment shall be due on or before November 15, 2005. The second payment shall be due on or before November 30, 2005. Thereafter, payments shall be due on the 15th day and the last day of each month.

agrees to maintain a record of hours worked in the performance of this Agreement. At the conclusion of each annual period during the term of this Agreement (October 31, 2006 and October 31, 2007), the number of hours actually worked shall be reconciled with the minimum number of hours set forth in Section 1 above. If has provided fewer than the minimum number of hours, KLC shall be reimbursed for the excess amount paid. If has provided more than the minimum number of hours, KLC shall compensate for the additional hours at the rate set forth in this subsection.

The compensation provided to under this Agreement is not intended to constitute "wages" for purposes of federal or state withholding taxes, social security payments, insurance contributions, unemployment taxes, or any like payments.

(b) KLC shall reimburse for travel and travel-related expenditures, including meals, lodging, airfare, and mileage, actually incurred in the performance of this Agreement when KLC has requested and approved the travel. All requests for reimbursement of travel and travel-related expenditures shall be accompanied by a statement detailing the expenses incurred and supported by receipts verifying the expenditures, when applicable. KLC reserves the right to reject all, or any part of, an expense reimbursement request that it deems unreasonable or not customary.

(c) KLC and further acknowledge and agree that this Agreement shall serve as an amendment of the Loan Agreement (the "previous agreement") entered into by and between KLC and effective July 1, 2002 (copy attached). Under the terms of the previous agreement, KLC has agreed to forgive, on the annual payment date each year (July 1), an installment loan payment in the amount of Thirteen Thousand Eight Hundred Dollars ($13,800), provided that continued to serve as an employee of KLC. Notwithstanding any provision of the previous agreement, including Sections 3(1) and 5(b), KLC and agree that 's performance under the terms of this Agreement, as an independent contractor, shall satisfy, in full, 's obligation under the previous agreement as if he had remained an "employee" of KLC.

SECTION 3. EFFECTIVE DATE AND INITIAL TERM. The effective date of this Agreement shall be November 1, 2005. The term of this Agreement shall be for a two-year period from its effective date through October 31, 2007, unless terminated in accordance with Section 4 of this Agreement.

SECTION 4. TERMINATION. The parties to this Agreement may terminate it for good cause only upon thirty (30) days written notice to the other party. If the Agreement is terminated under this provision, shall be compensated up to and including the effective date of termination. shall also be reimbursed for all expenses actually incurred up to the effective date of termination.

SECTION 6. RELATIONSHIP BETWEEN THE PARTIES. is an independent contractor in the performance of all responsibilities under this Agreement and shall not be considered to be an agent, employee, joint venturer or partner with KLC. All persons furnished, used, retained or hired by or on behalf of are and shall be considered employees, agents and/or independent contractors of and not KLC.

SECTION 7. ASSIGNMENT OF RIGHTS AND OBLIGATIONS. Except as otherwise set forth herein, no party to this Agreement shall assign any of its rights and obligations hereunder, unless the other party shall have given its prior written consent.

SECTION 8. OWNERSHIP OF WORK PRODUCT; ASSIGNMENT OF COPYRIGHT. The parties intend that all reports, records and documents created by pursuant to this Agreement shall be owned by KLC because the works are specifically commissioned for use by KLC as a contribution to a collective work under the work-made-for-hire doctrine and/or by assignment. In furtherance of the intent of the parties, hereby assigns all right, title and interests in any and all reports, records and documents created by in the scope of providing services hereunder to KLC and agrees to execute any and all documents and take all other actions necessary to vest full rights and ownership of such materials in KLC. agrees that, upon request by KLC or upon termination of this Agreement, shall promptly deliver any and all such reports, records or documents to KLC at its offices in Lexington, Kentucky.

SECTION 9. INDEMNIFICATION. shall defend, indemnify and hold KLC, its officers, directors, agents, and employees harmless from and against any and all claims, losses, expenses (including reasonable attorney's fees) demands or judgments for personal injury or property damage caused by as a result of 's performance under this Agreement. KLC shall defend, indemnify and hold , his officers, directors, agents, and employees harmless from and against any and all claims, losses, expenses (including reasonable attorney's fees) demands or judgments for personal injury or property damage arising from actions taken or omissions by KLC as a result of his performance under this Agreement.

SECTION 10. ENTIRE AGREEMENT. This Agreement sets forth the entire understanding of the parties regarding the transactions contemplated hereby, and merges and supersedes all prior discussions, agreements, promises, representations, warranties and arrangements of whatever kind between the parties as to the subject matter of this Agreement, and neither party shall be bound by any condition, warranty or representation relating to such subject matter other than as expressly provided for in this Agreement.

SECTION 11. AMENDMENT. No amendment or waiver of any provision of this Agreement shall be effective unless the same is in writing and signed by both parties.

SECTION 12. NOTICES. Any notice required to be given hereunder shall be hand-delivered or sent by first-class mail, postage prepaid, as follows:

If to KLC: 101 East Vine Street, Suite 600, Lexington, KY 40507.

If to :

SECTION 13. GOVERNING LAW. This Agreement shall be construed in accordance with the laws of the Commonwealth of Kentucky, and the rights, obligations, and remedies of the parties hereto shall be determined in accordance with such laws.

SECTION 14. SEVERABILITY. In the event any provision of this Agreement is held invalid or unenforceable by any court or other tribunal of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

ACCEPTED AND APPROVED:

KENTUCKY LEAGUE OF CITIES

Sylvia L. Lovely

Sylvia L. Lovely
Executive Director/CEO

July 19, 2005
DATE

July 19, 2005
DATE

ADDENDUM

The Professional Service Agreement (the "Agreement") entered into by and between the Kentucky League of Cities, Inc. (KLC) and is hereby amended as follows:

1. Section 1 is amended to read as follows: Effective June 1, 2006, 's service obligation under the Agreement shall be 30 hours per week through June 30, 2006. shall provide consulting services on the matters set forth in subsections (a) through (d) of the Professional Service Agreement. Effective July 1, 2006 through January 31, 2007, 's service obligation shall be to provide, on an "as needed" basis, no more than 7.5 hours per month of consulting services solely on the issue of local government tax modernization.

2. Section 2(a) and (b) are amended to read as follows: shall be compensated for services rendered from June 1, 2006 through June 30 2006, as set forth in Sections 2(a) and (b) of the Professional Service Agreement. Beginning July 1, 2006, through January 31, 2007, shall receive no compensation for services rendered.

3. Section 2(c) is amended to read as follows: KLC and acknowledge and agree that the Professional Service Agreement between KLC and , as amended by this Addendum, shall serve as an amendment to the Loan Agreement (the "previous agreement") entered into by and between KLC and effective July 1, 2002 (copy attached). Under the terms of the previous agreement, KLC has agreed to forgive, on the annual payment date each year (July 1), an installment loan payment in the amount of Thirteen Thousand Eight Hundred Dollars ($13,800), provided that continue to serve as an employee of KLC. Notwithstanding any provision of the previous agreement, including, without limit, Sections 3(1) and 5(b), KLC and agree that 's performance under the terms of the Agreement, as amended by this Addendum, shall satisfy, in full, 's obligation under the previous agreement as if he had remained an "employee" of KLC so that the fourth installment loan payment shall be forgiven on July 1, 2006, and the fifth and final installment loan payment shall be forgiven on January 31, 2007.

4. Section 3 is amended to read as follows: The term of the Agreement, as amended by this Addendum, shall be June 1, 2006 through January 31, 2007.

ACCEPTED AND APPROVED:

Sylvia L. Lovely

Sylvia L. Lovely
Executive Director/CEO
Kentucky League of Cities

6/02/06
DATE

5-31-06
DATE

KLC Policy on Credit Cards
(Reviewed & Revised 8/17/09)

The Kentucky League of Cities Executive Board authorizes revolving corporate credit cards to be issued to the Executive Director/CEO and any other staff members recommended by the Executive Director/CEO, with approval by the Executive Board, for use in making operational business purchases or meeting-related purchases as set forth below. The Executive Board will review the policy regarding credit card usage and credit card limits on an as-needed basis, but no less than every three (3) years.

Operational expenses include, but are not limited to, prepaid airfare, prepaid hotel accommodations, prepaid business car rental, prepaid conference registrations, other prepaid meeting-related expenses, office-related expenses, and any other non-travel related expenses. Examples include, but are not limited to, computer supplies, office equipment, etc.

Meeting-related expenses include, but are not limited to, group meals, hotel meeting rooms, unanticipated event or travel needs.

These examples are not meant to limit the credit card use for other legitimate business expenses.

Staff members issued a corporate credit card for operational or meeting-related expenses will be subject to the following conditions:

1. Only legitimate business and operational-related purchases may be charged on a corporate credit card.

2. KLC credit cards will not be used for personal expenses of any kind. In the event that an expense is determined to be personal in nature, the expense must be reimbursed immediately. The Finance Committee reserves the right to consider requiring reimbursement of a personal expense, upon review, outside of this time frame.

3. All monthly credit card statements will be reviewed by the Chief Financial Officer and the person named on the card. The reviewers will then sign each page of the statement as evidence that they accept the identified expenses as legitimate business expenses. A signed copy will then be submitted to the Finance Committee for its periodic review, at least quarterly.

Receipts detailing the business purpose, date, location, amount and persons covered by the purchase must be submitted promptly for approval.

KLC Travel and Meeting Expense Reimbursement Policy

(Reviewed & Revised 8/17/09)

Policy Purpose 2
Documentation Requirements 2
Falsification of Expenses 2
Travel Authorization 2
Conference and Meeting Registration Fees 2
Airfare and Baggage Fees 2
Car Rental 3
Mileage 3
Parking 4
Taxi/Shuttle/Public Transportation/Rapid Transit 5
Lodging/Hotel 5
Meals 5
Meeting and Group Functions with KLC Guests 6
Tips 6
Family Member/Spouse/Guest Travel 6
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Policy Purpose

The purpose of this policy is to document the allowable business expenses eligible for reimbursement. Included is additional reference information that may be useful to KLC employees in submitting employee business expense reports in order to receive timely reimbursement. If an employee is not sure how to classify a certain expense, he or she should contact the accounting department for assistance.

In certain cases, a KLC board member or other city representative may travel on behalf of KLC. Such travel must be approved by the board. These travel expenses are subject to the terms of this policy with final oversight provided by the Executive Board or Finance Committee.

Documentation Requirements

All expenses must be accompanied by a receipt or supporting documentation. The information submitted must include the business purpose, date, location, amount and persons present and covered by the purchase. Failure to provide receipt or supporting documentation will result in denial of reimbursement.

Falsification of Expenses

Submitting fraudulent receipts or falsifying your expense report will result in loss of your reimbursement privileges, termination or other disciplinary action.

Travel Authorization

Budgeted Travel

All employees, with the exception of the Executive Director, must receive approval from their supervisor prior to in-state travel. All employees must receive written approval from their supervisor prior to out-of-state travel. The completed form must be approved by Executive Management.

Exception Travel

All out-of-state exception travel not otherwise approved during the budget process for the upcoming budget year will require approval at the appropriate level from Executive Management or the Finance Committee.

Conference and Meeting Registration Fees

Registration for conferences and meetings will be performed by administrative staff unless an employee has received written permission from the Executive Director/CEO or Deputy Executive Director/COO to self-register. Every effort should be made to obtain the lowest conference or meeting fee. Employees should give administrative staff as much notice as possible to take advantage of early registration discounts.

Airfare and Baggage Fees

Airline reservations will be performed by administrative staff unless an employee has received written permission from the Executive Director/CEO or Deputy Executive Director/COO to make his or her own reservations. Every effort should be made to obtain the lowest airfare available for coach or tourist class on domestic flights, if possible. Considerations will be made for number of stops, preferred carrier, time constraints, meeting times, and layovers. An employee may use his or her personal frequent flyer miles to upgrade fares. Additional expense for first class travel or upgrades will not be reimbursed. Employees should give administrative staff as much notice as possible to take advantage of early purchase discounts. Itineraries are not valid receipts. Standard minimum baggage fees for up to two bags within weight limits will be reimbursed. Charges for extra or overweight baggage are not reimbursable unless prior written approval has been given by the Executive Staff.

Electronic tickets and paper tickets carry a dollar value. As a result, all cancelled trips must be reported immediately. To ensure that no unnecessary costs are incurred, cancellations must be made prior to the departure day and time. Related re-issuance fees are reimbursable.

Car Rental

Rental car reservations will be performed by administrative staff unless an employee has received written permission from the Executive Director/CEO or Deputy Executive Director/COO to make his or her own reservations. The following guidelines should be followed when renting cars:

Standard, full-size, mid-size, compact or economy models must be rented unless more than two persons are traveling together. Higher upgrades are allowed if transporting materials and cargo space is a factor, or if three or more persons are traveling together.

The refueling option should be taken if extensive driving is planned. If the refueling option is declined, the car must be returned with a full tank of gas.

Rental cars should be returned to the original rental location, except in extraordinary circumstances, in order to avoid costly drop-off charges.

Additional collision insurance offered by the rental company should be purchased with the rental.

Upgrades not authorized by this policy are not reimbursable.

Mileage

Whenever possible, employees must use a KLC-owned vehicle for travel. If a KLC vehicle is available and it is determined that it was reasonable under the circumstances for the employee to have used the KLC vehicle for travel, then mileage for use of the employee's privately-owned vehicle will not be reimbursed. When a KLC vehicle is not available, employees will be reimbursed for mileage when driving their privately-owned vehicles on KLC business. Transportation to and from a person's home to the assigned workplace is considered commuting miles and shall not be reimbursed. When an employee does not report to his or her permanent location (office) during the day or makes business trips before or after reporting to the permanent work location, the allowable mileage is:

1. the lesser of the mileage from the employee's residence to the first stop or from the office to the first stop;
2. all mileage between points visited on KLC business during the day; and

3. the lesser of the mileage from the last stop to the employee's residence or from the last stop to the office.

Also, mileage will not be paid to and from KLC events held outside of the workplace, unless the employee has been assigned to work at the event. Employees will be reimbursed at the mileage rate allowed by the Internal Revenue Service for business expense deductions, unless otherwise determined by the Executive Director/CEO. To receive mileage reimbursement, an employee must submit a voucher with the number of miles traveled on KLC business, the starting point and the destination, and the purpose for the travel. If an employee does any traveling of a personal nature while also traveling on KLC business, the employee must deduct the personal travel from the total miles traveled.

Mileage is not reimbursable while using company provided vehicles. Parking violations are not a reimbursable expense. Traffic citations and other moving violations are not reimbursable expenses. If an employee is involved in an auto accident while on company business, he or she should do the following:

ACCIDENT REPORTING REQUIREMENTS

Any accident involving a KLC owned, rented or leased vehicle or privately owned vehicle used in the performance of KLC duties shall be reported as follows:

- Summon medical care for any injured parties.
- Notify appropriate law enforcement authorities.
- Notify employee's immediate supervisor.
- Do not admit responsibility or fault or offer settlements.
- Cooperate with police and emergency medical personnel.
- Obtain names and addresses of witness/involved parties.
- The employee's supervisor shall be responsible for initiating any departmental investigation of the accident, completing all required KLC reports and recommending any follow-up preventative actions.

Parking

At airports, long-term parking should be used for travel. Reimbursement for short-term parking and valet fees will only be reimbursed up to the amounts equal to long term parking fees.

At hotels, parking for business-related meetings or lodging are reimbursable business expenses. When other standard hotel parking is available, valet parking will only be reimbursed up to an amount equal to standard parking rates.

All other reasonable business-related parking fees are reimbursable upon submission of a valid receipt.

Taxi/Shuttle/Public Transportation/Rapid Transit

Employees should evaluate their individual circumstances and select the safest, most economical alternative when traveling to and from all destinations.

Business-related taxi, shuttle, and public transportation expense reimbursement requests must be accompanied by a receipt.

Lodging/Hotel

Out-of state lodging and hotel reservations will be performed by administrative staff unless an employee has received written permission from the Executive Director/CEO or Deputy Executive Director/COO to make his or her own reservations. In-state lodging can be made by administrative staff or employees with supervisor approval. Reservations should be made in such a manner as to secure the best available rate. Employees should stay in safe, clean and secure accommodations as close to the meeting location as possible. Every attempt should be made to stay in the hotel hosting the conference or meeting and to pay the conference room rate.

In-room movies, room service, mini-bar, and the use of hotel gym, massage services, and sauna facilities will not be reimbursed, only usual and ordinary expenses will be reimbursed.

A copy of the hotel folio showing proof of payment is required for expense reimbursement documentation.

Meals

Except as otherwise set forth in this policy, meals purchased out of state and/or during overnight lodging will be reimbursed. Reimbursable allocation for breakfast, lunch, dinner and incidentals will be established and updated on October 1 each year by the U.S. General Services Administration at www.gsa.gov. An updated listing of these amounts will be made available from the accounting department upon request. **Employees will not be eligible for a per diem or pro-rated per diem for travel not requiring an overnight stay except as covered in meeting and group functions with KLC Guests described below**. Expenses included in the per diem rates include meals and tips. No additional amount above the federal rates identified will be reimbursed; i.e. actual meal cost reimbursements for overnight travel will be eliminated and replaced by the Federal Per Diem allowance.

Employees will be responsible for identifying the city of travel and the associated Federal Per Diem rates. Employees will receive a prorated per diem rate on both the day travel begins and the day travel ends. The rate will be based upon the employee's departure and return time, as well as the destination city, according to the schedule below:

Overnight Travel *(first & last day only)*

Time Schedule Meal Rate

Leave before 7:30 a.m. Breakfast *based upon Federal Per Diem schedule*

Travel through 2:00 p.m. Lunch

Return after 7:00 p.m. Dinner

The traveling employee is required to complete the appropriate travel forms and provide detailed information relating to the trip. As a matter of convenience, an employee can submit for reimbursement of a group meal check for all other employees present if the dining establishment is unable to provide individual checks. KLC will not reimburse a meal per diem allowance for any meal that is included in a registration fee for a conference or is subject to a Meeting and Group Function as set forth below. No receipts are required for reimbursement using the federal per diem rate.

Meeting and Group Functions with KLC Guests

Executive Management or employees receiving prior written approval from Executive Management will be reimbursed for reasonable business expenses incurred in meetings with guests of KLC. Reimbursement will be for official business expenses incurred by the guests and employees. It is the responsibility of each employee to use good judgment to ensure that meeting expenses are budgetarily sound and are compatible with the goodwill of KLC. Receipts detailing the business purpose, date, location, amount and persons present and covered by the purchase must be submitted with the expense report. This information should be written on the front or back of the receipt itself and on the expense report. Personal entertainment expenses will not be reimbursed for employees traveling on business without KLC guests.

Tips

Meal tips may not exceed 20% of the cost of the meal. Baggage handling at hotels should not exceed $2.00 per bag handled. Baggage handling at airports should not exceed the curbside required fee plus $2.00 per baggage handled. Valet tips should not exceed $2.00 per cab hailed and $3.00 per vehicle retrieved from valet parking. Concierge assistance tips should not exceed $3.00 per task handled. Where hotel housekeeping tips are appropriate they should not exceed $3.00 per day per room. Tips must be itemized on the expense report.

Family Member/Spouse/Guest Travel

When a family member/spouse/guest joins an employee on official travel, the employee will be responsible to pay all travel costs, including airfare and meals. For certain events it may be reasonable and customary for a family member/spouses/guests to attend the event and their attendance may provide benefit to KLC, and in such situations spouse/guest travel may be reimbursed if prior approval is obtained by Executive Management or the Finance Committee.

Non-Reimbursable Expenses

Except for travel-related expenses set forth above, all other travel-related expenses are deemed non-reimbursable unless approved in writing by the Executive Director/CEO or Finance Committee.

Travel & Expense Reimbursement

All allowable travel-related expenses paid by the employee should be submitted for reimbursement. Travel & Expense Reimbursement Forms are due monthly within 15 days of the end of the month that the expense was incurred.

Travel Advances

In case of extreme financial hardship, an advance for out-of-state travel may be granted by the Executive Director/CEO. However, advances should be rare and only due to extreme circumstances. The request must be made in writing with ample time to approve and process an advance check. When submitting an expense report, the advance must be deducted from the total expenses and employee must submit a check for any remaining amounts owed to KLC.

Expense Reports and Approval Requirements

Business expenses may be charged to KLC on a credit card issued to the employee, or paid for from the employee's private funds and reimbursed upon the submission of appropriate documentation. Regardless of the method, an employee must submit, receipts, vouchers or other documentation with a completed expense report signed by a supervisor to the KLC employee assigned the responsibility of reviewing, compiling and maintaining business expense information. The information submitted must include the business purpose, date, location, amount and persons present and covered by the purchase. Credit card statements will not be accepted as evidence of a receipt.

All expense reports must be approved and signed by an immediate supervisor and then submitted to accounting within 15 days after the end of the month in which the expense was incurred.

The Executive Director/CEO's expense report must be submitted to the Chief Financial Officer and signed by the Chair of the Finance Committee.

KLC reserves the right to withhold reimbursement while it investigates or verifies expense report reimbursement requests.

Work Conduct
(Code of Ethics/Conflict of Interest Policies for Employees)
(Revised 8/17/09)

The following policies are to be supplement or revise the current KLC Employment Policies relating to Work Conduct in the current version of the KLC Employee Handbook (version 2006-2007) (pp. 37-46)). The only policies to be updated are listed below. All other policies in the Work Conduct section remain unchanged.

Standards of Performance and Conduct

Each employee of the Kentucky League of Cities is a representative of the League, both internally with co-workers and externally with members, contractors, business associates, affiliates, legislators and others. As a representative of the League, each employee is expected to act professionally, honestly, ethically, courteously and with integrity in all business transactions and interpersonal interactions while at work or on behalf of the League.

KLC expects all employees to conduct themselves in a professional, mature, and lawful manner. Employees must comply with established rules, regulations, policies, procedures, and directives; and the failure to do so will ultimately result in disciplinary action. In an effort to avoid misunderstandings about the types of conduct that must be avoided, a non-exhaustive list of specific infractions is provided below purely for informational purposes as a general guide for employees.

Unexcused tardiness

Unexcused absenteeism

Failure to perform an assigned task, to meet a deadline, or otherwise follow an instruction or directive

Insubordination

Misuse of leave

Unintentional violations of policy or procedure

Discourteous attitude toward the public or other employees

Theft or embezzlement of KLC or city property or assets

Use, possession, sale or transfer of illegal drugs, or being under the influence of illegal drugs in any manner that may impair the employee's ability to perform assigned duties or that may adversely affect KLC's business or reputation

Use of, or being under the influence of, alcoholic beverages during office hours

Personal behavior, whether on or off-duty, which is of major embarrassment to KLC and likely to damage the public reputation of the organization, or which is injurious to the interests of fellow employees

Repeated intentional disregard of these policies

Falsification of records

Invasion of another employee's privacy

Assault or fighting

Conviction of a serious criminal offense which jeopardizes or is injurious to KLC's property and security, its public reputation, or the interests of other employees, or which is incompatible with the due and faithful discharge of duties and responsibilities

Sexual or nonsexual harassment
Willful refusal to follow instructions, rules, regulations, policies, or to accept assignments

Horseplay or pranks which threaten the safety and security of the workplace or are offensive to other employees

Conflict of Interest

1. Employees must avoid taking any action that would result in or create the appearance of:
    - Using a KLC position for private gain
    - Giving preferential treatment to any organization or person outside the boundaries of a formal agreement
    - Impeding KLC efficiency or economy for private gain or on behalf of another organization or entity
    - Losing independence or impartiality of business decisions and actions
    - Making a decision outside official channels

2. Prior to entering any agreement, Employees must disclose to the Executive Director/CEO, in writing, to be forwarded to the appropriate Finance Committee or Executive Board:
    - Any personal financial interests, directly or indirectly, that conflict or appear to conflict with Employee's KLC duties and responsibilities;
    - Any personal financial transactions that result from relying on information obtained through Employee's KLC employment; or
    - Any acceptance of employment or compensation from any League members, contractors, supplier or vendors.

- For purposes of this paragraph, disclosure by Employee should also be made for any immediate family members, defined as a spouse, parent, grandparent, grandchild or child, who may benefit from any agreement as described in this subsection.

3. Employees shall not use League property for personal financial gain, or to advance political, social or religious causes.

4. Employees shall notify the Executive Director/CEO in writing of any potential conflicts of interest and/or any financial interest in any company or firm that does business with KLC, any entity that is organizationally related to KLC, or any Kentucky city. Notifications received from employees shall be forwarded by the Executive Director/CEO for review and action by the Executive Board. The Executive Director/CEO shall likewise provide notification to the appropriate Finance Committee in writing, of any potential conflicts of interest and/or any financial interest he or she may have in any company or firm that does any business with KLC, any entity that is organizationally related to KLC, or any Kentucky city.

   No employee shall enter into any personal contract with any company or firm doing business with KLC, any entity that is organizationally related to KLC, or with any Kentucky city without prior written approval of the Executive Board or other appropriate governing body of any entity organizationally related to KLC, for example Kentucky League of Cities Insurance Services Board. The Executive Director/CEO shall notify the Executive Board of any action taken by any organizationally related board.

5. All employees must annually complete and submit a KLC financial disclosure/conflict of interest form. In addition, employees have an affirmative duty to update the financial disclosure/conflict of interest form throughout the year as potential conflicts may arise.

Reporting Code of Ethics and/or Conflict of Interest Violations

An employee who becomes aware of a violation, or suspected violation, of the code of ethics or conflict of interest policy should report the violation promptly to one of the following: the Director of Human Resources; the employee's supervisor; any other supervisor with whom the employee feels comfortable discussing the matter; the General Counsel; the Deputy Executive Director; or Executive Director/CEO. All reports of ethics or conflict of interest policy violations will be kept confidential to the extent feasible and appropriate under the circumstances. Further, if an employee makes such a report, the employee will not be discriminated against or be subject to retaliation in any way for having made the report. Any person found to have discriminated or retaliated against an employee who makes a complaint shall be subject to disciplinary action.

All reports of a violation, or suspected violation, of the code of ethics or conflict of interest policy shall be reduced to writing by the reporting employee or by the person receiving the report. The report shall be signed by the complaining employee. All reports shall be reviewed and investigated. The violation will be investigated by one (1) or more members of the management staff designated by the Deputy Executive Director or the Executive Director/CEO. The results of the investigation will be communicated to the complainant and the alleged policy violator.

Any employee found to have engaged in misconduct constituting a violation of the conflict of interest or code of ethics policy will be appropriately disciplined, up to and including dismissal. Similarly, any employee found to have discriminated or retaliated against an employee who files a complaint will be appropriately disciplined, up to and including dismissal.

An employee may speak directly to any member of the Executive Board about a suspected violation of this policy if the employee has reported fraud or illegal activity relating to a conflict of interest or code of ethics violation within the League to members of management without result.

Gifts

1. Employees shall not solicit or accept a gift from any person, corporation or entity that has, or is seeking to obtain, a contractual or other business or financial relationship with the League. "Gift" means money, real or personal property, a service, a loan, a forbearance or forgiveness of indebtedness or a promise of future employment, that is given and received without the giver receiving consideration of equal or greater value in return. The following are exceptions to this prohibition:

    - Employees may accept unsolicited advertising or promotional material, trinkets and mementos of less than $100 in value such as pens, pencils, notepads, and calendars.
    - Employees may accept professional services that assist them in the performance of their job duties, such as advice, consultation, information and communication in connection with services to member cities.
    - Services or tangible items of less than $100 in value;
    - A plaque or similar memento recognizing individual services in a field of specialty or to a charitable cause;
    - Any gift given because of the employee's membership in a group, a majority of whose members are not local officials, and an equivalent gift is given or offered to the other members of the group;
    - Any gift given by a family member of the employee, even if he or she has a contractual, financial or other business relationship with the League, unless the gift is given on behalf of an individual or organization that has or is seeking to obtain, a contractual, business, or other financial relationship with the League; or

2. All KLC personnel shall report to the Executive Director/CEO, the Deputy Executive Director, or designated management staff any gift from a vendor with a fair market value of $100.00 or more that is offered to or received by the employee. The employee shall obtain the approval of the Executive Director/CEO or the Deputy Executive Director before finally accepting any gift valued at more than $100.00. Any item offered may be accepted for KLC.

Name	2006-07	2007-08	2008-09
ACE Public Entity	$25,000.00	$10,000.00	$15,000.00
ACS Government Systems	1,500.00		
Adams, Stepner, Woltermann	10,000.00	10,000.00	10,000.00
American Legal Publishing	1,500.00		
Angela Greene & Assoc	1,500.00	1,500.00	
Anthem BCBS	1,500.00		
Bell, Orr, Ayers, & Moore	2,500.00	2,500.00	
Bidbridge			1,500.00
Bowles Rice McD Graff	2,500.00	2,500.00	2,500.00
Bridgeway Medical LLC	5,000.00		5,000.00
Buxton Company	1,500.00		1,500.00
CDP Engineers, Inc	1,500.00		1,500.00
Central Bank & Trust Co.	10,000.00	10,000.00	10,000.00
CMI		1,500.00	
Codell Construction	1,500.00		1,500.00
Collins & Co.	10,000.00	10,000.00	10,000.00
Commonwealth Communications Sys	1,500.00		
Community Trust		6,702.55	9,919.43
Credit Bureau Systems, Inc.	1,500.00		
CSC	5,000.00		
D.I.S.C.			1,500.00
Dean, Dorton & Ford PSC	1,500.00		
Denton & Keuler	5,000.00	5,000.00	5,000.00
Eckman/Freeman & Assoc	1,500.00		
Elite Printing		1,500.00	
Fifth Third Bank	10,000.00		
First KY Securities Corp	1,500.00	1,500.00	10,000.00
Frost Brown, Todd LLC	2,500.00		2,500.00
Greenebaum, Doll & McDonald			1,500.00
GRW Engineers	1,500.00		1,500.00
Hall & Clark Insurance Agency		5,000.00	5,000.00
Howard K. Bell Counsulting	1,500.00	1,500.00	1,500.00
IMI South, LLC			1,500.00
Integrity HR, Inc.			1,500.00
Johnson Controls	2,500.00		2,500.00
JP Morgan	5,000.00	5,000.00	
Kentucky American Water			5,000.00
Kentucky Ready Mix Co	1,500.00	1,500.00	1,500.00
Kerrick, Grise, Stivers, Coyl	2,500.00	2,500.00	2,500.00
KVS Information Systems		1,500.00	1,500.00
Landrum & Shouse	2,500.00	2,500.00	2,500.00
Meraki, Inc.			1,500.00
Mountjoy & Bressler, LLP	2,500.00		
Munich RE		5,000.00	7,500.00
Municipal Revenue Solutions			1,500.00

Name	2006-07	2007-08	2008-09
National Workwear			1,500.00
Paul Miller Ford Inc	5,000.00	5,000.00	
Peck, Shaffer, Williams	5,000.00	5,000.00	5,000.00
Peel & Holland, Inc		1,500.00	1,500.00
PinPiont Geo Tech			1,500.00
Practical Actuarial Solution	2,500.00	2,500.00	2,500.00
QK4	1,500.00	1,500.00	1,500.00
Quench USA			1,500.00
Quest Engineers, Inc	1,500.00	1,500.00	1,500.00
Radiant Newtorks	1,500.00		
Revenue Discovery System	2,500.00		
Sanderson CMI	1,500.00		
SinglePipe Communication		1,500.00	
Software Solutions Inc	2,500.00	1,500.00	1,500.00
Sophicity			1,500.00
Springbrook Software		1,500.00	
Strand Associates	1,500.00		
Stringfellow, Inc.			1,500.00
Sturgill, Turner, Barker & Moloney	2,500.00	2,100.00	5,000.00
Sweeney & Fiser, PLLC		1,500.00	1,500.00
Taft Stettinius & Hollister			1,500.00
The Gibson Company			2,500.00
Titon Energy	2,500.00		
Tracz & Associates		2,500.00	
Tyler Technolgies	1,500.00		
US Bank Corporate Trust	5,000.00	5,000.00	5,000.00
Voltaic Solar		1,500.00	
Walther, Roark, Gay & Todd PLC		2,500.00	2,500.00
Wilbur Smith Associates		1,500.00	1,500.00
Wildan	2,500.00		
Totals	**$164,000.00**	**$125,302.55**	**$166,419.43**

Kentucky League of Cities, Inc. Executive Board Chairman Examination Response and Other Individual Executive Board Member Responses They Requested to be Included

KLC

Officers
President: Mayor Michael D. Miller, City of Jackson
First Vice President: Mayor Elaine Walker, City of Bowling Green
Second Vice President: Mayor William Paxton, City of Paducah
Immediate Past President: Mayor Connie Lawson, City of Richmond

Executive Staff
Executive Director/Chief Executive Officer: Sylvia L. Lovely
Deputy Executive Director/Chief Operating Officer: Neil S. Hackworth

December 15, 2009

The Honorable Crit Luallen
Auditor of Public Accounts
209 St. Clair Street
Frankfort, KY 40601-1817

RE: KLC Examination Report

Dear Ms. Luallen:

On behalf of the Kentucky League of Cities (KLC), please accept this letter in response to the (Draft) Examination of Certain Financial Transactions, Policies and Procedures of the Kentucky League of Cities, Inc. We appreciate the opportunity to provide this initial feedback to the findings and recommendations associated with the report, as well as the additional opinions expressed in it. And we appreciate that our response will be reflected as part of the public record.

As president of KLC, it is my responsibility to move our organization beyond what has been a tumultuous year by many accounts. Because KLC has a commitment to continuous improvement, we were open to the examination by your office.

For decades, KLC, which is a membership association, has enjoyed a positive reputation among its stakeholders including our municipal members and legislators. Yet, we know we have room for improvement.

The report's findings are serious. We have a fluid board and some current members of the Executive Board have said that some findings were new to them. We have already addressed many of the report's findings and cannot say that we agree that it paints a wholly accurate picture of the organization. That said, we plan to take the weeks and months ahead, beginning in early 2010, to comprehensively review the contents and seriously address all of your findings with the KLC Board and members.

The report, as well as the very public discussions during the last seven months about KLC policies and practices, has provided us hard lessons, as well as important revelations. As an organization, we had become complacent in assessing some of our own internal operations.

As your report points out, a wide range of past operational, management and financial practices should be carefully reviewed. Though we still have work ahead of us, we are making progress. Some significant steps have been taken during the last several months.

www.klc.org
100 East Vine Street, Suite 800, Lexington, Kentucky 40507 Tel. 859.977.3700 or 800.876.4552 Fax 859.977.3703

KLC
Kentucky League of Cities

The Honorable Crit Luallen
Page 2
December 15, 2009

In July 2009, KLC established a task force comprised of board members to address policies, procedures, spending and finances. Subsequently, a compensation task force was established to examine KLC executive salaries. Of course, KLC is in the process of searching for a new executive director/CEO.

In August, using your "28 Recommendations for Public and Nonprofit Boards" as a reference, KLC established or revised policies pertaining to board code of ethics, board conflict of interest, employee code of ethics/conflict of interest, KLC credit cards, KLC travel and meetings, expense requirements, employment of relatives, compensation review, alcohol reimbursement and company vehicles. We eliminated a substantial number of credit cards.

The task forces will continue to review various KLC practices, utilizing the report– as well as your "28 Recommendations" – as a guide. We have also established new policies for KLC travel and expense reimbursement that clearly define allowable costs related to lodging, meals, entertainment, rental cars and air fare. And strict rules and limitations are now in place regarding spouse travel.

As recommended in your report, the Executive Board is assessing how best the NewCities Institute can complement the mission of KLC for the betterment of KLC members. I look forward to discussions with the esteemed NewCities Board of Directors and others to consider its future direction.

We have followed the request of the Kentucky Department of Insurance (KDOI) and adopted a more distinct separation between KLC and the Kentucky League of Cities Insurance Services (KLCIS), our robust insurance pool and its related services, and we will continue to work with KDOI to refine our structure in an appropriate manner. KLC is complex and multi-faceted with eight organizations under one roof. They include KLC, KLC Premium Finance Company, KLC Insurance Agency, KLC Workers' Compensation Trust, KLC Insurance Services (Liability and Property pools), KLC Unemployment, the NewCities Institute and Intercompany Revenues and Expenses.

Operational aspects of our not-for-profit membership association (KLC) differ from our enterprise programs such as our insurance or finance ventures. As such, some issues raised in the report are necessary business actions in the competitive insurance marketplace.

While we have made a number of significant changes, what won't change is our organizational commitment to running our businesses in the best interest of our members.

We have many reasons to be proud of KLC and as you point out, we have reasons for concern and further action. Our voluntary board consists of individuals who represent the needs of cities large and small. Opinions vary, as do individual strengths on our board. As president, I assure you that this combination will provide healthy and ongoing debate on all aspects of KLC, its oversight, operations, procedures, policies, purchases and expenditures.

We have used this recent period of self-examination to get input from those who matter most – our members.

KLC embraces a culture of change. Your findings and opinions give us definitive points of clarity in areas integral to our organization and further inspire us to continuously improve our measurement systems.

This has been a year of intense reflection for our boards and staff. It is my commitment to make 2010 a year of new leadership and realignment of our member mission. In the future, KLC will not only provide enhanced responsibility and accountability but also a culture of candor with our stakeholders and with the public.

Thank you for helping us make KLC and our affiliate businesses better and stronger. We look forward to any further comments or questions by you or your staff immediately or in the future.

Sincerely,

Michael D. Miller

Michael D. Miller
President, Kentucky League of Cities
Mayor, City of Jackson

December 16, 2009

Ms. Crit Luallen
Auditor of Public Accounts
209 St. Clair Street
Frankfort, KY 40601-1817

Dear Ms. Luallen:

This letter is in regards to the recently completed audit your office conducted for the Kentucky League of Cities (KLC).

As members of the KLC Executive Board, we do not feel that Mayor Miller's response adequately addresses the concerns which have been raised by the audit. The pattern of questionable practices by individuals associated with the Kentucky League of Cities is disturbing. It is also disturbing that as an Executive Board member, we were not made aware of these activities.

Each of the audit's 30 findings should be acknowledged and your recommendations addressed.

Unfortunately, there are some members of the Executive Board who do not believe the practices identified to be significant. An example is the comment in the KLC response letter that practices you discovered are "necessary business actions in the competitive insurance market."

We do not see where having questionable associations with third party insurance vendors and staff taking trips paid by such vendors as a necessary business activity.

There are more examples of inappropriate activities and relationships you have discovered.

Others on the Executive Board have expressed their concerns over these audit findings. You will most likely hear from those Mayors.

On behalf of our cities, thank you and your staff for preparing the Examination of Certain Financial Transactions, Policies, and Procedures of the Kentucky League of Cities.

Further, please be advised the Frankfort Board of City Commissioners shares the concerns mentioned in this letter.

Even though the KLC Executive Board has made progress the last several months, there is still work to be done. We are committed to using your recommendations to complete the work that remains to be done to improve KLC.

Sincerely,

Tony Massey
City Manager
City of Frankfort

Jim Newberry
Mayor
Lexington-Fayette Urban County Gov.

CC: Frankfort City Commission
KLC Executive Board President Mike Miller

Luallen, Crit (APA)

From: Diane Whalen [Diane.Whalen@Florence-KY.gov]
Sent: Tuesday, December 15, 2009 4:39 PM
To: mayor-mike@bellsouth.net; Anthony Massey; bozie6; Jim Newberry; Lawson, Connie
Cc: Luallen, Crit (APA)
Subject: Response to draft auditors report

Dear Mayor Miller,

Since the full Executive Board was not asked to participate in drafting the response, I want to thank you for forwarding us the proposed response to the auditor's report on Kentucky League of Cities, however I don't really see where it offers much in the way of substance or recognition of the many serious issues still facing KLC.

If, as you state in the letter, we are interested in running our KLC businesses in the best interest of our members, then many additional changes are needed both to the organization and to the culture that has been created.

It's been said that if we keep doing what we have always done, we will keep getting what we have always gotten. I believe that our cities and our residents expect and deserve much, much more from us all, and that accountability to those members has to be foremost in our process.

It is important that we step up and lead this organization, and not let the organization lead us.

Sincerely,

Diane Whalen
Mayor of Florence, Kentucky

City of Midway
P.O. Box 4275
Midway, Kentucky 40347-4275

Tom Bozarth, Mayor

December 16, 2009

Honorable Crit Luallen
Auditor of Public Accounts
209 St. Clair Street
Frankfort, KY 40601

Dear Mrs. Luallen,

As Mayor of Midway I understand the importance of the Kentucky League of Cities services to a small city. We get more benefit from the Kentucky League of Cities services than we pay in membership dues. It is a great organization that has made a difference on cities across Kentucky.

I have been on the Kentucky League of Cities Executive Board for less than a year. I have an obligation as a board member to do what I think is right for our organization and member cities and voice my concerns accordingly.

We have some serious issues facing the Kentucky League of Cities that have been brought forward in the audit. Some of these issues have been addressed and others need to be addressed in a timely manner.

In the audit there are numerous references that the Executive Board needs to have greater oversight in the operations of the Kentucky League of Cities. Executive Board members have not been informed on certain Kentucky League of Cities matters. This has been evident reading the auditor's report.

There is a culture that needs to be changed to make the Kentucky League of Cities a greater organization for it's members.

There are changes that need to be made. With your leadership and the involvement of the Executive Board our member cities will be looking for change to be made.

Sincerely,

Tom Bozarth

Tom Bozarth
Mayor
City of Midway

Council Members
Sandra M. Cooke, Doris J. Leigh, Aaron Hamilton, Diana Queen, Sharon Turner, Charlann Wombles
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