

**EXAMINATION OF CERTAIN POLICIES,
PROCEDURES, CONTROLS, AND
FINANCIAL ACTIVITY OF THE
CITY OF BARBOURVILLE**



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TRANSMITTAL LETTER

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

January 7, 2014

David Thompson, Mayor
City of Barbourville
P.O. Box 1300
Barbourville, KY 40906

Dear Mayor Thompson:

The Auditor of Public Accounts (APA) has completed an examination of the City of Barbourville (City). Our office received concerns related to specific activities and transactions that could indicate possible mismanagement leading to noncompliance with City ordinances or state law. This letter summarizes the procedures performed and communicates the results of those procedures.

The APA reviewed certain activities for the period July 1, 2007 through August 31, 2013. The procedures performed include reviewing expenditure transactions, contracts, bid procedures, payroll, and other policies and procedures. In addition, our review consisted of interviews with various staff, management, and contractors of the City.

The purpose of this review was not to provide an opinion on financial statements, but to ensure appropriate processes are in place to provide strong oversight of City operations and to review specific issues brought to our attention.

Detailed findings and recommendations are attached to this letter to assist all parties involved in improving procedures and internal controls. Overall, these findings indicate significant weaknesses in procedures impacting the operations of the City. These weaknesses indicate increased risks of waste, fraud, or abuse of City resources, and should be taken seriously.

Due to the circumstances identified during this examination, this report is being referred to the Kentucky Office of the Attorney General, to the City Council for forwarding to the Cumberland Valley Regional Board of Ethics, to the Kentucky Department of Revenue, and to the Kentucky Cabinet for Health and Family Services. In addition to the findings, your management responses to the findings are included.

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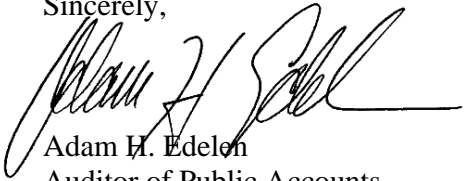
AN EQUAL OPPORTUNITY EMPLOYER M/F/D



David Thompson, Mayor
City of Barbourville
January 7, 2014
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If you have any questions, contact Libby Carlin, Assistant Auditor of Public Accounts or me.

Sincerely,

A handwritten signature in black ink, appearing to read "Adam H. Edelen". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Adam H. Edelen
Auditor of Public Accounts

c: City Council Members, City of Barbourville



**EXAMINATION OF CERTAIN POLICIES, PROCEDURES, CONTROLS,
 AND FINANCIAL ACTIVITY OF THE CITY OF BARBOURVILLE**

Examination Objectives

On July 8, 2013, the APA sent a notification letter to the Barbourville City Council and Mayor, indicating the APA would conduct an independent examination of selected financial policies, accounts, transactions, and other activities of the City. The letter stated, “given concerns brought to the attention of this office, the APA has a responsibility to perform an independent examination of the city to ensure that the public’s money is being accounted for and spent in the best interest of the taxpayers.”

City of Barbourville Background

Located in Knox County, the City of Barbourville is a fourth class city organized and governed under the mayor-council plan of city government, and is comprised of the Mayor and six City Council members. The City has a Recreation Board that is responsible for the care and management of all parks and playgrounds within the limits of the City. Also, the City has a Tourism Commission that promotes recreation and tourist activity within the City. The City employs a Street Superintendent who is responsible for overseeing the street department, including maintenance of City buildings and properties, City streets, and infrastructure and grant projects. A Recycling Center is also located on City property for the collection, processing and removal of recyclable materials.

Findings and Recommendations

Finding 1: Multiple expenditures were co-endorsed by the Mayor and the Mayor’s wife. During the examination, auditors identified 183 checks, totaling \$38,585, in which checks made payable to City contractors or employees, were co-endorsed by the Mayor or the Mayor’s wife, or both, from the General Fund, Recreation Fund, and Tourism Commission Fund. These checks were either cashed or deposited

into the Mayor’s personal bank account. City expenditures paid to contract workers and a vendor were supported by invoices and purchase orders issued by the Street Superintendent or Mayor.

Recommendation: We recommend the Mayor and his wife immediately cease the practice of cashing checks for City employees and contractors. Also, the City should implement policies that prohibit employees, including the Street Superintendent, from creating billing information on behalf of vendors and contractors.

Finding 2: The City should ensure expenditures are necessary and reasonable. Recurring payments from the General Fund and Recreation Fund were made to a general contractor, a plumber, and an electrician for work that could be performed by Street Department employees. Payments to a welder and automobile mechanic were for repetitive equipment repairs.

Recommendation: We recommend the City ensure bids are obtained for all expenditures as required by statute and City ordinance. Internal controls should be strengthened to ensure all costs necessary to carry out the public purposes of the City are reasonable in amount, and documented in sufficient detail.

Finding 3: Internal controls over expenditure documentation should be strengthened and improved. During the examination, we identified numerous contractor invoices prepared by the Street Superintendent. Invoices or other supporting documentation were not signed by the contractors to confirm accuracy.

Recommendation: We recommend the City review expenditure policies and internal controls to ensure all invoices for goods or services be created and submitted by the contractor performing the work.

Finding 4: Community service time sheets submitted to the Commonwealth's Cabinet for Health and Family Services are grossly overstated and not accurate. Timesheets and weekly time logs completed by the Mayor and submitted to the Cabinet for Health and Family Services and the Cabinet's contracted placement agency were grossly overstated and are not accurate. Further, auditors identified concerns of the possible conflict of interest related to the Mayor's oversight of the KTAP participants, and the enrollment of participants' children in the Mayor's wife's child care facility.

Recommendation: We recommend the City design and implement stronger internal controls for the recording, verification, and reporting of community service time sheets. This finding will be referred to the Cabinet for Health and Family Services, to the City Council for forwarding to the Cumberland Valley Regional Board of Ethics, and the Kentucky Office of the Attorney General.

Finding 5: The Mayor should not be a member of the Recreation Board or Tourism Commission. Based on review of Recreation Board minutes and Tourism Commission minutes, the Mayor is considered a member of both entities. The Mayor serving as a member of these entities while being Mayor is prohibited by law.

Recommendation: We recommend the Mayor remove himself from the position of Recreation Board member and Tourism Commission member.

Finding 6: The memorandum of agreement for water park and ball park concession management should be reviewed by the ethics board. For the summers of 2007 through 2012, the Water Park was managed by the Mayor's wife. While the Mayor's wife sought the position of contract concessionaire, the Mayor appears to have had an obligation under the City's Code of Ordinances to remove himself from the hiring process, but did not.

Recommendation: We recommend the Mayor recuse himself from all activities of the City for which a potential conflict of interest exists due to his personal or financial relationships with the individual or business. Also, the contract between the Mayor's wife

and the Recreation Board should be reviewed by the City Council for forwarding to the Cumberland Valley Regional Board of Ethics.

Finding 7: Water Park season and daily passes are routinely authorized by the Mayor and others free of charge. During a visit to the Water Park, a copy of the manual listing of season passes was obtained. This listing noted multiple season passes were authorized by the Mayor, the Mayor's wife, and the Street Superintendent. Additional records indicate daily passes were also granted at the discretion of the Mayor.

Recommendation: We recommend the establishment of guidelines and limitations for the issuance of free passes.

Finding 8: Water Park and Ball Park concession revenues, expenditures, and concession prices were not reported to the Recreation Board. Beginning in the summer of 2009, the Mayor's wife was responsible for providing monthly financial reports and annual concession prices to the Recreation Board for review. A review of records determined that a complete statement of concession revenues and expenditures was not provided for any months or years of operation. In addition, no concession price listings could be identified through a search of Recreation Board minutes.

Recommendation: The Recreation Board should provide adequate oversight for all agreements and contracts to verify requirements are fulfilled as intended, and amounts reported are complete and accurate. The Mayor should recuse himself from overseeing any agreement or other business of the City in which a potential conflict of interest exists.

Finding 9: Restaurant tax returns for Water Park and Ball Park concession revenues were not reported timely. While the Mayor's wife operated the Water Park and Ball Park concessions, restaurant tax should have been collected and reported to the City. Auditors were unable to determine if all returns were properly filed or confirm whether the returns filed reported the appropriate amount of revenues collected from the Water Park and Ball Park.

Recommendation: We recommend the City provide adequate oversight for monthly tax revenue due. The Mayor should recuse himself from activities that would create a potential conflict of interest.

Finding 10: Sales tax returns were not filed for Water Park and Ball Park concession revenues. No sales tax returns were filed with the Kentucky Department of Revenue for any year of operation for the Water Park or Ball Park concessions when the concessions were managed directly by the Recreation Board or the period when concessions were operated by the Mayor's wife.

Recommendation: We recommend the Recreation Board take steps to ensure sales tax returns are filed for concession revenues collected by the City or contracted concessionaires. This finding is being referred to the Kentucky Department of Revenue.

Finding 11: Concessionaire reimbursed payroll expenses for 2012 appear understated. During the examination, auditors reviewed time cards for concession employees for the period May through September 2012. We noted multiple instances in which time cards record no or few, paid employees present in the concession stand.

Recommendation: We recommend the Recreation Board provide adequate oversight for all agreements and contracts to verify requirements are fulfilled, including accurate payroll reimbursements. This finding will be referred to the Kentucky Office of the Attorney General.

Finding 12: Internal controls should be strengthened over Water Park equipment. A listing of equipment and supplies at the Water Park was not maintained. Beginning in the summer of 2013, the new Water Park Manager created a list of these items.

Recommendation: We recommend a detailed inventory list of equipment and supplies be maintained and updated periodically through physical counts by Water Park personnel, and periodically checked by a City employee.

Finding 13: The City should collect RV rental fees consistently and ensure utilities are properly paid. During the site visit, auditors counted the number of RV's present and documented occupied rental sites. Rental fees had been properly paid for all RV's on site, with two exceptions – the RV Park Host, who is not required to pay rent as a condition of employment, and the Street Superintendent. Additional review identified a camper parked on private property, adjacent to the RV Park. However, it appears the camper was connected to electricity provided at a nearby utility pole. The electric meter the camper uses is included on the bills paid by the City. Auditors were not able to confirm if the camper owner remitted reimbursements because confirmation requests sent to the camper owner were not returned.

Recommendation: We recommend the City collect all RV campsite rental fees and ensure expenses incurred by the City for utility service are solely for the benefit of City operations.

Finding 14: Rental payments for the Old Town General Store building were suspended. The City makes the Old Town General Store building available for rent by local businesses. The Mayor signed an attachment to the original lease agreement, which stated that roof repairs were necessary and the monthly rent is waived until the roof can be repaired.

Recommendation: We recommend the Recreation Board ensure all agreements impacting the Recreation Fund are in the best interest of the taxpayers. There should be a fixed rental costs associated with the building and rent should be charged fairly and consistently for all tenants.

Finding 15: The City did not receive vending machine revenue from May 2007 through April 2013. Although purchases were properly made from the bottling company as required by both agreements, no vending machine revenues were recorded by the City from May 2007 through April 2013.

Recommendation: We recommend the City abide by all vending contracts, and implement appropriate procedures to ensure all vending machine revenue is remitted to the City.

Finding 16: Internal controls over aluminum sales at the Recycling Center are not sufficient. Since the City began receiving payments for the sale of recyclable materials in January 2010, the City has received payment for aluminum only three times. The examination determined controls to document the amount of recyclable materials collected and baled at the Recycling Center, or sold to the Lexington recycling company are weak.

Recommendation: We recommend the City implement internal controls over recyclables to ensure the City receives all associated revenues.

Finding 17: The City did not receive revenue from the sale of metal appliances collected by the Street Department. The City Street Department collects unwanted appliances from residents free of charge. These items are delivered by the Street Department employees to the local metal recycling business, where they are sold for cash. However, auditors found no revenues recorded for the sale of metal appliances collected by the Street Department.

Recommendation: We recommend the City implement internal controls to ensure metal appliances collected by the Street Department are adequately controlled, and proceeds from subsequent sales are remitted to the City and properly recorded.

Finding 18: The City should advertise for bids on all purchases over \$20,000. The City paid an asphalt company and a gasoline wholesaler over \$20,000 without advertising a request for bids. The City did not advertise or request bids for these purchases, nor did the City obtain agreements with these vendors establishing a pre-determined price per unit.

Recommendation: We recommend the City implement monitoring procedures to ensure all expenditures over \$20,000 are properly bid, as required by KRS and local ordinance.

Finding 19: Advertised bids specifications were unnecessarily restrictive and advertisement did not meet ordinance requirements. The City purchased two used vehicles for the City Police Department, in which advertisements were unnecessarily restrictive.

Recommendation: We recommend the City refrain from unnecessarily restricting bid specifications.

Finding 20: Repairs and remodel of the H.H. Owens home lacked effective oversight. Bids for the renovation and remodel of the H.H. Owens Home were received at the Barbourville Tourism Office until March 27, 2009. The bid was awarded to the lowest bidder, despite the bid being dated after the bid deadline. A change order increased the project costs. Although the general contractor received final payment on June 28, 2010, subsequent expenses incurred by the Tourism Commission suggest the project was not complete.

Recommendation: We recommend the Tourism Commission take efforts to ensure internal controls operate as designed. Expenditures should not be paid until projects are complete and properly authorized. Projects and services should be adequately monitored for sufficient and quality completion.

Finding 21: Bids related to the Civil War Interpretive Park lacked effective controls. The Tourism Commission advertised for bids for decorative aluminum fencing. Based on information available to auditors, bids from both vendors provided comparable materials, and the high bidder was awarded the contract. No documentation was presented to justify the decision to reject the low bid.

Recommendation: We recommend the Tourism Commission implement procedures to ensure internal controls operate as designed. When bids are received, bids should be awarded to the lowest bidder, or evaluation of bids should be maintained to support rejection of lowest bid.

Finding 22: The City should improve internal controls over gasoline purchases. Based on the minimum reserve of 1,000 gallons in the gasoline tank, auditors performed a comparison of gasoline purchases, to total gasoline usage of all entities, for seven months. This comparison determined the calculated amount of gasoline on hand would have exceeded the tank maximum on at least two occasions.

Recommendation: We recommend the City implement internal controls to reconcile gasoline

purchases to actual usage, as recorded on monthly logs.

Finding 23: Internal controls over gravel stockpile are not sufficient. City purchases of gravel are delivered to an unused, low-traffic area behind the Water Park. There are no fences, gates, or other structures, to safeguard physical inventory from unauthorized access.

Recommendation: We recommend the City take appropriate measures to safeguard physical inventory.

Finding 24: The Tourism Commission lacks adequate segregation of duties over receipts. The Tourism Commission lacks adequate segregation of duties over receipts. This internal control deficiency exists because the bookkeeper is primarily responsible for opening mail, preparing deposits and checkout sheets, posting to the receipt ledger, and preparing financial statements. Although no recordkeeping errors were noted during the examination strengthened controls protect employees in the normal course of business.

Recommendation: We recommend the Tourism Commission strengthen internal controls to mitigate the effects of the control deficiency.

Finding 25: The City lacks adequate segregation of duties over General Fund and Recreation Fund receipts. The City lacks adequate segregation of duties over general fund and recreation fund receipts collected by the City Clerk's office. This internal control deficiency exists because the City Clerk may open mail, prepare receipts, deposits and daily deposit sheets, record in the receipt ledger, prepare financial statements, and prepare the bank reconciliations. Although no recordkeeping errors were noted during the examination, strengthened controls protect employees in the normal course of business.

Recommendation: We recommend the City strengthen internal controls to mitigate the effects of the control deficiency.

Finding 26: The City should ensure use of City owned vehicles are properly taxed as a fringe benefit. Two employees, the Street Superintendent

and assistant Street Superintendent, drive City-owned vehicles to their personal residences during non-work hours. However, other Street Department employees are required to park city vehicles at the City Street Department during non-work hours. The use of City vehicles by these two employees is not recorded as a fringe benefit on the employees' W-2 forms.

Recommendation: We recommend the City and City Legal Counsel review City Ordinance 36.18 for proper treatment of City assets.

Finding 27: Internal controls should be strengthened over the vehicle disposal process. During the examination, we determined vehicles were not properly declared surplus by Council prior to sale, significant delays were noted from the time vehicles are sold and date on which the titles were transferred to the purchasers, the City did not obtain a title to a forfeited motorcycle prior to sale, and the City no longer has possession of camper that is actively titled in the name of the City.

Recommendation: We recommend all surplus assets be declared surplus by Council, and the method of disposition as set out in statute determined and documented at that time. The City should ensure it holds active titles for all vehicles prior to sale. Once sold, titles should be transferred to purchasers in a timely manner.

Finding 28: Amounts paid for land purchases significantly exceeded assessed values. During the examination, auditors identified two land purchases without appraisals in which purchase prices exceeded taxable values and prior owners' purchase prices.

Recommendation: We recommend the City obtain appraisals of current property values prior to purchase.

Examination Objectives

The Auditor of Public Accounts (APA) received a letter dated March 8, 2013, from the Barbourville City Council (Council) requesting an “in-depth (forensic) audit” of the City of Barbourville (City). The letter stated the Council believed immediate action should be taken and was signed by five of the six Council members. On July 8, 2013, the APA sent a notification letter to the Council and the Mayor, indicating the APA would conduct an independent examination of selected financial policies, accounts, transactions, and other activity of the City. The letter stated, “given concerns brought to the attention of this office, the APA has a responsibility to perform an independent examination of the city to ensure that the public’s money is being accounted for and spent in the best interest of the taxpayers.”

Scope And Methodology

The APA special examination was designed to address the allegations regarding the financial and management practices within the City, as well as, to determine whether any other issues were revealed that required further scrutiny, for the period beginning January 1, 2007 through August 31, 2013. To accomplish this examination, the APA developed the following scope and objectives:

- Determine if expenditures and purchases are reasonable, including expenses for daily operations, vehicle purchases, and land purchases.
- Evaluate the relationship between the City and the Cabinet for Health and Family Services for time recordkeeping obligations; then determine if timesheet and similar records created or maintained, or both, by the City are valid and accurate.
- Determine if related party transactions or potential conflicts of interest existed that could result in illegal or unethical financial gain.
- Examine financial activities of the Barbourville Brickyard Waves Water Park to determine if revenues and expenditures were properly handled in accordance with applicable regulations or contracts, or both.
- Determine if Barbourville Brickyard Waves Water Park concession payroll costs are properly supported and valid.
- Determine if the City has experienced a loss of revenue through improper authorizations, or unrecorded revenue sources, or both.
- Determine if City property, including vehicles and buildings, are used or abused for personal gain. Also determine if inventories, equipment, and materials are adequately safeguarded and controlled to prevent unauthorized abuses of City property.
- Examine Tourist and Recreation Commission grant projects and expenditures for reasonableness and compliance with applicable ordinances.
- Identify any internal control weaknesses in City operations noted for areas covered by this examination.

To address these objectives, auditors conducted numerous interviews, and reviewed and analyzed financial documents from the City's general and recreation funds, as well as from the Tourist and Recreation Commission.

Governmental
Body/Organization

Located in southeastern Kentucky, Barbourville is a fourth class city and the county seat of Knox County. The City is organized and governed under the mayor-council plan of city government, and is comprised of the Mayor and six Council members. The Mayor is elected to a four year term and Council members are elected to serve two year terms. The Mayor is the chief executive and administrative officer whose principal function is to oversee the management of the City's daily activities. The basic duties and authorities of the Mayor are outlined in KRS 83A.130. The current Mayor took office on January 1, 2007.

The Council is the legislative authority of the City, which means the Council is responsible for adopting annual budgets, and enacting ordinances. The Council is prohibited from performing any executive or administrative functions unless those functions have been assigned to them by statute. The Council meets monthly on the first Thursday after the first Monday of each month. The Mayor and Council are primarily charged with operations of the City's General fund. General fund revenues include taxes and road aid support, while expenditures are for City maintenance, police protection, fire protection, and administrative costs. The City employs a Street Superintendent who is responsible for overseeing the street department, including maintenance of City buildings and properties, City streets, and infrastructure and grant projects. A Recycling Center is also located on City property for the collection, processing, and removal of recyclable materials.

Park Board

In March 1990, the City passed an ordinance to establish a Park Board. The Park Board, also commonly known as the Barbourville Recreation Commission or the Recreation Board, is responsible for the care, management and control of all parks and playgrounds within the limits of the City. To carry out these duties, the Park Board oversees the financial management of the Recreation Fund, maintained by the City Clerk. The Park Board is comprised of five members appointed by the Mayor and affirmed by Council. The Union College Athletic Director is a permanent member. The other members are appointed by the Mayor and serve four year terms. Recreation fund revenues include recreation park admission and concession fees. Disbursements are made to support and maintain park facilities.

The City owns or operates, or both, various parks, including the Barbourville Brickyard Waves Water Park (Water Park), the James E. Thompson RV Park (RV Park), the Recreation Park (commonly known as the Ball Park), and Walnut Park.

Barbourville Brickyard
Waves Water Park

On September 16, 1976, the City entered into a lease agreement with Union College for a tract of land with the purpose of developing and operating a county wide recreation park. The Barbourville Brickyard Waves Water Park was opened in the summer of 1996. Currently, the Water Park includes two water slides, a lazy river, a wave pool, and concession stand. A miniature golf course, paddle boats, and several picnic shelters are located in the area surrounding the Water Park.

Water Park Manager

The Recreation Board has used various methods for managing the Water Park since its opening. From 2007 to 2012, the Water Park was managed by a contract concessionaire. The contracted individual was responsible for managing all Water Park employees for operations during the summer months and was compensated through net concession profits. Management duties included scheduling employees, maintenance of facilities, and general management of operations. For the 2013 summer, the Recreation Board hired an employee to manage the Water Park and paid this individual from the Recreation Fund. All concession receipts were remitted to the City Clerk.

James E. Thompson
Recreational Vehicle Park

During the summer of 2007, the City opened the James E. Thompson RV Park. Located on South Main Street, the RV Park includes thirty-five (35) campsites, a walking track, splash pad, picnic shelters, football field, and Cumberland River access ramp. The concrete and grass campsites rental amenities include water, electric, sewer, cable, and wireless internet.

Recreation Park
And Walnut Park

The Recreation Park (commonly known as the Ball Park) is located on North Allison Avenue, and includes one little league baseball field, one softball field, one wee-ball field, two tennis courts, a full court basketball court, a concession stand, and playground. Located on Hinkle Street, Walnut Park includes a softball field and concession stand.

City Tourist And
Recreation Commission

The City Tourist and Recreation Commission (commonly known as the Tourism Commission) was established by Council in December 1993 by Ordinance No. 1993-06. The Tourism Commission's (Commission) funding sources are a 3% transient room tax and a 2% special restaurant tax. The Commission's duties include promoting recreation and tourist activity in the City. The Mayor appoints the seven members consisting of three members from a list provided by the local City Hotel and Motel Association, one member from a list provided by the local Restaurant Association, one member from a list provided by the Chamber of Commerce, and two alternate members to serve in the absence of any member. The Tourist and Recreation Commission meets on the second Monday of every month.

Transient room and restaurant taxes are collected by the City Clerk, who retains a minimal collection fee before remitting collections to the Commission. Additional funding for the Commission is obtained through various state grants. Commission expenditures are used to promote

recreation and tourist activity in the City, including costs of acquisition, construction, operation, and maintenance of facilities useful in the attraction and promotion of tourism, including the park system.

The Commission employs a Director who is responsible for coordinating community activities and facilitating the development of events, festivals, and other tourism opportunities in the City and Knox County.

Findings and Recommendations

Finding 1: Multiple Expenditures Were Co-Endorsed By The Mayor And The Mayor's Wife

Through interviews and review of documentation, auditors identified checks from the City were routinely given to the Mayor or Street Superintendent for distribution to contractors and employees. Auditors reviewed cancelled checks from January 1, 2007 through June 30, 2013 for the General Fund, Recreation Fund, and Tourism Commission, and identified 183 instances, totaling \$38,585, in which these checks made payable to City contractors or employees, were co-endorsed by the Mayor or the Mayor's wife, or both. These checks were either cashed or deposited into the Mayor's personal bank account.

As presented in the Appendix A, \$27,001 of these checks were payroll disbursements for Water Park employees. Although time cards were provided to support these payments, auditors noted time cards were not signed by Water Park employees. The Mayor's wife was the Water Park Manager who verified accuracy of these time cards and approved payment. Upon inquiry, the Mayor confirmed he or his wife cashed Water Park payroll checks, as a service for convenience to employees. Auditors noted this service ended for Water Park employees when the Mayor's wife's contract as Water Park Manager ended in 2012. After summer 2012, no payroll checks were cashed for Water Park employees; however, the Mayor began providing this service for checks from the Tourism Commission. As noted in Finding 7 and 11 in this report, auditors identified weaknesses involving poor record keeping and questionable practices at the Water Park that increased the risks of waste, fraud, or abuse associated with these transactions.

City expenditures paid to contract workers and a vendor were supported by invoices and purchase orders issued by the Street Superintendent or Mayor. Appendix A of this report details the contractor or employees, whose checks were cashed, the number of cashed checks per payee, and the City's funding source for the payment. Frequently, handwritten statements prepared by the Street Superintendent were used as the sole supporting documentation. Appendix B displays an invoice in which an attached notation directed the City Clerk's office to deliver payment directly to the Mayor.

The City's written policies if followed establish an appropriate level of oversight and separation of duties through the expenditure process. However, these policies were ineffective because the influence and actions of the Mayor throughout the expenditure process prevented the controls from operating as intended. This override of controls is exhibited by the practice of cashing checks, which gives the appearance of comingling public with private funds. This finding indicates the possibility that expenditure payments were not solely for the benefit of the City.

Recommendation

We recommend the Mayor and his wife immediately cease the practice of cashing checks for City employees and contractors. Also, the City should implement policies that prohibit employees, including the Street Superintendent, from creating billing information on behalf of vendors and contractors. Detailed invoices and other supporting documentation should be obtained directly from the vendor or contractor to justify the City's payment for goods or services. Also, as noted in Finding 11, time cards should be signed by employees to verify their hours worked prior to authorization by supervisors.

Finding 2: The City Should Ensure Expenditures Are Necessary And Reasonable

Recurring payments from the General Fund and the Recreation Fund were made to a general contractor, a plumber, and an electrician for work that could be performed by City Street Department employees. For fiscal years 2007 and 2008, the general contractor received payments totaling \$73,152 for items such as tree pruning, mulching, and painting. Appendix C present details of payments to the general contractor. In addition, we noted bids were not obtained for work performed by the general contractor.

KRS 424.260 states, "except where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district, or board or commission of a city or county, or sheriff or county clerk, may make a contract, lease, other agreement for material, supplies except perishable meat, fish, and vegetables, equipment, or for contractual services other than professional, involving an expenditure of more than twenty thousand dollars (\$20,000) without first making newspaper advertisement for bids." In addition, until November 11, 2012, City ordinance 33.51 required purchases over \$10,000 to be advertised for bids. On November 11, 2012, this ordinance was amended to increase the bid threshold to purchases over \$20,000.

During fiscal years 2012 and 2013, we noted payments to a plumber and electrician for items such as fence repairs, turning on water for bathrooms, and winterizing bathrooms. Of particular interest, the plumber was paid for winterizing bathrooms at the Recycling Center, even though the Recycling Center is open year-round. Invoice descriptions for the plumber and electrician that auditors identified as work that could be performed by City employees or that is unnecessarily repetitive are presented in Appendix D.

The examination also identified payments to a welder and an automobile mechanic for repetitive equipment repairs. For example, the welder was paid for labor on the street sweeper in April, May, June, September 2012, and January, February, March and April 2013. Invoice descriptions for the welder and automobile mechanic that were identified as unnecessarily repetitive are displayed in Appendix E.

Invoices from these contractors typically reflected only the total amount due, and were not itemized by labor costs, hours worked, or material costs. Also, the City does not have written contracts establishing hourly base rates or scope for work performed by these contractors. As a result, auditors could not determine if expenses were reasonable for work performed.

In order for taxpayer funds to be expended wisely, services performed or materials provided should be procured through a competitive process that yields a fair price to the contractor and a quality product to the City. While management has the ultimate authority for allocating resources, items such as opening restrooms, repairing fences, winterizing parks, painting various buildings, and tree pruning are tasks that could be performed by City employees at little or no additional cost. Repeated expenses for equipment such as the sweeper could indicate poor quality work, in which case the City would not be responsible for subsequent repairs. Lack of detailed invoice costs has prevented the City from effectively monitoring and ensuring that expenditures are necessary and reasonable.

Recommendation

We recommend the City ensure bids are obtained for all expenditures as required by KRS 424.260 and City Ordinance 33.51, and that contracts detailing the scope of work are obtained for all contractors. Contractors with costs falling below bid requirements should still provide written scope of work estimates to the City. Internal controls should be strengthened to ensure all costs are necessary to carry out the public purposes of the City, are reasonable in amount, and are documented in sufficient detail.

Finding 3: Internal Controls Over Expenditure Documentation Should Be Strengthened And Improved

During the examination, auditors identified numerous contractor invoices prepared by the Street Superintendent. Auditors confirmed invoices from two concrete workers and a day laborer were prepared by the Street Superintendent using the same style of invoice forms. The concrete workers provided handwritten notes of hours worked, and the day laborer verbally communicated hours worked to the Street Superintendent. The Street Superintendent routinely prepared invoices, which agreed to the corresponding purchase orders he also prepared. The Street Superintendent then submitted the invoice and purchase orders to the Chief Accounting Officer for payment. Invoices or other supporting documentation was not signed by the contractors to confirm accuracy. After being brought to his attention, the Street Superintendent confirmed he prepared invoices for the concrete workers to ensure adequate documentation was provided to City Clerk.

Auditors also noted invoices from an electrician were allocated by the Street Superintendent to specific budgeted line items without having sufficient details of hours worked per project. Although the electrician described the various services performed, the invoice only reflected the total amount due. The amount due is typically divided between the

General and Recreation funds based on the Street Superintendent's judgment. Since the electrician's invoice does not itemize cost for specific work, the expenditure could be improperly classified and charged to the wrong department.

Effective internal controls require detailed documentation of services performed, or materials provided, be prepared by the vendor providing the service or materials. Preparation of supporting vendor documentation by the Street Superintendent distorts the recording process, increases the risk of error, and increases the potential for disputed payment amounts between the City and its contractors.

Recommendation

We recommend the City review expenditure policies and internal controls to ensure all invoices for goods or services be created and submitted by the contractor performing the work. Also, the City should require all contractors to provide sufficient detail on invoices, including project and related department.

Finding 4: Community Service Time Sheets Submitted To The Commonwealth's Cabinet For Health And Family Services Are Grossly Overstated And Not Accurate

Individuals who receive benefits from the Kentucky Transitional Assistance Program (KTAP) may be required to participate in the Kentucky Works Program, as administered by the Commonwealth's Cabinet for Health and Family Services (Cabinet). These individuals are required by law to complete a specified number of community service hours each week. The Cabinet maintains a contract with an outside agency that assigns participants to specific placements and acts as a liaison between the Cabinet and placement locations, such as the City. The City offers two placement locations for participants of the Kentucky Works Program. These locations include the Recycling Center on Hinkle Street and the Tourism Office located on High Street.

The Cabinet requires time sheets for each participant to authorize KTAP assistance payments. Blank time sheets are signed by the participant and delivered to the Mayor as allowed by the KTAP program. Timesheets are completed and signed by the Mayor and faxed to the Cabinet.

The placement agency requires documentation of participants' attendance, including dates and times of hours worked. In order to meet these requirements, participants sign attendance logs at the placement locations. However, these attendance logs are not provided to the placement agency. Instead, the Mayor created a separate log for submission to the placement agency.

In August 2013, auditors visited the Recycling Center to view the facilities and obtain an understanding of internal controls and daily operations. During these visits, auditors obtained copies of signed attendance logs and observed the sorting and recycling process. Auditors also physically counted the number of individuals present at the Recycling Center during each visit. A total of eight on site visits were made at

various dates and times. Auditors then obtained copies of the August time sheets submitted to the Cabinet for assigned participants, and the weekly attendance logs prepared by the Mayor and provided to the placement agency for August.

Comparison of these documents to the auditors' counts determined community service time sheets are grossly overstated and are not accurate. For example, on Tuesday, August 6, 2013, at 2:30 pm, there were no individuals present at the Recycling Center. Time logs submitted to the placement agency, however, reported 11 participants were present at 2:30 pm. Since one of these participants did not receive benefits in August, the remaining ten participants, who actually received benefits, were reported inaccurately to the Cabinet. Appendix F presents Recycling Center visit dates and times, and the number of individuals over reported to the placement agency and Cabinet. In all instances, the number of participants is significantly over-reported. Further, auditors noted the manual sign-in sheets at the Recycling Center were different from the time logs submitted to the placement agency. Auditors noted the time logs submitted to the placement agency were prepared by the Mayor. Appendix G presents a sign-in sheet obtained by auditors on August 6, 2013. The weekly log submitted to the placement agency, for the same dates, is displayed in Appendix H.

Results of test procedures and inquiries with Cabinet employees identified 26 participants assigned to the Recycling Center throughout the month of August 2013. No time sheets submitted to the Cabinet for these 26 individuals agreed entirely to the time logs submitted to the placement agency. In addition, we noted five instances in which the time sheets obtained from the Cabinet included more hours worked than time sheets maintained in City Hall.

Further, auditors identified concerns of the possible conflict of interest related to the Mayor's oversight of the KTAP participants, and the enrollment of participants' children in the Mayor's wife's child care facility. The examination determined of the 26 participants assigned to the Recycling Center, 11 of these participants enrolled a total of 25 children in the Mayor's wife's day care. In total, the Mayor's wife received state child care funding for these 25 children totaling \$7,468 for the month of August.

We also inquired with the Child Care Council, a division of the Cabinet's Department for Community Based Services that authorizes child care payments, and learned of attendance dates paid to the child care provider for these children for August 2013. Comparison of the Child Care Daily Attendance Record maintained by the child care provider, and obtained from the Cabinet, to actual dates paid to the provider noted discrepancies. For six days during the month, the provider received payment that was not properly supported by attendance records.

Child care providers are required to report to the Cabinet the attendance of each child monthly. Payments to the child care providers vary by age of child and number of hours attended at the day care each day.

As chief executive and administrative officer of the City, the Mayor is responsible for ensuring effective internal controls are designed and implemented to produce accurate information for reporting purposes. These processes should include recording and verification of sign-in sheets and time sheets by the individual certifying the data, in this case the Mayor, prior to reporting to agencies such as the Cabinet and placement agency. All information provided on behalf of the City should be accurate and complete. The Mayor stated he obtained assurance of the data reported on time sheets based on his review of sign-in sheets, and his knowledge of individuals present at the Recycling Center.

Recommendation

We recommend the City design and implement stronger internal controls for the recording, verification, and reporting of community service time sheets. Sign-in sheets maintained on site at the Recycling Center should be compared to time logs submitted to the placement agency and time sheets submitted to the Cabinet for agreement. Due to the discrepancies noted in both work hours verified by the Mayor and child care hours reimbursed by the Cabinet, this finding will be referred to the Cabinet, to the City Council for forwarding to the Cumberland Valley Regional Board of Ethics, and to the Kentucky Office of the Attorney General.

**Finding 5: The Mayor
Should Not Be A Member
Of The Recreation Board
Or Tourism Commission**

The City has a Recreation Fund that is managed by the Recreation Board that is responsible for the care, management, and control of all parks and playgrounds in the City. The City also has a Tourism Commission that promotes recreation and tourist activities. The Mayor appoints members to both of these entities. Based on review of Recreation Board minutes and Tourism Commission minutes, the Mayor is also considered a member of both entities. Although the process for establishing the Mayor's appointment to these entities is unclear, it appears to be a general understanding that the Mayor holds a seat on both the Recreation Board and Tourism Commission.

The Attorney General's office has determined that a member of a recreational board is a municipal officer. Section 165 of the Constitution and KRS 61.080 prohibit a person from holding two municipal offices, either in the same or different municipalities, at the same time. Further, AG 99-4 notes the Mayor is chief executive officer of the City, and cannot appoint himself as a member of the Tourism Commission as it would create a conflict against public policy. Therefore, the Mayor serving as a member of these entities while being Mayor is prohibited by law.

Recommendation

We recommend the Mayor remove himself from the position as Recreation Board member and Tourism Commission member. While the Mayor may consult with the entities to coordinate activities with the City, he should not engage in management decisions for either.

Finding 6: The Memorandum Of Agreement For Water Park And Ball Park Concession Management Should Be Reviewed By The Ethics Board

The Barbourville Brickyard Waves Water Park (Water Park) property is leased by the City from Union College. The Ball Parks located adjacent to the Water Park are owned by the City. Since the Water Park and Ball Parks provide recreational activities, the operation of both is under the direction of the City's Recreation Board. As such, the Recreation Board is responsible for procuring concession services or hiring a concession manager and employee(s). For the summers of 2007 through 2012, the Water Park was managed by the Mayor's wife.

Minutes of the Recreation Board's meeting on February 7, 2007 state, "Mayor [last name] reported that [his wife] would be in charge of the Water Park concessions... He also reported that the Ball Park concessions be run by the City of Barbourville again this year." Subsequently, on April 4, 2007, an agreement was presented "for [the Mayor's wife] to serve as [assistant] manager to run the concessions at both the Water Park and the Ball Park for the period of May 26, 2007 thru September 4, 2007, with the concession workers being paid by the Recreational Park and then reimbursed by the assistant manager with the net profits being kept by the assistant manager." The motion carried. No Recreation Board action was documented in the minutes to approve the 2008 contract; however, it was signed and authorized by the Recreation Board Chairman. The Recreation Board continued to approve similar contracts with the Mayor's wife for 2009 through 2012.

Although the Recreation Board approved the contracts with the Mayor's wife, the minutes on February 7, 2007 indicate the Mayor asserted influence over the hiring process, and the procurement of managing services was not subject to the competitive bid process.

Conflict Of Interest In General

Chapter 36, Section 15 of the City's Code of Ordinances for "Conflicts Of Interest In General" states the following:

Every officer or employee of the city shall comply with the following standards of conduct:

- A. No officer or employee, or any family member of any officer or employee shall have an interest in a business or engage in any business, transaction, or activity, which substantially conflicts with the proper discharge of the officer's or employee's public duties.
- B. No officer or employee intentionally shall use or attempt to use his or her official position to secure unwarranted privileges or advantages for himself or herself or others.
- C. No officer or employee shall intentionally take or refrain from taking any discretionary action, or agree to take or refrain from taking any discretionary action, or induce or attempt to induce any other officer or employee to take or

refrain from taking any discretionary action, on any matter before the City in order to obtain a financial benefit for the following:

- 1) The officer or employee.
- 2) A family member.
- 3) An outside employer.
- 4) Any business in which the officer or employee, or any family member, has a financial interest.
- 5) Any business with which the officer or employee or any family member is negotiating or seeking prospective employment or other business or professional relationship.

D. No officer or employee shall be deemed in violation of any provision of this section, if, by reason of the officer's or employee's participation, vote, decision, action or inaction, no financial benefit accrues to the officer or employee, a family member, an outside employer, or a business as defined in divisions (c)(4) and (c)(5) of this section, as a member of any business, occupation, profession or other group, to any greater extent than any gain could be reasonably be expected to accrue to any other member of the business, or occupation, profession, or other group.

E. Every officer or employee having a prohibited financial interest which the officer or employee believes or has reason to believe may be affected by his or her participation, vote, decision, or other action taken within the scope of his or her public duties, shall disclose the precise nature and value of the interest, in writing, to the governing body of the city, and the disclosure shall be entered on the official record of the city or any city agency proceedings. The officer or employee making the disclosure shall refrain from taking any action with respect to the subject matter of the disclosure.

**Conflicts Of Interest
In Contracts**

In reference to "Conflicts Of Interest In Contracts," the City's Code of Ordinances, Chapter 36, Section 16 states the following:

A. No officer or employee of the city, either directly, or indirectly through any other person or business, shall undertake, execute, hold, or enjoy, in whole or in part, any contract made, entered into, awarded, or granted by the city, except as follows:

- 2) The prohibition in division (A) of this section shall not apply if the contract is awarded after public notice and competitive bidding, unless the officer or employee of the city is authorized

to participate in establishing the contract specifications, awarding the contract, or managing contract performance after the contract is awarded. If the officer or employee has any of the authorities set forth in the preceding sentence, then the officer or employee shall have no interest in the contract, unless the requirements set forth in division (3) below are satisfied.

- 3) The prohibition in division (A)(2) of this section shall not apply in any case where the following disclosure requirements are satisfied:
 - (a) The specific nature of the contract or transaction and the nature of the officer's or employee's interest in the contract or transaction are publicly disclosed at a meeting of the governing body of the city.
 - (b) The disclosure is made a part of the official record of the governing body of the city before the contract is executed.
 - (c) A finding is made by the governing body of the city that the contract with the officer or employee is in the best interest of both our citizens and the city because of price, limited supply, or other specific reason.
 - (d) The finding is made a part of the official record of the governing body of the city before the contract is executed.

Nepotism

Additionally, Chapter 36, Section 50 addresses "Nepotism" as follows:

- A. No officer or employee of the city shall advocate, recommend or cause the (1) employment; (2) appointment; (3) promotion; (4) transfer; or, (5) advancement of a family member to an office or position of employment with the city.
- B. No officer or employee shall supervise or manage the work of a family member.
- C. No officer or employee shall participate in any action relating to the employment or discipline of a family member, except that this prohibition shall not prevent an elected or appointed officer or employee from voting on or participating in the development of a budget which includes compensation for a family member, provided that the family member is included only as a member of a class of persons or a group similarly situated, and the family member benefits to no greater extent than any other similarly situated member of the class or group.

The Mayor, prior to becoming Mayor, submitted a bid for consideration to manage the Water Park as a contractor in 2002. However, the bid process was not performed for Water Park management from 2007 through 2012. In addition, there is no documentation within the Recreation Board minutes of the Mayor's disclosure of his financial interest in the contract, as required by City's Code of Ordinances, Chapter 36, Section 16(3) as detailed above.

Auditors spoke with both the Mayor and the Mayor's wife on several occasions, as well as mailed written confirmation requests for documentation of Water Park and Ball Park revenues and expenditures, for all years from 2007 through 2012. No documentation was provided by the Mayor or his wife. As a result, auditors were unable to determine the amount of compensation received by the Mayor's wife as Water Park Manager, and therefore, are also unable to determine if she was, in fact, a similarly situated employee, who earned a reasonably equal amount of compensation.

As an elected officer of the City, it is the Mayor's responsibility to adhere to the City's Code of Ordinances for "Conflicts Of Interest In General", "Conflicts Of Interest In Contracts", and "Nepotism." Based on the results of the examination, the Mayor would have experienced a conflict between fulfilling the public interest of the taxpayers, and his private financial interest in securing the position for his wife. Further, while the Mayor's wife sought the position of contract concessionaire, the Mayor appears to have had an obligation under the City's Code of Ordinances' requirements to remove himself from the hiring process, but did not.

Recommendations

We recommend the Mayor recuse himself from all activities of the City for which a potential conflict of interest exists due to his personal or financial relationships with the individual or business. These activities should be delegated to other employees of the City at appropriate levels of responsibility, and closely monitored by the City legal counsel or Council to avoid undue influence from impairing the individual's ability to perform adequate oversight. Although the Mayor's wife did not act as manager for 2013, the Recreation Board should ensure proper contract procedures are in place going forward, including bidding procedures when required. Also, in consideration of the facts surrounding the Water Park management between 2007 and 2012, the contract between the Mayor's wife and the Recreation Board should be reviewed by the Council for forwarding to the Cumberland Valley Regional Board of Ethics for possible conflicts of interest in general, in a contract, and nepotism.

**Finding 7: Water Park
Season And Daily Passes
Are Routinely Authorized
By The Mayor And Others
Free Of Charge**

Upon purchase of a season pass for the Water Park, a picture identification card (ID card) is issued by personnel at the Water Park. For the summer of 2013, season passes were \$45 per person, and daily admission prices were \$8 for adults and \$6 for children 12 years old and younger.

Season Passes

Auditors' review of computerized data for ID cards noted a discrepancy between the number of cards issued, and the number of cards in the system. This difference appeared to be the result of ID card deletions from the system. This weakness was identified by Water Park management during the 2013 season, and a manual listing of season passes was created. The manual listing was intended to function as a dual control, to duplicate computerized information, so that future errors could be identified.

Auditors visited the Water Park in August 2013, to view the facilities, and obtain an understanding of internal controls and daily operations. During the visit, a copy of the manual listing of season passes was obtained. This listing noted multiple season passes were authorized by the Mayor, the Mayor's wife, and the Street Superintendent. Comparison of recorded revenues for season passes to the manual season pass listing determined 80 season passes were issued free of charge. The total cost of these passes, \$3,600, is reasonably comparable to the decrease in season pass revenue noted between calendar year 2012 and 2013 of \$2,475. Although authorization is not recorded for all individuals identified on the manual list, we have determined at least 31 passes were associated with the Mayor, three passes were associated with the Mayor's wife, and three passes were associated with the Street Superintendent.

Review of records maintained in City Hall determined letter authorizations are issued and signed by the City Clerk for season passes purchased at City Hall. These letters are dated, controlled by a numerical sequence, and copied for recordkeeping purposes. In some instances, to support issuance of free 2013 season passes, patrons used altered letter authorizations signed by the City Clerk, in prior years. These letters were photo-copies in which the date of issuance and year of operation had been altered with white out correction liquid. Handwritten notations on these letters appeared to authorize Water Park employees to issue free 2013 season passes. See Appendix I for an example of an altered season pass authorization letter. In one instance, auditors could view the original date during 2011. In another instance, an unsigned typed document bearing the Mayor's wife's name was used to authorize a free season pass. No supporting documentation was available for season passes authorized by the Street Superintendent.

Daily Passes

Additional records indicate daily passes valued at \$600 were also granted at the discretion of the Mayor. During 2012, 44 daily child passes at \$6 per pass, and 42 daily adult passes at \$8 per pass were issued. Four of the

daily child passes appear related to event sponsorship, in which the City would have received advertisement for participation; however, the remaining passes are only associated with specific individuals.

The Mayor confirmed daily passes are issued free of charge, but indicated such practice is infrequent. In addition, the Mayor stated free Water Park admission was a “perk” offered to all City employees. Auditors did not identify City employees on the manual list of season pass holders.

Effective internal controls for the issuance of season and daily passes have been designed and implemented to ensure revenues are complete and accurate. Since the Recreation Board is a separate component entity of the City, not the Mayor, nor the Mayor’s wife, nor the Street Superintendent has the authority to authorize season or daily passes free of charge. The volume of free passes issued appears excessive, and resulted in a loss of revenues for the City.

Recommendation

We recommend the establishment of guidelines and limitations for the issuance of free passes. Internal controls should be designed in a manner that supports control and documentation of free pass issuance. Unauthorized individuals should not be permitted to issue passes.

Finding 8: Water Park And Ball Park Concession Revenues, Expenditures, And Concession Prices Were Not Reported To The Recreation Board

On March 24, 2009, the Recreation Board voted, “to accept the 2009 Water Park Memorandum of Agreement subject to the Water Park manager/assistant manager submitting the proper liability insurance coverage and that the manager/assistant manager maintain a complete accounting of all concession expenses and profits and present on a monthly basis to the City Clerk’s office. Motion carried.” Therefore, beginning in the summer of 2009, the Mayor’s wife was responsible for providing monthly financial reports to the Recreation Board for review. Also, a requirement of the memorandum of agreement between the Recreation Board and the Mayor’s wife was that “normal concession prices should be presented to the Recreation Board prior to opening.”

A review of records maintained at City Hall determined that a complete statement of concession revenues and expenditures was not provided for any months or years of operation. In addition, no concession price listings for 2007 through 2012 could be identified through a search of Recreation Board minutes.

Auditors spoke with both the Mayor and the Mayor’s wife on several occasions, as well as mailed written confirmation requests for documentation of Water Park and Ball Park revenues and expenditures, and concession prices for any and all years from 2007 through 2012. No documentation was provided by the Mayor or his wife for concession revenues or expenses; however, the Mayor’s wife subsequently provided listings for Water Park and Ball Park concession prices. The season of operation was not identified on these listings.

Auditors attempted to obtain the information regarding revenues and expenditures by reviewing information filed with third parties, such as tax returns. While some, but not all, restaurant tax returns were filed during 2007 through 2012, these returns only reported total gross revenues. No other information was identified that contained complete reporting of revenues and expenditures. As a result, auditors could not obtain sufficient detail to determine revenues collected or purchases made for the Water Park and Ball Park concessions.

The Recreation Board's motion to accept the memorandum of agreement with the Mayor's wife established the requirement for monthly revenue and expense reporting, and presentation of concession prices. Failure to provide these documents and information prevented the Mayor's wife from fully meeting the obligations of her agreement. Therefore, it appears that the Mayor's conflict of interest may have led to inadequate oversight. Lack of revenues, expenditures and annual concession prices would have prevented the Recreation Board from effectively monitoring concession operations as intended. The Recreation Board is responsible for providing oversight of agreements and contracts to ensure requirements are fulfilled, and amounts recorded are complete and accurate.

Recommendation

We recommend the Mayor recuse himself from overseeing any agreement or other business of the City in which a potential conflict of interest exists. The Recreation Board should provide adequate oversight for all agreements and contracts to verify requirements are fulfilled as intended, and amounts reported are complete and accurate.

Finding 9: Restaurant Tax Returns For Water Park And Ball Park Concession Revenues Were Not Reported Timely

Chapter 38.16 through 38.43 of the City's Code of Ordinances established a 2% restaurant tax on gross retail sales collected by a restaurant. It states, restaurant tax is "due and payable to the City Clerk no later than 20 days after the last day of the preceding month, together with a return on a form furnished by or obtained from the City Clerk, setting forth any aggregate amount of gross retail sales charged and collected during the period to which the tax applies, together with such other pertinent information as the Clerk may require." The monthly return of restaurant tax for the City also notes a copy of the Kentucky Sales Tax Return should be provided as supplementary documentation.

Auditor's inquiry with the Department of Revenue determined that the Water Park and Ball Park concessions meet the definition of restaurant; therefore, while the Mayor's wife operated the concessions, restaurant tax should have been collected and reported to the City. A review of records maintained at City Hall determined the following restaurant tax returns were filed by the Mayor's wife for Water Park concessions:

<u>Year</u>	<u>Reporting Month</u>	<u>Tax Paid ^a</u>	<u>Date Filed</u>
2007	May	\$ 15	June 18, 2007
2007	June	49	July 18, 2007
2007	July-August	7	August 19, 2007
2007	September	990	September 18, 2013
2008	May	11	June 21, 2008
2008	June-August	b	b
2008	September	1,029	September 18, 2013
2009	May-August	b	b
2009	September	905	September 30, 2013
2010	May-August	b	b
2010	September	951	September 30, 2013
2011	May-August	b	b
2011	September	774	October 22, 2013
2012	May	9	July 30, 2012
2012	June	230	July 30, 2012
2012	July	36	July 30, 2012
2012	August	b	b
2012	September	487	October 22, 2013
		<u>\$ 5,493</u>	
a	Amounts paid in 2013 also include penalties and interest for late reporting.		
b	Restaurant tax return was not located for this period. Amounts may be included in another reporting period, although auditor could not confirm this due to the unavailability of the records.		

Copies of Kentucky Sales Tax Returns were not provided with the filed returns listed above. As presented above, numerous returns were filed in September and October 2013, after auditors began the special examination. Documentation related to the Water Park and Ball Park concession revenues and expenditures were requested from the Mayor and his wife directly, and confirmation requests were also mailed to them. No documentation was provided, and as a result, auditors were unable to determine if all returns were properly filed or confirm whether the returns filed reported the appropriate amount of revenues collected from Water Park and Ball Park.

In accordance with the restaurant tax ordinance, the Mayor's wife should have filed restaurant tax returns monthly. Failure to file restaurant tax returns in a timely manner, with complete supporting documentation, presents a violation of the City's Local Ordinance, which results in penalties and interest. The City has implemented internal control procedures to notify delinquent taxpayers by letter.

Recommendation

We recommend the City provide adequate oversight for monthly tax revenue due. When taxes due become delinquent, the City should consult with the City's legal counsel regarding additional methods of collection. As noted earlier in this report, the Mayor had a conflict of interest in this situation that gave him the ability to influence activities associated with the oversight for reporting and collecting taxes from his wife's business. Going forward, he should implement procedures to recuse himself from activities that would create a potential conflict of interest.

Finding 10: Sales Tax Returns Were Not Filed For Water Park And Ball Parks Concession Revenues

Prior to 2007, and during 2013, the concessions at the Water Park and Ball Park were managed by employees of the Recreation Board. During these seasons inventory was purchased by the City, and revenues from operations were recorded by the City. From 2007 through 2012, the Mayor's wife managed the Water Park and Ball Park concessions as a contract concessionaire. For these seasons, the Mayor's wife was responsible for inventory purchases and retained concession revenues as her compensation.

Auditors requested sales tax returns directly from the Mayor and his wife for concession sales for calendar years 2007 through 2012, as well as mailed a confirmation request to them for these returns. No documentation was provided by the Mayor or his wife. Further, the auditors reviewed records in City Hall, and inquired with the Kentucky Department of Revenue. No sales tax returns were filed with the Kentucky Department of Revenue for any year of operation of the Water Park or Ball Park concessions when the concessions were managed directly by the Recreation Board or the period when concessions were operated by the Mayor's wife.

KRS 139.200 imposes sales tax at 6% for retail sales of tangible property. The memorandum of agreement between the Recreation Board and the Mayor's wife states, "Manager is responsible for all taxes from concessions (sales tax, restaurant tax, etc)." Failure to file sales tax returns presents noncompliance with KRS 139.200, and may result in penalties and interest.

Recommendation

We recommend the Recreation Board take steps to ensure sales tax returns are filed for concession revenues collected by the City or by contracted concessionaires. In addition, the Recreation Board should provide adequate oversight for all agreements and contracts to verify requirements are fulfilled as intended. This finding is being referred to the Kentucky Department of Revenue.

Finding 11:
Concessionaire
Reimbursed Payroll
Expenses For 2012
Appear Understated

From 2007 through 2012, payroll expenses for all Water Park and Ball Park employees (i.e., lifeguards, slide guards, maintenance workers, and concession workers) were paid from the Recreation Fund. One provision of the 2012 Memorandum of Agreement between the Recreation Board and the Water Park Manager, the Mayor's wife, was that concession workers were paid by the City and then reimbursed in full by the Manager. The Manager was responsible for concession workers liability insurance (7.67%), state unemployment tax (1.05%), and Social Security/Medicare tax (7.65%). Water Park employees were paid minimum wage of \$7.25 per hour. The City is responsible for payroll expenses for lifeguards, slide guards, and maintenance workers at the Water Park. These payroll expenses were not required to be reimbursed by the Water Park Manager from concession proceeds under the terms of her agreement with the Recreation Board.

Review Of Concession
Time Cards

During the examination, auditors reviewed time cards for concession employees for the period May through September 2012. We noted multiple instances in which time cards record no, or few, paid employees present in the concession stand. While the Water Park Manager was likely present to operate concessions on some or all of these date(s), auditors learned the concession stand at the Water Park is typically operated by no fewer than two people - one person for the cash register, and the second person for food preparation. Auditors also noted time cards were not signed by employees confirming their hours worked, but were signed by the Water Park Manager, documenting her approval for payment.

For example, time cards recorded the following:

- On Saturday, May 26th, 2012 (Opening Day), one concession worker from 12:00 to 3:00 PM
- On Wednesday, May 30th, 2012 ("Dollar Day"), one concession worker from 11:45 AM to 3:00 PM
- On Sundays, June 3rd, June 17th, and June 24th, 2012, no concession workers.
- On Friday, June 29th, 2012, no concession workers.
- On Sundays, July 1st, July 8th, July 22nd, July 29th, 2013, no concession workers.
- On Monday, July 23rd, Monday July 30th, and Tuesday July 31st, 2012, no concession workers.
- On Wednesday, August 1st, 2012 ("Dollar Day"), no concession workers.
- On Saturday, August 4th, 2012, one concession worker from 11:00 AM - 3:47 PM.
- On Saturdays August 18th and August 25th, 2012, no concession workers.
- On Sunday August 26th, 2012, no concession workers.

We also noted no concession payroll was reported for Ball Park concessions during 2012. This indicates that no paid employees worked in the Ball Park concessions during 2012, or their time was not properly reported to the City Clerk to be paid as payroll. Auditors were unable to obtain Ball Park schedules for 2012, to determine the number of dates the concessions should have been open for operation.

If concession payroll reported to the City Clerk was understated, the amount reimbursed by the Water Park Manager was not accurate, resulting in greater profits for the Water Park Manager. In addition, because employees did not attest to their hours worked by signing time cards, there is an increased risk of fraud or abuse to be perpetrated using falsified timesheets.

The Recreation Board is responsible for ensuring requirements of agreements and contracts are fulfilled. The Recreation Board utilized the Mayor and the City Clerk for certain administrative functions, including payroll recordkeeping. However, as noted above, the Mayor's conflict of interest associated with his wife's contract makes this oversight ineffective. Effective internal controls include employee signatures on time cards that verify amounts reported are complete and accurate.

Recommendation

We recommend the Recreation Board provide adequate oversight for all agreements and contracts to verify requirements are fulfilled including accurate payroll reimbursements. Additional control, such as employees' signatures on time cards, should be implemented to strengthen the recording and reporting processes. Due to the high fraud risk associated with these circumstances, this finding is being referred to the Kentucky Office of the Attorney General.

Finding 12: Internal Controls Should Be Strengthened Over Water Park Equipment

During the examination, auditors learned a listing of equipment and supplies at the Water Park was not maintained. Beginning in the summer 2013, the new Water Park Manager created a listing of these items, which included items such as refrigerator, computer, printer, picnic tables, floats, golf clubs, etc. Notably omitted from this listing were pre-payable locker locks. By inquiry, these locks were not on hand when the Water Park opened for the season in 2013, and have not been located.

Effective internal control over purchases and equipment includes documentation of location of items, periodic physical inventory count, and disposition date/method, if applicable. Large equipment should be numbered and physically tagged as City property. The numeric sequence of tags should be maintained in City Hall, and updated as applicable. Lack of these controls presents the opportunity for equipment and supplies to be removed without proper authorization.

Also worn or damaged supplies and equipment should be replaced. Without inventory listings the Water Park Manager cannot effectively monitor and safeguard equipment use. In addition, the Recreation Board is impaired from effectively budgeting for Water Park related expenses.

Recommendation

We recommend a detailed inventory list of equipment and supplies be maintained and updated periodically through physical counts by Water Park personnel, and periodically checked by a City employee. All large equipment should be numbered and tagged. All purchases and disposals should be included on the equipment listing.

**Finding 13: The City
Should Collect
RV Rental Fees
Consistently And Ensure
Utilities Are Properly Paid**

Campers at the Thompson RV Park (RV Park) may rent concrete pads, or grass parking spots on a daily, weekly, or monthly basis. Rental fees include water, electric, sewer, cable, and wireless internet service. Monthly, rental of a concrete campsite is \$400, and a grass parking spot is \$280. In August 2013, auditors visited the RV Park to view property, and obtain an understanding of internal controls and daily operations.

Inconsistent Collection
Of RV Rental Fees

During the site visit, auditors counted the number of RV's present, and documented occupied rental sites. Auditors then reviewed the rental calendars and receipts issued for August campsite rentals. Rental fees had been properly paid for all RV's on site, with two exceptions - the RV Park Host, who is not required to pay rent as a condition of employment, and the Street Superintendent.

Auditors inquired with the Mayor about the lack of rent collected from the Street Superintendent, and he indicated the Street Superintendent is not required to pay rental fees because he is a City employee. The Mayor continued to inform auditors that as a "perk" City employees and Utility Commission employees were not required to pay RV rental fees. However, this contradicts information the auditors obtained from the receipts issued for campsite rentals. Auditors found that other City employees and Utility Commission employees did pay for RV campsite rental. Some of the individuals that paid for campsite rental include the Director and an employee of the Utility Commission, a Council member, and a City police officer. Based on this information if free rental of RV campsites was available to City employees, this privilege was not consistently applied.

Unpaid/Unreimbursed
Utility Expenses

Additional review identified a camper parked on private property, adjacent to the RV Park. This camper is parked on grass, and was not situated on one of 35 campsites labeled within the RV Park. However, it appears the camper was connected to electricity provided at a nearby utility pole. The electric meter the camper uses is included on the bills paid by the City. Auditors verified electric usage from the electric meter has been consistent since July 2011. No receipt records were available to verify the City received reimbursement or payment for the use of this utility. During the examination, auditors were concerned that the camper owner has been permitted to have free electricity. Auditors were not able to confirm if the camper owner remitted reimbursements because confirmation requests sent to the camper owner were not returned. However, the camper owner should not be permitted to continue using City electricity.

Findings and Recommendations

Recommendation

We recommend the City collect all RV campsite rental fees and ensure expenses incurred by the City for utility service are solely for the benefit of the City operations. Also, all City employees should be treated consistently in regards to employee benefits. Physical controls, such as locks, should be installed over all City funded utility hook-ups to prevent unauthorized access, and the City should consider requesting reimbursement for utilities from the camper owner for the electricity usage since July 2011.

**Finding 14: Rental
Payments For The Old
Town General Store
Building Were Suspended**

The City owns an old town general store building, which is located in the vicinity of the Water Park and Ball Parks. The City makes the building available for rent by local businesses, with proceeds being deposited to the Recreation Fund. A florist entered into a lease agreement, signed by the Mayor, with the City on May 1, 2007. The lease agreement stated the tenant was not required to make rental payments for the first full year of occupancy. After the first year, the rental payment was \$100 per month. Although timeliness of payments was inconsistent, the City properly received payments for May through December 2008. On February 9, 2009, the Mayor signed an attachment to the original lease agreement, which stated, "Due to the needed repairs and the poor condition of the roof of the General Store building, the monthly rent of \$100 has been waived until the roof can be repaired. This is effective for the month of January 2009 and the months thereafter until the roof is repaired."

Based on utility history, the florist was a tenant in the old town general store building through September 2010. The City did not collect rental payments from the florist from January 2009 through September 2010, a period of 21 months, resulting in lost rental income totaling \$2,100.

The examination identified roof repairs were made to the old town general in August and September 2008, totaling \$1,089. These repairs occurred before the attachment to the lease agreement was signed in February 2009. Only minor repairs were performed to the old town general store in July through September 2009, totaling \$335. Therefore, it appears the modification in the lease agreement describing necessary repairs needed to the roof was not accurate. Subsequently, two different tenants have leased the old town general store building from the City, for \$250 per month. Rental payments from these businesses were received timely.

The Recreation Board is responsible for overseeing agreements regarding the Recreation Fund to ensure City obligations are in the best interest of the taxpayers. This finding resulted in lost revenue to the City, and also indicates the Mayor may have circumvented City internal controls related to the building's lease by making agreements without documented justification.

Recommendation

Since the Recreation Board is responsible for monitoring and oversight of the Recreation Fund, we recommend the Recreation Board ensure all agreements impacting the Recreation Fund are in the best interest of the taxpayers. There should be a fixed rental cost associated with the building, and rent should be charged fairly and consistently for all tenants.

**Finding 15: The City
Did Not Receive
Vending Machine
Revenue From May 2007
Through April 2013**

On March 23, 2007, the Mayor signed a letter of agreement on behalf of the City, Water Park, and Ball Parks with a local bottling company for a term of five years, expiring in March 2012. Among the details of this agreement, the bottling company agreed “to provide dispensing equipment for soft drinks, bottled water and isotonic drinks, while the City agreed to purchase all soft drinks, bottled waters, and isotonic drinks for all City owned facilities” from the bottling company. Purchase prices were set at the prevailing market prices for the term of the agreement.

During this period of time, the City retained the responsibility for stocking and servicing the vending machines owned and placed by the bottling company. This contract allowed the City to keep all revenue earned from vending machines.

The Mayor entered into a different agreement with the local bottling company on April 9, 2012 in which the bottling company was obligated, “to provide City of Barbourville, with a sufficient amount of equipment to properly service its beverage concession operations on a loaned basis without charge. (i.e., vending machines, visa coolers, premix dispensers, and special event trailer).” Through inquiry with the bottling company, the April 9, 2012 agreement was subsequently amended on March 19, 2013 at the request of the City. The additional clause noted, “all vending machines will be worked under the full service agreement with the bottling company.” Full service as defined by the bottling company is filling the vending machines with product and change, making repairs if necessary and removing monies and total sales. “Under this agreement, all vendors will be 20oz bottles at \$1.50 vend price and the City of Barbourville will be paid a 15% commission rate on all vendor sales.”

Although purchases were properly made from the bottling company as required by both agreements, no vending machine revenues were recorded by the City from May 2007 through April 2013. The City received commissions from vending machine revenues in May 2013. We noted these commissions are for three machines: one at the Old Town General Store, a second at the baseball field at the Ball Park, and a third at Thomas Walker (State) Park.

In August 2013, while auditors were on site, vending machines located at the Water Park and outside the Barbourville Police Department were removed. These machines were not owned nor removed by the local bottling company. Auditors did not determine who owned or serviced

these machines, or who received the related revenues, although the existence of these machines appears to violate the City's agreement with the local bottling company.

All revenues earned on vending machine sales should have been considered receipts of the City and remitted appropriately. Since auditors were unable to determine who operated certain vending machines between May 2007 and April 2013 and collected the related revenues, it was not possible to determine how much revenue the City lost.

Recommendation

We recommend the City abide by all vending contracts, and implement appropriate procedures to ensure all vending machine revenue be remitted to the City. In addition, the Mayor should contact the local bottling company to ensure the City only receives vending machine commissions earned on City property.

Finding 16: Internal Controls Over Aluminum Sales At The Recycling Center Are Not Sufficient

The Barbourville Recycling Center opened in summer of 2009 and began collection of various recyclable materials that fall. At the Recycling Center, materials are sorted, crushed, and compacted into bales. Bales of crushed materials such as cardboard, soup cans, paper, and aluminum are then sold to a recycling company located in Lexington, Kentucky.

Auditors compared payments from the Lexington recycling company to billing statements on file at the City Clerk's office. This procedure identified regular sales of various materials collected by the Recycling Center, with the exception of aluminum. Typically, the City receives payment for the sale of recyclables approximately every month and a half. Since the City began receiving payments for the sale of recyclable materials in January 2010, the City has received payment for aluminum only three times. The payments were received in April 2011 in the amount of \$377, March 2012 for \$169, and in February 2013 for \$113. Auditors were able to verify aluminum is regularly received at the Recycling Center, with approximately one bale of aluminum produced each month and a half.

The examination determined controls to document the amount of recyclable materials collected and baled at the Recycling Center, or sold to the Lexington recycling company are weak. One instance was noted in which a street department employee maintained a partial list of items sold to the Recycling Company. This list was not complete, and could not be reasonably compared to the payment schedule provided by the Lexington recycling company. In this case, the bill of lading prepared by the driver noted 44 bales of materials were received; however, the payment statement for the same shipment reflected payment for only 38 bales.

All revenues from sales of recyclable materials should be considered receipts of the City. Since internal controls were not sufficient to document amount of aluminum collected, baled, and sold, auditors were unable to verify if the City properly received all potential aluminum revenue.

Recommendation

We recommend the City implement internal controls over recyclables to ensure the City receives all associated revenues. These procedures should include documenting the amount of recyclables processed at the Recycling Center and details including material type, weight, dates, etc, for recyclables sold to the Lexington recycling company. The sale of recyclable material should be compared to the payments received from the Lexington recycling company.

Finding 17: The City Did Not Receive Revenue From The Sale Of Metal Appliances Collected By The Street Department

The City Street Department collects unwanted appliances, such as washers, dryers, etc., from residents free of charge. These appliances are collected and transported to an area behind the Street Department. Auditors determined through interviews with various City employees and employees of a local metal recycling business, these items are delivered by the Street Department employees to the local metal recycling business, where they are sold for cash. However, auditors found no revenues recorded for the sale of metal appliances collected by the Street Department. Upon further inquiry with the Street Superintendent, the cash obtained from recycling metal sales is maintained at the Street Department for the benefit of its employees to provide items such as pizza for the staff. Through auditor inquiry, Street Department employees stated they did not receive benefits from this revenue. All revenues earned by the City from the sale of collected and recycled items is public revenue, and should be remitted to the City Clerk to be properly deposited and used to benefit the City operations.

Recommendation

We recommend the City implement internal controls to ensure metal appliances collected by the Street Department are adequately controlled, and proceeds from subsequent sales are remitted to the City and properly recorded.

Finding 18: The City Should Advertise For Bids On All Purchases Over \$20,000

While reviewing expenditures, auditors noted the City paid the following payments to vendors without advertising a request for bids:

- \$81,239 for asphalt during fiscal year 2013;
- \$168,360 for fuel expenditures in fiscal year 2012; and
- \$175,742 for fuel expenditures in fiscal year 2013.

The City did not advertise or request bids for these purchases, nor did the City obtain agreements with these vendors establishing a pre-determined price per unit.

KRS 424.260 states, “except where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district, or board or commission of a city or county, or sheriff or county clerk, may make a contract, lease, other agreement for material, supplies except perishable meat, fish, and vegetables, equipment, or for contractual services other than professional, involving an expenditure of more than \$20,000 without first making newspaper advertisement for bids.” In addition, until November 11, 2012, City Ordinance 33.51

required purchases over \$10,000 to be advertised for bids. On November 11, 2012 this ordinance was amended to increase the bid threshold to purchases over \$20,000.

Ineffective monitoring has resulted in expenditures to vendors in excess of \$20,000 in recent years. As a result, failure to comply with KRS 424.260 and City Ordinance 33.51 may have resulted in the City paying a higher price than could have been obtained through the competitive bid process.

Recommendation

We recommend the City implement monitoring procedures to ensure all expenditures over \$20,000 are properly bid as required by KRS and local ordinance.

Finding 19: Advertised Bid Specifications Were Unnecessarily Restrictive And Advertisement Did Not Meet Ordinance Requirements

The City purchased two used vehicles for the City Police Department, in which advertisements were unnecessarily restrictive. Bid specifications for these vehicles are as follows:

1. One (1) 2008/2009 Dodge Durango or Ford Edge, Under 60,000 miles, Black, Gray, Dark Blue, or Silver in Color, 4 WD/AWD, clean title.
2. One (1) 2008 Dodge Ram 1500, 4 Door Quad Cab, 4x4, 5.7 hemi with less than 60,000 miles, Power Windows, Cruise, Tilt, Cannot be White or Red in Color.

Vehicle #2 was advertised in the local Corbin newspaper on September 28, 2012. The deadline for bid submission was October 4, 2012, or six (6) days later. Subsequently, the Dodge Ram was purchased from a London dealer.

City Ordinance 33.51 (B)(1) states, "Bidding will be employed when detailed specifications for the goods or services to be procured can be prepared and the primary basis for award is cost. When the cost of a contract, lease, or other agreement for materials, supplies, equipment, or contractual services other than Invitation for Bids (IFB) notice will generally be prepared. This notice will be published at least once in at least one official newspaper of general circulation within the community. This newspaper notice will appear not less than seven days and not more than twenty-one days before the due date for bid proposals."

Although the City advertised for the purchase of these vehicles, the bid specifications were unnecessarily restrictive, and would have prevented fair competition from potential vendors. Notably, one bid required a clean title, but the other did not. One bid required specific features such as power windows, cruise, and tilt, while the other did not. If these features were necessary requirements for the City to fully utilize the vehicle(s), it is reasonable to conclude these features should have been consistently required of all similarly used vehicles. In addition, the second vehicle was

not advertised in an official newspaper of general circulation, nor did the advertisement appear the minimum number of days, which hinders the fair and equal opportunity due to vendors.

Recommendation

We recommend the City refrain from unnecessarily restricting bid specifications. The City should adhere to ordinance requirements by advertising for bids in the newspaper of general circulation. The advertisements should provide the minimum number of days required by the ordinance, to ensure potential bidders have adequate opportunity to participate in the procedure process.

Finding 20: Repairs And Remodel Of The H.H. Owens Home Lacked Effective Oversight

In July 2004, the City of Barbourville purchased the H. H. Owens Home, located on High Street, with the intention of renovating the structure to house the Tourist and Recreation Commission. On July 27, 2007 a fire substantially damaged the interior structure of the home.

Roof Repairs

The Tourism Commission incurred three separate expenditures over a period of eight months, to two different contractors for roof repairs.

- A general contractor received \$9,285 in August 2007 for building a temporary roof. The general contractor also pumped the basement, covered and secured all broken windows, doors, and all other openings. This fee included pump rental and lift rental. It is important to note this is the same general contractor identified in Finding 2.
- The same general contractor received a second payment in January 2008 for \$1,187 for labor and material to repair plastic on the roof. Although invoices noted payments were for labor and materials, costs were not itemized separately.
- A second general contractor was paid \$1,613 in March 2008 for covering the entire roof on the north side of house with plastic and wooden strips, to prevent water leaks, approximately two months after the first contractor was paid for roof repairs. Labor cost for this expense totaled \$1,365, and materials cost \$248.

Renovation And Restoration Bids And Construction

The Tourism Commission advertised for bids for the renovation and restoration of the H.H. Owens Home in February and March 2009. Renovation and remodel was divided into four separate phases as follows:

1. Project Dry In - Provide all work from eaves up at roofs including framing, sheathing, roofing, finish carpentry at eaves including dentils and brackets, exterior painting, gutters and downspouts, new and restored exterior windows and doors, second floor porches and railing, masonry restoration and masonry cleaning.
2. Primarily Interior Work - Provide all work to restore first floor interior including framing, gypsum/plaster work, new and restored stairs, new and restored flooring, tile flooring, new and restored doors and

windows, wood trim and casing, interior painting, kitchen cabinetry, rear wood stair and ramp, carport metal railing, lighting, restrooms and water cooler, mechanical, electrical, plumbing and fire suppression.

3. Rear Outbuilding - Remove debris and scabbed on framing to original 'shell', replace roofing and any deteriorated sheathing/rafters, new door and windows to dry-in.
4. Site paving, walks, concrete bumpers, striping, ADA signage, lighting, grading and seeding.

Bids were received at the Barbourville Tourism Office until March 27, 2009. Three bids were received. The first, dated on March 25, 2009 was for \$597,000. The second, dated on March 27, 2009 was for \$575,000. The third, dated on April 1, 2009, three business days after the bid deadline, was for \$491,640. The bid was awarded to the lowest bidder, despite the bid being dated after the bid deadline. This general contractor is locally owned, while the previous two were not, and is also the same contractor who received payment in March 2008 for the third roof repair. The acceptance of bids after the deadline is a significant fraud risk because the circumstances permitted the late bidder to achieve an unfair competitive advantage by knowing the prices submitted by bidders before the deadline.

Change Order

Construction was projected to begin on June 15, 2009. On July 29, 2009, a change order increased the project costs by \$49,869 based on the following explanation:

“The reason for the proposed additional costs is primarily due to fire damage and wood rot due to age and water damage that was found to be much more extensive than originally anticipated. Damage is often hidden and occurs in out of view locations that are not readily accessible. There were some locations where damage was observable that was noted and called out to be replaced as part of the contract, but once work began and the building was opened up, damage was more extensive than expected.

Additional cost will cover supplementary framing to replace wood sheathing, floor joist, wall, ceiling and roof members that have been exposed to the elements for extensive periods of time due to fire and water damage, including members located at the second floor that were originally not part of the contract. Also at this time, we have located an acceptable location for the secondary stair that will be required by code in the second floor phase of work, locating it in a much more desired interior location rather than merely tacking it on the exterior. This stair will not be built at this phase, but rather an opening created while the house is

‘opened-up’ for its future placement that will be framed-in for current use requirements. The contractor’s price will also cover any additional cost associated with bracing of the exterior stone veneer during the replacement of the compromised wood members.

The additional cost will also include testing the soil bearing capacity and pouring approximately twenty concrete pads that are required to correctly level the floors to acceptable tolerances and any additional work and materials associated with this to achieve desired finish. There is also an additional expense associated with upgrading windows to a more energy efficient double pane type from restoring the existing single pane type windows as originally called out. These will be completely new windows including frames when installed and the ‘pop-in’ replacement type placed into existing frames that would require some additional work at sills and jambs and not be as efficient.”

It appears unreasonable that given the general contractor’s previous knowledge of the home, while performing roof repairs in March 2008 that such significant price increase would have been necessary. It is unclear why these changes were not factored into the bid.

The general contractor was paid throughout the construction process based on estimated percentage of completion as detailed on payment applications. Payment applications were prepared by the contractor, and reviewed and authorized by the architect prior to payment. The 15th and last payment application from the general contractor was dated on June 24, 2010, and payment was remitted from the Tourism Commission on June 28, 2010. However, the architect did not certify payment application #15 until November 22, 2010. The latter date coincides with the grand opening of the newly renovated Owens Home in November 2010.

Although the general contractor received final payment on June 28, 2010, subsequent expenses incurred by the Tourism Commission suggest the project was not complete. For example, disbursements for light fixtures, grass seed, straw, and fertilizer were made in September, October and early November 2010. Based on review of project specifications, these items should have been the responsibility of the general contractor, not the Tourism Commission. Further, we noted in June 2013, the Tourism Commission paid a day laborer for boarding up windows and painting the stable house (rear outbuilding), even though window replacements and exterior repairs were included in phase 3 of the original bid specifications.

Effective internal controls over construction project expenditures require a quality service or material be provided to the City. Repeated expenditures for roof repairs call into question the quality of the service and materials provided by contractors, or the necessity or validity of repeated expenses.

Also, bids dated after the bid deadline should not have been accepted for consideration. Payments should only be made after all authorizations occur and project items are completed. Paying the general contractor prior to architect certification while also making additional purchases for items included in the original bid requirements, suggests the project was not complete at the time the payment was made and also indicates the Tourism Commission incurred more costs due to these additional purchases than it was obligated to make based on the contract. As a result of these concerns, the bid process is questionable, and as noted above, created a significant fraud risk. Also, the Tourism Commission incurred excessive or unnecessary expenses related to weaknesses in the project management.

Recommendation

We recommend the Tourism Commission take efforts to ensure internal controls operate as designed. Expenditures should not be paid until projects are complete, and properly authorized. Projects and services should be adequately monitored for sufficient and quality completion. If projects are bid, any bid not received by the published deadline should be disqualified. Due to the circumstances identified in this finding, this matter will be referred to the Kentucky Office of the Attorney General.

**Finding 21: Bids Related
To The Civil War
Interpretive Park Lacked
Effective Controls**

During construction of the Civil War Interpretive Park, the Tourism Commission advertised for bids for decorative aluminum fencing. Two bids were received: one from a local Corbin vendor for \$23,576, and a second bid for \$11,377 from an out-of-town vendor. The low bidder also provided information for additional decorative features. If preferred, the additional features could be purchased at a cost of \$3,640, bringing the total cost to \$15,017. Based on information available to auditors, bids from both vendors provided comparable materials, and the high bidder was awarded the contract. No documentation was presented to justify the decision to reject the low bid.

The Tourism Commission's internal controls were established to ensure projects were subject to the competitive bid process; however, failure to adhere to requirements of these controls resulted in a bid awarded to a high bidder without proper justification. As a result, the Tourism Commission may have incurred excessive or unnecessary expenses, which is a poor use of taxpayer funds.

Recommendation

We recommend the Tourism Commission implement procedures to ensure internal controls operate as designed. When bids are received, bids should be awarded to the lowest bidder, or evaluation of bids should be maintained to support rejection of lowest bid.

**Finding 22: The City
Should Improve
Internal Controls Over
Gasoline Purchases**

A local gasoline wholesaler provides a 4,000 gallon gasoline tank for use by the City at the Street Department. The Street Department, the Barbourville City Police, the Fire Chief, the Barbourville Utility Commission, the Knox County Health Department, the Knox County Property Valuation Administrator (PVA), the Barbourville Housing Authority, and the Knox County Library may obtain gasoline from this tank as needed. Manual logs are maintained at the Street Department where employees record the number of gallons dispensed. These logs are totaled monthly, and billings are prepared for the Utility Commission, Health Department, PVA, Housing Authority, and Library. However, usage logs for all entities are not compared or reconciled to gasoline purchases or gasoline on hand.

By inquiry with the Street Superintendent, the City is required to maintain a minimum reserve of 1,000 gallons. Based on this minimum, auditors performed a comparison of gasoline purchases, to total gasoline usage of all entities, for seven months. This comparison determined the calculated amount of gasoline on hand (i.e. minimum reserve plus purchases, less usage) would have exceeded 4,000 gallons, the tank maximum, on at least two occasions.

**General Fund Departmental
Allocation**

Further, gasoline is billed to departments' budgeted line items based on prorated percentages of use. Auditors compared actual usage to pro-rated percentages recorded as usage for each department in the City's general fund. This comparison determined percentages recorded varied from actual usage. For example, the Street Department uses approximately 14% of gasoline purchases; however, 30% of gasoline expenses are pro-rated and charged to the Street Department. Conversely, billable entities such as the Utility Commission, Health Department, etc, account for approximately 51% of actual usage; however, only 20% of gasoline expenses are pro-rated and charged to the these entities. It appears the recorded percentages were not periodically compared to actual usage to determine if adjustments should be made.

Effective internal controls require reconciliations of fuel purchases to usage. Expenses recorded should reasonably agree to expenses incurred, by department. Without reconciliations of usage to actual gasoline on hand, the City is unable to verify that all usage is properly recorded, or subsequently billed, or both. In addition, expenses recorded do not accurately reflect usage, which hinders the budgeting, and financial reporting processes.

Recommendation

We recommend the City implement internal controls to reconcile gasoline purchases to actual usage, as recorded on monthly logs. Such reconciliation should include actual amounts on hand. Controls over the recording process should be strengthened to ensure amounts recorded by department accurately reflect usage by department.

Finding 23: Internal Controls Over Gravel Stockpile Are Not Sufficient

City purchases of gravel are delivered to an unused, low-traffic area behind the Water Park. The area accommodates approximately four large piles of gravel of various sizes, and decorative landscaping stone. There are no fences, gates, or other structures, to safeguard physical inventory from unauthorized access.

During the examination, auditors observed an individual load decorative gravel from the City stock pile into his pickup truck. Auditors inquired about the gravel, and learned it was the personal property of the Street Superintendent, and he had authorized the individual to obtain the gravel. Auditors were not able to determine if the gravel was, in fact, personal property of the Street Superintendent due to its location, co-mingled with the City's gravel stockpile. This lax control increases the risk that the City's supplies could be subject to personal use or theft.

Effective internal controls require inventory on hand to be physically secured. Lack of physical controls may result in misuse of City property.

Recommendation

We recommend the City take appropriate measures to safeguard physical inventory. For example, the City could move the stockpile to a more secure location, or provide adequate structures to prevent unauthorized access. Also, the City should not permit employees to use City property for storing equipment or supplies.

Finding 24: The Tourism Commission Lacks Adequate Segregation Of Duties Over Receipts

The Tourism Commission lacks adequate segregation of duties over receipts. This internal control deficiency exists because the bookkeeper is primarily responsible for opening mail, preparing deposits and checkout sheets, posting to the receipt ledger, and preparing financial statements. While the Tourism Director reviews bank reconciliations prepared by the bookkeeper, this oversight is not strong enough to mitigate the risks associated with this internal control weakness.

To adequately protect assets from misappropriation or inaccurate financial reporting, or both, the Tourism Commission should separate the duties of receipt and deposit preparation, receipt recording, and financial reporting processes to separate individuals. If, due to a limited number of staff size, that is not feasible, strong documented oversight of these areas should be performed by the Tourism Director, or a member of the Tourism Commission. Although no recordkeeping errors were noted during the special examination, strengthened controls protect employees in the normal course of business.

Recommendation

We recommend the Tourism Commission strengthen internal controls to mitigate the effects of the control deficiency. The Tourism Commission may segregate the duties in the receipt recording process, or may implement compensating controls to provide additional oversight. Examples of compensating controls are noted below. Compensating controls should be documented by reviewer initials and date on applicable documents.

- Comparison of deposits to daily checkout sheets by the Tourism Director or a member of the Tourism Commission.
- Comparison of daily checkout sheets to the receipt ledger by the Tourism Director or a member of the Tourism Commission.

Finding 25: The City Lacks Adequate Segregation Of Duties Over General Fund And Recreation Fund Receipts

The City lacks adequate segregation of duties over general fund and recreation fund receipts collected by the City Clerk’s office. This internal control deficiency exists because the City Clerk may open mail, prepare receipts, deposits and daily deposit sheets, record in the receipt ledger, prepare financial statements, and prepare the bank reconciliations.

To adequately protect assets from misappropriation or inaccurate financial reporting, or both, the City should separate the duties of receipt and deposit preparation, receipt recording, and financial reporting processes to separate individuals. If, due to a limited number of staff size, that is not feasible, strong documented oversight of these areas should be performed by the Mayor, or his designee. Although no recordkeeping errors were noted during the special examination, strengthened controls protect employees in the normal course of business.

Recommendation

We recommend the City strengthen internal controls to mitigate the effects of the control deficiency. The City may segregate the duties in the receipt recording process, or may implement compensating controls to provide additional oversight. Examples of compensating controls are noted below. Compensating controls should be documented by reviewer initials and date on applicable documents.

- Comparison of deposits to daily checkout sheets by the Mayor, or his designee.
- Comparison of daily checkout sheets to the receipt ledger by the Mayor, or his designee.

Finding 26: The City Should Ensure Use Of City Owned Vehicles Are Properly Taxed As A Fringe Benefit

Two employees, the Street Superintendent and assistant Street Superintendent, drive City-owned vehicles to their personal residences during non-work hours. However, other Street Department employees are required to park city vehicles at the City Street Department during non-work hours. The use of City vehicles by these two employees is not recorded as a fringe benefit on the employees’ W-2 forms.

City Ordinance 36.18 addresses “Use Of City Property, Equipment And Personnel.” It reads, “no officer or employee of the city shall use or permit the use of any city funds, time, personnel, equipment, or other personal or real property for the use of any person, unless:

- 1) Such use is specifically authorized by a stated city policy.
- 2) Such use is available to the general public, and then, only to the extent and upon the terms that such use is available to the general public.”

Further, IRS Publication 15B, outlines taxable fringe benefits, and notes more than minimal usage should be included in the recipient's pay. Since use of city-owned vehicles is not provided to other Street Department employees, it is reasonable to conclude the benefit is not a necessity for job performance. The City maintains insurance, provides maintenance for these vehicles, as well as gasoline. Use of these vehicles may also be considered discrimination between employees, in which two employees are provided benefits not afforded to others. As a result, two employees have received tax-free fringe benefits.

Recommendation

We recommend the City and City Legal Counsel review City Ordinance 36.18 for proper treatment of City assets. The City should take action to ensure all fringe benefits are properly reported and taxed in accordance with IRS guidelines, and benefits are consistently provided to all employees.

Finding 27: Internal Controls Should Be Strengthened Over The Vehicle Disposal Process

We reviewed the process for vehicle disposal and noted the following findings:

- Fourteen (14) vehicles were not declared surplus by Council, prior to being sold.

- Significant delays are noted from the time vehicles are sold, and the date on which the titles are transferred to the purchasers. For example,
 - 2004 Chevrolet Impala was sold on January 4, 2010 for \$2,200; however, the title was not transferred until August 30, 2010. The purchaser of this vehicle was a private individual; however, the vehicle was transferred to the car dealership owned by the Mayor. Although value of the vehicle in 2010 could not be obtained, auditors determined the NADA value of the vehicle during September 2013 was \$5,525.
 - 1994 Ford Mustang was sold at auction on December 2, 2009; however, the title was not transferred until February 24, 2010.
 - 1989 Ford F150 was sold on May 27, 2008. The City received payment on June 20, 2008; however the title was not transferred until July 7, 2008.
 - 1998 Chevrolet S10 was sold on November 9, 2010; however, the title was not transferred until January 25, 2011.

- The City did not obtain a title to a forfeited 2004 Honda VTX prior to sale. The motorcycle was forfeited to the City on December 12, 2008. The City rejected bids received on January 5, 2009, because all were less than reserve amount of \$4,500. The high bid was \$826. Subsequently, the Mayor sold the motorcycle on January 8, 2009 for \$4,150; however, the City did not have a title to be properly transferred.

- The 1968 Star Camper owned by the City is no longer in the City's possession; however, the camper's title is still active, in the name of the City. Records maintained in City Hall note the Street Superintendent may have authorized the camper to be traded for work performed. The City purchased the camper to be used for mobile concession sales on May 25, 2005, for \$1,800. Auditors inquired with the Street Superintendent, who stated he was unaware the City owned a mobile concession camper.

KRS 82.083(2) notes that before a city sells or otherwise disposes of any real or personal property, the city shall make a written determination setting forth and fully describing: (a) the real or personal property; (b) its intended use at the time of acquisition; (c) the reasons why it is in the public interest to dispose of it; and (d) the method of disposition to be used. Section (3) provides for various methods of disposition. Section (4) notes, "if a city receives no bids for the real or personal property, either at public or electronic auction or by sealed bid, the property may be disposed of, consistent with the public interest, in any manner deemed appropriate by the city. In those instances, a written description of the property, the method of disposal, and the amount of compensation, if any shall be made."

The City had not implemented adequate internal controls over the vehicle disposal process. When a process is not followed requiring the Council to declare property as surplus prior to its sale or disposition, there is an increased risk that City assets could be stolen or misappropriated, and go undetected. Delays in transferring ownership of vehicles impacts insurance costs incurred, and may have liability implications for the City. Failure to properly obtain a title prevents the City from documenting ownership, further increasing the risk of theft or misappropriation.

Recommendation

We recommend all surplus assets be declared surplus by the Council, and the method of disposition as set out in statute determined and documented at that time. At such time, the City should ensure it holds active titles for all vehicles prior to sale. Once sold, titles should be transferred to purchasers in a timely manner. In no circumstance should a City asset be disposed of without the proper authorization and valid documentation.

Finding 28: Amounts Paid For Land Purchases Significantly Exceeded Assessed Values

During the course of the examination, auditors identified two land purchases without appraisals in which purchase prices exceeded taxable values and prior owners' purchase prices. Details of these purchases are as follows:

- On June 22, 2000, a former Jailer purchased a 1.2 acre tract of land, located on South Main Street for \$2,000. The 2007 property tax roll noted the property's assessed value was \$2,000. On January 10, 2007, the City purchased the tract of land for \$15,000.

Findings and Recommendations

- On August 16, 1990, an individual purchased a 0.24 acre tract of land, located on North Main Street for \$1,000. The 2007 tax roll noted the property's assessed value was \$2,500. On April 5, 2010, the City purchased the tract of land for \$12,000.

In order for expenditures to be for the best use of taxpayer funds, property acquired should be procured through a negotiation process that yields a fair price to both the seller and the City. Paying a price significantly higher than assessed value, without an appraisal, for property may result in an unnecessary waste of taxpayer monies.

Recommendation

We recommend the City obtain appraisals of current property values prior to purchase. These appraisals should be considered when negotiating purchase price. The Mayor should ensure purchase prices are both fair to the seller and in the best interest of the taxpayers.

APPENDICES

Appendix A - Summary of Co-Endorsed Checks By Payee

<u>Payee</u>	<u>Total No. of Checks</u>	<u>Total - All Fiscal Years</u>	<u>Description</u>	<u>Inadequate Supporting Documentation Provided</u>
Water Park Payroll	149	\$ 27,001	Water Park employee payroll checks	Time cards not signed by employees, but authorized by Water Park Manager
Contract Worker #1	7	725	Mowed lawn, landscaping	Handwritten statements prepared by Street Superintendent, check authorization in which materials & service were verified by the Street Superintendent & the Mayor, and computerized invoice prepared by the Tourism Commission bookkeeper
Contract Worker #2	14	7,381	Landscaping, Daniel Boone Festival worker Repairs at Health Department Building	Handwritten statements prepared by Street Superintendent, and computerized invoice prepared by the Tourism Commission bookkeeper
Contract Worker #3	3	643	Landscaper, Daniel Boone Festival worker	Handwritten statement prepared by the Street Superintendent
Contract Worker #4	3	1,070	Repairs at Health Department Building Labor at City Hall, Work on slide & pool deck at Water Park	Handwritten statement prepared by the Street Superintendent, and check authorization in which materials or services were verified by Mayor
Contract Worker #5	1	1,000	Repair & paint two police cruisers	Computerized invoice, including notation that disbursement should be delivered to the Mayor
Contract Worker #6	1	255	Roof repair on General Store	Handwritten statement prepared by the Street Superintendent
Contract Worker #7	1	200	Cleaning shelters at RV park	Check authorization in which materials or services were verified by Mayor
Vendor #1	1	185	Flowers	Handwritten statement prepared by the Street Superintendent
Seasonal Workers	3	125	Wear costume(s) for display at festival & parade	For one individual, a check authorization in which materials or services were verified by the Mayor. No documentation was available for the other two payees.
	<u>183</u>	<u>\$ 38,585</u>		


Source: City of Barboursville General Fund Expenditure Ledger, Recreation Fund Expenditure Ledger, Tourism Commission Expenditure Ledger, and Supporting Documentation

Appendix A1 - Summary of Co-Endorsed Checks By Fiscal Year, Fund, and Payee

Fiscal Year	Fund	Number of Checks	Water Park Payroll	Contract Worker #1	Contract Worker #2	Contract Worker #3	Contract Worker #4	Contract Worker #5	Contract Worker #6	Contract Worker #7	Vendor #1	Seasonal Workers	Total
2007	Recreation	23	\$ 3,561	\$	\$	\$	\$	\$	\$ 255	\$	\$	\$	\$ 3,816
2008	Recreation	51	7,604										7,604
2009	Recreation	49	9,062										9,062
2010	General	3			2,700								2,700
2010	Recreation	22	5,152										5,152
2011	General	6			2,668			1,000					3,668
2011	Recreation	4	226		350							50	626
2012	General	8		320	1,325	395	410				185		2,635
2012	Recreation	5	711				360			200		75	1,346
2012	Tourism	1		90									90
2013	General	3			248	248	300						796
2013	Recreation	2	685										685
2013	Tourism	6		315	90								405
		<u>183</u>	<u>\$ 27,001</u>	<u>\$ 725</u>	<u>\$ 7,381</u>	<u>\$ 643</u>	<u>\$ 1,070</u>	<u>\$ 1,000</u>	<u>\$ 255</u>	<u>\$ 200</u>	<u>\$ 185</u>	<u>\$ 125</u>	<u>\$ 38,585</u>

Appendix B - Invoice Example

As noted on page 4, this is an example of an invoice in which payment was directed to be delivered to the Mayor.



Invoice

Date: 7/6/10
Invoice # 234


To **CITY OF BARBOURVILLE**

Salesperson	Job	Payment Terms	Due Date
		Due on receipt	

Qty	Description	Unit Price	Line Total
2	REPAIR & PAINT CRUISER #33 & # 35	\$500.00	1,000.00

	Subtotal	1000.00
	Sales Tax	
	Total	1000.00

Make all c
Th *Give check to*



David Thompson

200-5780

Appendix C - Summary of Payments to General Contractor During FY 2007

Fiscal Year 2007				
Fund	Check Date	Vendor	Amount	Invoice Description
General	02/07/07	General Contractor	\$ 1,980	Tree Pruning, removal of debris at High St. Owens House, Daniel Boone Dr., Sycamore St., City Parking
Recreation	02/07/07	General Contractor	6,420	City Park, Ball Park, South Main Park tree pruning complete tree removal, mulching 66 total trees
General	03/05/07	General Contractor	5,110	Tree work North Main, Pine St.- Ponding areas for drain Catron Ave, Henson Ln, Minton Dr.
Recreation	03/05/07	General Contractor	3,813	Week lease for roller & grader for new football field & walking track. Paint waterpark concession & hallway.
General	03/21/07	General Contractor	6,580	Ponding areas Sycamore St, City School, Knox Ctrl, Union College to Allison Ave.
Recreation	03/21/07	General Contractor	1,940	Ballpark grade work, build pitchers mound, complete sod infield, install brick dust
Recreation	04/12/07	General Contractor	4,855	Painting interior bathrooms & exterior storage buildings (color change). Remove & replace pipe on ball park fences. Paint bathrooms & gazebo (color change), wood work picnic tables & gazebo, paint water park concession breezeway & exterior building.
Recreation	04/26/07	General Contractor	3,075	Install tarp over bleachers at ball parks. Stain picnic tables, bleachers, bridge railings
Recreation	04/26/07	General Contractor	980	Red Bud Festival - put up orange security fence, placed bales of hay in garbage bags, installed banners & signs, removed fence, banners & signs.
Recreation	05/10/07	General Contractor	3,270	Exterior staining tables, benches, gazebo, all post, horsehoe planks, garbage can holders, courthouse benches. General labor includes cleaning wave pool, lazy river, filters. Stain ball park wood and work on field.
Recreation	05/25/07	General Contractor	7,900	Exterior painting gazebo roof, #3 shelter top, rafters & legs, #2 shelter roof. Remove caulking & recaulk & and paint floors, paint on bldgs, filter house, concession top, wave pool top & sides
General	06/29/07	General Contractor	800	Hauling dirt behind City School, pushed up brush debris at Sycamore Street
			\$ 46,723	

Source: City of Barboursville General Fund Expenditure Ledger, Recreation Fund Expenditure Ledger, and Supporting Documentation

Appendix C - Summary of Payments to General Contractor During FY 2008

Fiscal Year 2008				
Fund	Check Date	Vendor	Amount	Invoice Description
Recreation	07/05/07	General Contractor	\$ 810	Paint #1 Shelter and roller for road work at RV Park
General	07/06/07	General Contractor	1,901	Exterior Curb Painting 6,336 ft @\$.30 per ft
General	07/19/07	General Contractor	3,800	Paint Yellow Curbs Cumberland Ave, North Main St. Sycamore St, Black St. 10,988 @ \$0.30, Guardrail Daniel Boone 1,008 ft @ \$.50
General	08/02/07	General Contractor	2,652	Paint Guardrail on Daniel Boone Drive, Manchester St. Bruner Ln, Park Hill & paint curb Johnson & South Cumberland
General	08/16/07	General Contractor	1,563	Paint Guardrail on North Main, and fire hydrants on Sycamore St., Pine St., N Main St., High St.
Recreation	08/16/07	General Contractor	1,130	Paint dugouts, replace yellow pipe & repaired wind screens on tennis courts
General	08/30/07	General Contractor	2,230	Remove old paint, wash and repaint fire hydrants, remove caulk & replace caulk around windows at City Hall
Recreation	08/30/07	General Contractor	380	Paint Gazebo floor, railing, ceiling due to vandalism
General	09/13/07	General Contractor	2,655	Paint yellow curbing, tuck and paint mortar joints of building at City Hall
Recreation	10/03/07	General Contractor	2,610	Ditch-witch rental and operator to install water lines & valve at Thompson Park. Install door & paint door at mobile stage, restrained picnic tables at parks, removed tarps covering ballpark, repaired netting
Recreation	10/11/07	General Contractor	6,698	Labor for building shelter at South Main Park
			<u>\$ 26,429</u>	

Source: City of Barboursville General Fund Expenditure Ledger, Recreation Fund Expenditure Ledger, and Supporting Documentation

Appendix D - Selected Payments to Plumber and Electrician During FY 2012 and 2013

Items listed below are invoice descriptions for the plumber and electrician that auditors identified as work that could be performed by City employees or that is unnecessarily repetitive.

Fiscal Years 2012 & 2013				
Fund	Date	Vendor	Amount	Invoice Description
Recreation	01/12/12	Electrician	\$ 725	Repair and replace fence at ball park (materials and labor)
Recreation	03/19/12	Plumber	160	Open restrooms at ball park and Walnut Park
Recreation	03/27/12	Plumber	480	Open water park restrooms and concession for summer, turned water on to building and fixed toilets
Recreation	10/04/12	Electrician	355	Repair lights and set timers at water park and Thompson park
Recreation	10/04/12	Plumber	250	Winterizing ballparks and repaired a urinal
Recreation	11/29/12	Plumber	385	Winterizing City park and water park
General	11/29/12	Plumber	70	Winterizing bathroom at recycling center
Recreation	03/21/13	Plumber	140	Install new hydrant for RV park
Recreation	04/18/13	Plumber	545	Parts and labor for opening water park, install urinal in bathroom, turned on water to sinks and toilet at ball park
Recreation	05/16/13	Electrician	510	Repair fences at tennis courts & ball parks, repair electric RV hook-up at RV park & repair electric at parks
General	05/16/13	Electrician	95	Repair fence at storage building
Recreation	05/24/13	Plumber	590	Labor for opening water park, working on blue slide, kiddie pool and wave pool, rebuilt shower, fixed faucet and drinking fountain at water park.
Total Selected Payments			\$ <u>4,305</u>	

Source: City of Barbourville General Fund Expenditure Ledger, Recreation Fund Expenditure Ledger, and Supporting Documentation

Appendix E - Selected Payments to Welder and Automobile Mechanics During FY 2012 and 2013

Fiscal Years 2012 & 2013				
Fund	Date	Vendor	Amount	Invoice Description
General	04/05/12	Welder	\$ 600	Work on sweeper rebuild hopper, bush hog mower, backhoe bucket
General	05/03/12	Welder	1,085	Work on sweeper hopper, bush hog, front bucket on backhoe
General	06/06/12	Welder	810	Labor on Backhoe bucket, sweeper bottom screen, mower deck and seat
General	06/28/12	Welder	1,164	Labor on Backhoe buckets, sweeper repair screen, bush hog, repair deck, trailer jack & light
General	08/07/12	Welder	1,865	Labor on sweeper, backhoe, and drains
General	08/09/12	Mechanic #1	508	Sweeper replace hoses, check wiring on backhoe, replace fuse wires & lights, Get steam jenny to run, Ranger #4 replace shift link, F700 repair hyd cyl, Install spark plug, wires and boots
General	09/12/12	Welder	1,080	Labor on sweeper screens, bushhog, and backhoe back bucket, and drain grate
General	01/10/13	Welder	300	Labor for sweeper and backhoe bucket
General	02/05/13	Welder	7,820	Replace metal on sweeper and paint and replace hooks of backhoe
General	03/05/13	Welder	775	Labor on dump truck and sweeper
General	04/10/13	Welder	560	Labor on Recycling trailer replace jack, sweeper screen in back and dump truck replace PTO shaft
Total Selected Payments			<u>\$ 16,567</u>	

Appendix F - Summary/Comparison of Auditors' Count to Number of Reported Participants Present

	Tuesday 08/06/13 2:30 pm	Wednesday 08/07/13 2:30 pm	Thursday 08/08/13 3:17 pm	Monday 08/12/13 10:27 am	Monday 08/12/13 2:40 pm	Wednesday 08/14/13 10:30 am	Wednesday 08/21/13 9:40 am	Thursday 08/22/13 9:18 am
Individuals Present: (at auditor's visit)	0	2	0	5	0 - closed	6	3	4
No. of Recycling Center Participants Over Reported to Placement Agency	11	8	5	7	5	9	9	7
No. of Verified KTAP Recipients Over Reported to Placement Agency as Present at Recycling Center	10	6	4	7	5	6	6	5

Source: City of Barboursville Recycling Center and Community Service Files at City Hall

Appendix H - Recycling Center Weekly Time Log/Sign-In Sheet Submitted to Placement Agency

Boxes represent auditors' on-site visits to Recycling Center. See Appendix F for the number over reported to placement agency based on auditor visit.

5th - 9th

WEEK OF NAME	MONDAY			TUESDAY			WEDNESDAY			THURSDAY			FRIDAY		
	IN	OUT	TOTAL	IN	OUT	TOTAL	IN	OUT	TOTAL	IN	OUT	TOTAL	IN	OUT	TOTAL
[REDACTED]	900	200		1100	400		1100	400		1100	400		1100	400	
				1000	300		1000	300					1000	300	
				1100	400		1100	400		1200	400		1200	400	
	1000	200					1100	400		1000	200		1000	300	
							1000	400							
	1000	300		1000	300		1000	300		1000	300				
				1100	400		1000	300		1100	400				
	1100	400		1100	400					1100	400		1100	400	
										1100	400		1100	400	
	1000	300		1000	300					800	1200		800	1200	
							1000	300		1000	300				
				1000	300		1000	300		1000	300		1000	300	
800	100		1100	400		900	200		900	200		900	200		
			800	100		800	100		800	100		800	100		

SUPERVISOR [Signature]

Appendix H - Recycling Center Weekly Time Log/Sign-In Sheet Submitted to Placement Agency
(Continued)

5th - 9th

WEEK OF	MONDAY			TUESDAY			WEDNESDAY			THURSDAY			FRIDAY		
NAME	IN	OUT	TOTAL	IN	OUT	TOTAL	IN	OUT	TOTAL	IN	OUT	TOTAL	IN	OUT	TOTAL
[REDACTED]	800	100		800	100		800	100							
[REDACTED]	1000	300		700	200		900	200		800	100		800	100	
[REDACTED]	1100	400		1100	400		1000	300		1000	300		1000	200	
[REDACTED]	1100	400		1100	400		900	1200		1100	400		1100	400	
[REDACTED]	1000	300		1100	400		1000	300		1000	300		1100	400	
[REDACTED]	1000	300		1000	300		1100	400		1100	400		1000	300	
[REDACTED]	800	100		800	100		800	100		1000	300		1500	400	
[REDACTED]	900	200		900	200		800	100		800	100				
[REDACTED]	800	300		800	300		900	200		800	100				
[REDACTED]	800	100		800	100		1000	300		800	1100				
[REDACTED]				800	100		800	100							

SUPERVISOR [Signature]

Appendix I - Example of Altered Water Park Free Season Pass Letter of Authorization

City of Barbourville

196 DANIEL BOONE DRIVE
P.O. BOX 1300 • BARBOURVILLE, KENTUCKY 40906
Phone (606) 546-6197

TDD Number:
1-800-247-2510

FAX:
606-546-4543

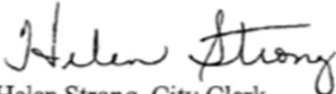
Give To 
For Photo

RECIPIENT:

This letter entitles the bearer to one (1) ~~2013~~ Barbourville Brickyard Waves Water Park
SEASON PASS.

Just bring this letter to the Barbourville Water Park, Monday thru Saturday, 11:00 a.m. to
5:30 p.m. or Sunday 1:00 p.m. to 5:30 p.m. to get your pass.

Thank you,


Helen Strong, City Clerk
City of Barbourville, Kentucky

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CITY OF BARBOURVILLE RESPONSE

City of Barbourville

196 DANIEL BOONE DRIVE
P.O. BOX 1300 • BARBOURVILLE, KENTUCKY 40906
Phone (606) 546-6197

TDD Number:
1-800-247-2510

FAX:
606-546-4543

January 3, 2014

Adam H. Edelen
Auditor of Public Accounts
209 St. Clair Street
Frankfort, Ky 40601-1817

I acknowledge receipt of the draft report for the City of Barbourville that we received on January 2, 2014, the following is my response as per your recommendation.

Finding 1: Acknowledge recommendation and discontinue practice of city employees and contractors.

Findings 2,3,4,11,13,14,15,16,17,18,19,20,21,22,23,24,25,27,28: Acknowledge and implement recommendation.

Finding 5: Acknowledge recommendation and will remove myself from the Barbourville Tourism and the Barbourville Recreation Board as a voting member effective as of January 1, 2014.

Finding 6: Acknowledge recommendation. Have forwarded memorandum of agreement on the Water Park and Ball Park to the Cumberland Valley Regional Board of Ethics.

Finding 7: Acknowledge recommendation and will establish guidelines and limitations on free passes for the Water Park.

Finding 8: Acknowledge recommendation and will implement policy to provide adequate oversight for all agreements and contracts as recommended. As of September 2012 I recused myself from the oversight of the Water Park.

Findings 9, 10: As of October 2013 all returns were properly filed and the appropriate tax was paid in full.

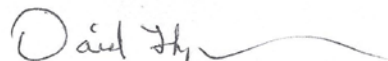
Finding 12: Acknowledge recommendation. Recommendation was implemented in May 2013.

Finding 26: Acknowledge recommendation and implemented for the 2013 calendar year.

If additional information is needed please advise.

Thanking you in advance for your continued cooperation.

I Remain Sincerely Yours,

A handwritten signature in cursive script that reads "David Thompson". The signature is written in black ink and includes a long, sweeping flourish that extends to the right.

David Thompson, Mayor
City of Barbourville, Ky

