

**EXAMINATION OF CERTAIN FINANCIAL OPERATIONS AND
INTERNAL POLICIES AND CONTROLS OF
THE CITY OF ELKHORN CITY**



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April 17, 2024

Nathan Bryant, Mayor
City of Elkhorn City
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Dear Mayor Bryant,

The Auditor of Public Accounts (APA) has completed its special examination of Elkhorn City (City). This report summarizes the procedures performed and communicates the results of those procedures. The purpose of this special examination was not to provide an opinion on the City's financial statements, but to review specific matters brought to our attention and make recommendations to strengthen and improve internal controls to ensure financial management activities are accurate, transparent, and follow applicable statutes.

Detailed findings and recommendations based on our special examination are presented in this report to assist management in implementing corrective action. Overall, these findings indicate the following:

- Failure by City officials to set the proper tone at the top and fulfill fiduciary duties.
- A lack of clear written policies and procedures for general operations and financial management functions.
- Poor financial management caused by a lack of adequate resources.
- Failure to obtain annual financial statement audits and submit them to the Department for Local Government, resulting in state funds being withheld.
- Numerous financial weaknesses, including inconsistencies in transaction testing, failure to properly manage past due accounts, failure to track coal and non-coal mineral severance funding, unallowable use of federal funds, inaccurate financial reports provided to the City Council, and failure to file required 1099s to independent contractors, including the former City Attorney.
- Noncompliance with state law requiring the formal adoption of a personnel and pay classification plan, improper award of employee bonuses from public funds, payroll

Nathan Bryant, Mayor

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checks being issued with insufficient funds in the City's bank account, and funds being withheld from employee checks but not remitted to the proper agency.

We appreciate your assistance and the assistance of your staff throughout the examination. If you have any questions or wish to discuss this report further, please contact Alexander Magera, Executive Director of the Office of Special Examinations.

Respectfully submitted,

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

Allison Ball
Auditor of Public Accounts

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CHAPTER 1: Introduction and Background

Examination Scope

The Auditor of Public Accounts (APA) initiated a special examination of Elkhorn City (City) on July 3, 2023, after receiving concerns regarding the City's financial activity. The purpose of this special examination was to review specific concerns reported to the APA and to make recommendations to ensure the City's operations are consistent, transparent, and follow established policies. This special examination was not to provide an opinion or duplicate routine financial statement audits. During this special examination, the APA reviewed and analyzed ordinances, general ledger reports, bank statements, check images, deposit slips, invoices, and receipts, as well as conducted interviews and performed other procedures as deemed necessary. Unless otherwise specified, the examination procedures focused primarily on activity between July 1, 2020, and March 31, 2023.

Elkhorn City

The City is located in Eastern Kentucky and has a population of 1,035 as of the 2020 U.S. Census. The City is organized and governed under a Mayor-Council form of government, pursuant to Kentucky Revised Statutes (KRS) 83A.130, and discussed in more detail in Chapter 2. Under this form of government, the mayor exercises executive authority over the city and is elected to serve a four-year term. The City's legislative body, the Council, comprises six elected members, each serving a two-year term.

Given the City's population size, KRS 91A.040(3) requires the City to obtain an annual financial statement audit after the end of every other odd-numbered fiscal year (FY). City financial statement audits are to be completed by March 1, immediately following the fiscal year to be audited, and a copy of the final audit is to be submitted to the Department for Local Government (DLG) by April 1. Although the City is not required to complete a financial audit in even-numbered years, it still must submit to DLG a financial statement no later than October 1, immediately following the close of the even-numbered fiscal year. The City's last audited financial statement was for FY 2019, as identified in Finding 1. Based on the City's last audit, governmental fund expenditures exceeded its revenues by \$62,500. Figure 1 outlines the City's revenues, expenditures, and other key financial information from the City's last completed audit.

Figure 1: FY 2019 Audited Financial Information for the City

Category	FY 2019
Total Revenues	\$ 497,583
Total Expenditures	560,083
Excess (Deficiency) of Revenues Over Expenditures	(62,500)
Total Other Financing Sources and Uses	0
Net Change in Fund Balances	(62,500)
Fund Balances Beginning	313,413
Fund Balances Ending	\$ 250,913

Source: APA, based on the City's FY 2019 audited financial statements.

CHAPTER 2: Overall Control Environment

General Overarching Observation: The City Lacks Strong Internal Controls.

A consistent theme in our review of the City's operations was the need for greater internal controls. We noted numerous instances of management and operational policy weaknesses. Internal controls are policies or processes that ensure an agency has reliable information, operates efficiently, complies with laws, and reduces the risk of fraud. It is the responsibility of management to create an environment of financial accountability and to ensure that internal controls are not only in place but strictly adhered to.

During the course of this limited-scope examination, numerous weaknesses were attributed to the City's inadequate internal controls. This observation primarily relates to three underlying issues: (1) failure by management to set the proper tone in establishing the seriousness of financial protocols and ensuring accountability in adhering to those protocols; (2) a lack of clear policies and procedures for general operations and financial management functions; and (3) poor financial management caused by a lack of adequate resources. These issues, in combination, have created an environment where the risk of undetected waste, fraud, and abuse is high and have prompted errors resulting in penalties, fees, and withheld state funds.

Failure to Set the Proper Tone and Ensure Accountability

A strong culture of accountability is critical to having effective controls, and the culture is established by management. Management's directions guide City personnel's decisions. Accountability begins with management and elected officials setting a proper tone by modeling expected behavior, complying with policies, acting proactively and not reactively, and consistently reviewing general operations for weaknesses.

Inaction by City officials has heightened the risk of undetected fraud, waste, and abuse. More specifically, the failure to obtain biennial financial statement audits since FY 2019, as discussed in Finding 1, and the failure to provide written financial guidance in the form of policies and procedures has led to multiple instances of inefficient and non-transparent operations. Personnel at all levels should be held accountable for any failures to follow policies, obtain appropriate approvals, and submit supporting documentation (See Finding 2 for more details).

As noted in Chapter 1, the City is organized under the mayor-council form of government and must have an elected executive (the mayor) and an elected legislative body (the city council). The distinguishing characteristic of the mayor-council plan is the clear separation of powers between the mayor and the city council. KRS 83A.130 summarizes the primary duties and authority of the mayor and members of the city council. More specifically, that statute explicitly sets out the mayor's executive functions and the city council's legislative functions, examples of which are outlined below in Figures 2 and 3:

Figure 2: Mayor Executive/Administrative Functions

Mayor Functions:
Hire, discipline, and terminate employees.
Supervise daily conduct of employees.
Appoint nonelected officers with council approval.
Require officers and employees to make reports.
Establish work procedures and regulations to govern work activities subject to council approval.
Report to council on the activities of employees and departments of city government and recommend legislative action by the council.
Make and sign contracts, notes, checks, purchase orders, and other legal documents.
Prepare, submit a budget proposal to the council, and administer the budget once passed.
Delegate authority to subordinate officers and employees when necessary.
Preside at council meetings.
Approve or veto ordinances.
Vote when necessary to break a tie, unless prohibited by statute.
Call special meetings of council.

Source: APA, based on KRS 83A.130.

Figure 3: Council Legislative Functions

Council Functions:
Establish all appointed offices and the duties and responsibilities of those offices.
Enact rules and regulations that apply to the general public to ensure the public's health, safety, and welfare.
Levy taxes and establish fees for city services.
Investigate the activities of government and officers and employees in continuance of its legislative function.
Adopt an annual budget appropriating funds to operate city government and amend the budget as necessary.
Disapprove mayoral regulations.
The majority may call special meetings in writing.

Source: APA, based on KRS 83A.130.

With a clear understanding of each officer's duties and authority, all City officials can work together to fix issues identified throughout this report. City officials are elected to serve the public interest and have a fiduciary duty to taxpayers. Accordingly, these officials must operate the City with the best interests of the taxpayers in mind and ensure that funds are expended in a responsible and transparent manner.

Lack of Written Policies and Procedures

The City lacks procurement policies and procedures that establish clear expectations for employees and elected officials to initiate, approve, document, and review expenditures. Policies and procedures, for procurement and otherwise, are necessary for the City to maintain the internal controls needed to prevent and detect errors, waste, and potential fraud, and to ensure that City ordinances are properly administered. Currently, the City Clerk handles most of the City's financial activities without the guidance of documented policies and procedures. Based on interviews conducted, the City Clerk performs these functions without any supervisory review. Without documented policies and procedures, the City's activities are inconsistent, internal controls are weak and ineffective, and the City is at risk of noncompliance with local, state, and federal laws and regulations.

Established and documented policies and procedures create a structure of rules that should be followed on a day-to-day basis. These policies can also address procedures to be used in times of transition or emergencies. Policies and procedures should be written and easily accessible to all employees to ensure that they are all aware of the applicable rules and requirements. Without written policies and procedures, there is no clarity regarding the controls and safeguards that should be in place to ensure financial transactions are properly handled, recorded, and supported by documentation, regardless of who holds a position.

Lack of Segregation of Duties

Duties assigned to the financial staff are not properly segregated. Without adequate segregation of duties, proper checks and balances are not in place to prevent employees from having too much access and control without appropriate oversight and monitoring. There are no written policies and procedures available to define responsibilities within City Hall.

As a result, employees routinely complete multiple financial functions that should not be performed by the same person. For example, the Water Clerk is responsible for a) billing water utility customers, b) adjusting water billing account balances, and c) accepting water billing payments, all without any supervisory review. Additionally, the City Clerk is tasked with handling the majority of the City's financial operations, with little oversight by the Mayor and the City Council. As shown in Finding 2, a review of selected transactions showed no evidence of approval by anyone except for the former City Clerk.

This structure puts a great deal of responsibility on one individual and increases the risk that waste, fraud, and abuse could occur undetected. Additionally, as discussed in Finding 2, numerous errors and weaknesses in financial operations have been identified, raising questions about the financial training and proficiency of staff and elected officials. These problems went largely undetected by the Mayor and City Council and contributed to the overall weak control structure.

Staff Turnover Without Succession Planning

Since the beginning of the examination period, to date, four different individuals have served as City Clerk, three were employed as Water Clerk, the City Attorney was replaced, and the Mayor announced his resignation in February 2024 but rescinded that resignation the following month. This level of turnover, and potential turnover, in a little over three and a half years enhances the need for long-term planning by the City regarding the impact of turnover in key positions. Without

the support of written guidance in place to ensure the continuation of services, the City is subjecting itself to a breakdown in leadership.

Recommendations

We recommend the City:

- Improve management's emphasis on the necessity of a strong internal control environment. Internal controls should be enforced at all levels. Expenditures should be fully supported by documentation that is properly retained. Budget limits should be consistently enforced. Monitoring efforts should be fully implemented and supported.
- Consult, in detail, KRS 83A.130 to ensure the achievement of all City responsibilities.
- Evaluate all significant operational processes to develop written policies and procedures and codify these policies in a formal administrative code.
- Request guidance from the Kentucky League of Cities in order to develop an administrative code that ensures the City operates in an efficient, effective, and professional manner to benefit the public it serves.
- Formally approve the administrative code through an action of the City Council and distribute the code to all City employees.
- Review and update the administrative code on a routine basis.
- Implement compensating controls to lessen the risk created by a lack of segregation of duties. Compensating controls can act as a backup to help the City identify errors or fraud later in the process.
- Develop a contingency plan for dealing with the potential loss of key employees and leadership.

CHAPTER 3: Findings and Recommendations

Finding 1: The City Did Not Comply With Statutory Requirements Regarding Financial Reporting to DLG.

The City routinely failed to meet statutory requirements related to external financial reporting, as outlined in KRS 91A.040. The City did not obtain biennial financial statement audits and, in turn, was also unable to submit required biennial financial audits to DLG. The City's non-compliance with these requirements extended from FY 2020 through FY 2023, resulting in various available state funds being withheld from the City. These biennial financial statement audits provide cities with necessary transparency and accountability; failure to regularly complete these financial reviews leaves the City without much opportunity to identify and correct even the most egregious risks in a timely manner. If the City continues to be ineligible for state funds due to its noncompliance, it will continue to use general or earmarked funds to cover expenses otherwise reimbursable under various state funding programs (depriving the City of its option to use those funds elsewhere).

Lack of Biennial Audits and Impact of the Failure to Report to DLG

KRS 91A.040(3)(a) requires the City to obtain a biennial financial statement audit after the end of each odd-numbered fiscal year, which must be completed by March 1 following the fiscal year being audited. KRS 91A.040(1) requires the City to submit that audit to DLG by April 1 of the following fiscal year from the one being audited. Finally, KRS 91A.040(3)(b) requires the City to submit a financial statement, in lieu of an audit, at the close of every other even-numbered financial year no later than October 1. However, the City has not done any of this since its FY 2019 audit.

If a city fails to submit its completed audit or financial statement to DLG, pursuant to KRS 91A.040(2), DLG must notify the Finance and Administration Cabinet (FAC) of the City's failure and request that "any funds in the possession of any agency, entity, or branch of state government shall be withheld from the city until further notice."

Since the City has failed to submit the required annual financial reporting starting in FY 2020, DLG has classified the City as non-compliant and requested FAC to withhold any state funds due to the City. This has resulted in the City's Municipal Road Aid (administered by the Transportation Cabinet's Department of Rural and Municipal Aid) and Kentucky Law Enforcement Foundation Program Fund (KLEFPF) monies [administered by the Justice and Public Safety Cabinet's Department of Criminal Justice Training (DOCJT)] being withheld.

As shown in Figure 4 below, DLG staff reported in February 2024 that the City had a total of \$51,176 in Municipal Road Aid funding—which can only be used for specific expenses related to city streets—being withheld for the periods between FY 2022 and FY 2024. The last allocation of these funds was released to the City for the period of September 2021.

Figure 4: Municipal Road Aid Withheld by FY and Amount

FY	Amount
FY 2022	\$ 14,861
FY 2023	20,514
FY 2024	15,801
Total	\$ 51,176

Source: APA, based on information from the Department for Local Government, as of February 9, 2024.

KLEFPF dollars, state funds used to reimburse the cost of providing an annual training-incentive stipend to officers, are also being withheld. According to DOCJT staff, DLG placed a hold on the City's account in October 2021 due to non-compliance. Figure 5 shows the amounts spent by the City on KLEFPF incentives for their police force without reimbursement by the state.

Figure 5: KLEFPF Withheld by CY and Amount

FY	KLEFPF Expended by the City	KLEFPF Reimbursed to the City
CY 2020	\$ 7,987	\$ 8,605
CY 2021	6,333	7,819
CY 2022	4,000	-
Total	\$ 18,320	\$ 16,424

Source: APA, based on information from the statewide account system, payroll summaries, and ledgers.

The loss of such funding leaves the City with the financial burden of these expenses and requires the City to use unallocated funding to cover these expenses instead of making it available for other uses.

Recommendations

We recommend the City:

- Comply with KRS 91A.040 regarding audit requirements. Appendix A includes a copy of KRS 91A.040.

Finding 2: The City Has Numerous Financial Governance Weaknesses.

A weak control environment, coupled with the City's lack of monitoring through regular audits, negatively impacted examination procedures and increased the risk of internal control failures across departments. As detailed below, inconsistencies in financial records were observed, including the lack of supporting documentation for some expenditures tested and questionable expenses being paid by the City. Additional observations outlined in this finding include the City's failure to manage its water utility accounts, failure to track certain types of expenditures within the City's accounting system, and misuse of federal funds. Such weaknesses in internal control not only increased the risk of internal control failure but also limited the APA's ability to fully examine the past financial activities of the City.

Inadequately Prepared Financial Statements

The City's FY 2019 audit included one finding that was considered a material weakness in internal control. The finding states that those charged with governance and the individuals responsible for performing the accounting functions lack the education and training to prepare financial statements under generally accepted accounting principles (GAAP), as they have not received an accounting education in preparing financial statements following GAAP. The finding goes on to say that accurate and timely financial statements must be available for those charged with governance and management to make financial decisions affecting the City. As a result, financial statements that those charged with governance and management receive are not prepared following GAAP.

Unfortunately, the FY 2019 auditor did not provide a recommendation for how to best address this situation. The City's response to the finding states:

City of Elkhorn City is a small organization and as such does not have the resources to hire a CPA. The operating budget is small and until the economy begins to improve and more income is generated, they are limited in their selection. The bookkeeper has received some limited software and accounting training for regular and routine transactions. If unusual or difficult to record transactions are encountered, advice from a CPA is sought.

Without a proper financial statement, it is difficult for the City to realize, understand, and address its true financial situation. Although the City may suffer from budgetary constraints that limit its ability to obtain professional advice in preparing accurate financial statements, fixing many of the financial problems below should help in acquiring the necessary resources to do so.

Inaccurate Financial Reports Provided to the City Council

The City Council was not provided accurate financial reports by the former City Clerk. A comparison of financial reports to ledgers found for the General Fund, Wastewater Department, Water Department, and Water Department Revenue all repeatedly showed differences between reported available funds and actual available funds. A total of 74 differences were noted, as shown in Figure 6.

Figure 6: Number of Differences Noted in Financial Report Comparison

Financial Reports	Number of Differences in Financial Statement & Ledger
Elkhorn City General Fund	23
Elkhorn City Wastewater Department	15
Elkhorn City Water Department	21
Elkhorn City Water Department Revenue	15
Total	74

Source: APA, based on financial reports and ledgers provided by the City.

While the General Fund, Wastewater Department, and Water Department are depicted on the financial statements as having more available funds than shown in their respective ledgers, the Water Department Revenue is represented at a lower balance than available. See Appendix B for additional details pertaining to the differences in the Financial Reports provided to the City Council. Such discrepancies in reporting leave members of the City Council at a disadvantage when planning and monitoring the City's budget and related financial activities.

Inconsistencies Shown in Transaction Testing

Seventy transactions (60 expenditures and 10 deposits) were selected for further review from the examination period; however, the City failed to provide adequate supporting documentation for 34 (or 49%) of the transactions selected for review. Below are examples:

- No supporting documentation was retained to explain the purpose of a single Amazon purchase made by the City, totaling over \$570.
- All eleven restaurant purchases reviewed, totaling \$859, failed to provide any information on attendees or details of what was purchased.
- Four donations were identified, totaling \$761, including a donation of \$500 to the Elkhorn City Area Women's Club.
- The City expended \$80 to purchase flowers for the funeral of the Mayor's father-in-law.
- The support for payment of cleaning services does not specify when or where the reported cleaning service was provided.
- A \$150 payment to an individual for cleaning a ditch did not include the date the work was performed.
- A \$500 payment to an individual for five days of flood clean-up does not indicate when the work was performed.
- Two payments, totaling \$497, to the Elkhorn City Senior Citizens for cleaning supplies did not detail what was reportedly purchased.
- The City paid \$95 in sales tax on the transactions reviewed, despite having tax-exempt status as a unit of local government.
- Fifteen expenditures were supported only by internally generated invoices that did not contain any additional details and were not signed by the contractor.

Due to the lack of supporting documentation, auditors were unable to fully test specific attributes, including if expenditures were reasonable in amount, beneficial to the public, and not personal in nature, all requirements put forth in the Kentucky Supreme Court case of *Funk v. Milliken*, 317

S.W.2d 499 (Ky. 1958) as applied to cities in *McWhorter v. City of Richmond*, 514 S.W.2d 678 (Ky. 1974). A total of \$5,197 in selected expenditures tested were unsupported.

In addition, the absence of procurement policies and procedures at the City, as discussed in Chapter 2, impacted the auditor's ability to confirm approval for purchases beyond the purchaser. As a result, City officials and employees followed undocumented practices that contributed to inconsistent financial oversight. Auditors observed that the 60 expenditures tested showed no evidence that approval had been received from a second party.

Failure to Properly Manage Past Due Water Accounts

The Water Clerk is the only position within the Water Department that is located at City Hall. The Water Clerk has little to no supervision or assistance and is the only employee who a) generates bills, b) adjusts, collects, documents, and deems sufficient bill payments, and c) prepares and makes deposits for the City. Since the beginning of the examination period, the City has employed three Water Clerks, with very little overlap in their terms of service. The current Water Clerk indicated that, although she found an online manual for the systems she uses for billing and collections, she has received no formal training on the systems or her responsibilities. Instead, the current Water Clerk expressed she is just “learning by trial and error.” The current Water Clerk acknowledged that City-specific guidance, such as written policies or procedures, do not exist. She expressed that City ordinances are available but do not address the business functions of the Water Department. Additionally, the current Water Clerk noted that the Mayor has requested various reports during her tenure, but the City Council only began requesting reports on past-due accounts in Fall 2023.

Such weaknesses in the City’s water utility billing and collection processes have impaired the City’s ability to investigate and collect the amounts due. As shown in Figure 7 below, as of January 4, 2024, there were 245 customers with past-due balances totaling \$116,498. Of the 111 active customers, 21 had been given a cut-off notice, which is given after 90 days of nonpayment, according to the former City Clerk. The total past-due balances for inactive customers totaled \$75,149 and included 25 deceased customers associated with \$16,193 of the past-due total.

Figure 7: Past Due Balances of Inactive and Active Customers, as of January 4, 2024

	Number of Customers	Past Due Amounts
Inactive Customers*	134	\$ 75,149
Active Customers	111	41,349
Total	245	\$ 116,498

Source: APA, based on past-due balance report from the City as of January 4, 2024.

*Includes 25 deceased customers.

Failure to Track Local Government Economic Assistance Fund Transactions

Pursuant to KRS 42.450 through KRS 42.495, the Local Government Economic Assistance Fund (LGEAF) is a revenue-sharing program in which a portion of state-collected coal and non-coal mineral severance taxes is returned to coal-producing and coal-impacted local governments. As shown in Figure 8, the City received LGEAF disbursements totaling \$89,275 between FY 2021 and FY 2023.

Figure 8: Local Government Economic Assistance Fund Disbursements Received in FY 2021, 2022, and 2023

	2021	2022	2023	Total
LGEA Coal Severance	\$ 8,157	\$ 12,089	\$ 25,420	\$ 45,666
LGEA Mineral Severance	4,831	11,784	26,994	43,610
Total	\$ 12,988	\$ 23,873	\$ 52,414	\$ 89,276

Source: APA, based on reports from the Department for Local Government.

Section 4 of Kentucky Administrative Regulation 109 KAR 10:010, which governs LGEAF disbursements, requires the following:

Section 4. Records. The Department of Local Government shall require that the generally accepted governmental auditing standards issued by the comptroller general of the United States be used by each recipient unit of local government required to submit an audit report to the Department of Local Government under provisions of KRS 42.460.

(1) If an acceptable audit report has not been submitted to the Department of Local Government, additional funds from the fund may be transferred to the local government unit for a period not to exceed eighteen (18) months after the end of the fiscal year.

(2) Each recipient government shall maintain a separate financial account for the receipt of any funds from the fund. Any expenditures or transfers shall be made from this account. Financial records shall include all earnings from investment of funds in accordance with KRS 42.455(4).

Despite the tracking requirements of 109 KAR 10:010, the City does not maintain a separate account for LGEAF transactions outside of the City's General Fund. According to the former City Clerk, the funds are deposited into the General Fund, and the City could account for what is received but not how the funds are spent, as the funds are not tracked. As a result, the City was unable to provide a listing of all relevant expenditures, and auditors were, in turn, unable to test for compliance despite the LGEAF program dictating the allowable and unallowable usage of funds.

Unallowable Use of Federal Funds

The City received federal funds totaling \$290,863 and \$495,604 in FY 2021 and FY 2022, respectively. Federal funds must be spent following federal guidelines, agreements, statutes, and regulations. The City did not maintain a strong internal control system over federal funds to ensure compliance. The City made a note payment of \$8,952 with Coronavirus State and Local Fiscal Recovery Funds (SLFRF) as authorized by the American Rescue Plan Act of 2021 (ARPA); however, SLFRF Funds may not be used to pay debt services. The Department of Treasury Final Rule regarding SLFRF states:

Next, the Restrictions on Use section describes limitations on how funds may be used. Treasury has divided the Restriction on Use section into (A) statutory restrictions under the ARPA, which include (1) offsetting a reduction in net tax revenue, and (2) deposits into pension funds, and (B) other restrictions on use,

which include (1) debt service and replenishing reserves, (2) settlements and judgments, and (3) general restrictions.

Since it appears that the note was used to pay the debt, there is a risk that the federal government might force the City to repay those funds.

Professional Services Not Properly Identified and Reported

The City has failed to identify and report professional services properly. Twelve individuals who provided services to the City between calendar years 2020 and 2022 were not issued a 1099. Others may not have been properly issued 1099s as well. The Internal Revenue Service (IRS), pursuant to Treasury Regulation § 1.6041-1, requires a 1099 to be issued for payments to anyone who performs services that is not an employee and is paid \$600 or more. Individuals who provided services but who were not issued 1099s include, but were not limited to, a laborer, gravel hauler, state electrical inspector, cleaner, and the former City Attorney. The amounts paid to the individuals ranged from \$600 to \$21,263, for a total of \$52,362.

Other Control Weaknesses Identified

- While auditors did not formally test the bidding process, it was observed that the City did not obtain bids for expenditures in which one vendor was paid \$72,350 for paving services in FY 2022. KRS 424.260(1)(d) requires a city to bid for “[c]ontractual services other than professional.” Section 164 of the Kentucky Constitution requires bidding for a city’s “grant [of] any franchise or privilege.” The Kentucky Court of Appeals’ interpretation of these provisions in *Southeast Bullitt Fire Protection District v. Southeast Bullitt Fire and Rescue Department*, 537 S.W.3d 828 (Ky. App. 2017), renders it an open question as to whether the City had to obtain bids for these expenditures. Moreover, these expenditures were paid with Federal Funds from the City’s ARPA Account.
- The City incurred 67 bank overdrafts across 10 bank accounts, totaling \$2,252 during the examination period.
- The City Clerk utilizes a signature stamp, with the Mayor’s signature, despite a lack of guidance and oversight as to when such usage is appropriate.

Recommendations

We recommend the City:

- Develop, approve, and adhere to formal written procurement policies and procedures. At a minimum, such standards should require the following:
 - Detailed invoices and receipts that record the payments for all goods and services purchased by the City. (Should the City determine that exceptions to this policy will be allowed, City-generated invoices should include, at a minimum, the signature of the provider of the goods or services and approval by the appropriate party, as well as details of what was purchased).
 - Documentation to support an expenditure must include the purpose of the expense, date, and supervisory approval.

- Definition of the roles and responsibilities of officials and employees in the procurement process, especially as it relates to approving and monitoring expenditures.
- Require that City personnel with any level of procurement authority receive formal procurement training on a periodic basis. Such training should include the bidding requirements, distribution of applicable state statutes, City policies and procedures, and any other applicable guidance, as well as a discussion of the consequences for failing to adhere to such guidance. City officials should maintain documentation of who has completed the training and should consult the City Attorney regarding procurement laws when questions arise.
- Ensure all purchases are reasonable in amount, beneficial to the public, and not predominantly personal.
- Refrain from the use of public funds for bereavement gifts and other more personal expenses. If a bereavement gift or other personal expense is desired to show compassion, we recommend the use of personal funds to cover the expense.
- Investigate and reconcile all past-due accounts. Implement sound procedures for collecting all accounts receivable and develop a consistent process for the treatment of past-due accounts, including fines and service disruptions, as approved by the City Council.
- When required, the City should maintain a separate account for tracking certain expenditures, such as LGEAF and federal grants. Additionally, City employees and elected officials should remain knowledgeable of what expenses are allowable and not allowable with various funds.
- Provide the City Council with complete and accurate financial reports. These reports should disclose sufficient financial information for City Council members to understand and discuss the City's financial operations.
- Properly issue 1099s to all individuals to whom the City pays \$600 or more in non-employee compensation who aren't typically employees.

Finding 3: The City Has Failed to Comply With Personnel Policy Requirements, Benefit Payments and Reporting, and Laws Relating to Paid Bonuses.

Auditors identified numerous personnel-related policy, payment, and benefits reporting issues faced by the City. Such issues include the failure to comply with state law requiring the formal adoption of a personnel and pay classification plan, violations of Section 3 of the Kentucky Constitution as it relates to bonuses awarded to City employees, payroll checks being issued with inadequate funds in the City's bank account, and funds being withheld from employee checks but not remitted to the proper agency. While many factors contributed to these issues, the lack of knowledge, training, and acceptance of fiduciary responsibility by staff and elected officials exacerbated the situation.

Noncompliance with Personnel Policy Requirements

The City has not established a personnel and pay classification plan as required by state statute. KRS 83A.070(2) states, "The legislative body of each city shall fix the compensation of city employees and nonelected city officers in accordance with a personnel and pay classification plan which shall be adopted by ordinance." A personnel pay and classification plan includes a position classification plan and a pay plan. In a position classification plan, all city jobs are classified according to duties and responsibilities. Cities are required to have such plans to ensure all employees are paid equally according to the nature of the work performed rather than according to subjective, non-job-related standards.

Although the former City Clerk was unsure whether the City had a plan, the Mayor confirmed that the City does not have an approved personnel and pay classification plan. While it remained unclear, based on interviews, as to whether or not such a plan had ever been developed and brought forth to the City Council for consideration, the failure to adopt the statutorily required personnel and pay classification plan lies with both parties – the Mayor and the members of the City Council. Such avoidance of responsibility has led to nontransparent compensation rates for City employees and may have led to an inconsistent application of rates, without merit, across a classification. For example, five City employees received significant raises without the approval of the City Council.

Unlawful Use of Public Funds to Award Bonuses

In December 2020, 2021, and 2022, the City expended \$17,948 to award employees Christmas bonuses. Additionally, in 2021, some employees received a yearly incentive totaling \$8,646. The Mayor determined the amounts of the bonuses and incentives, but these were not presented to the City Council. The Kentucky Office of Attorney General (OAG) opinion 62-1 states that the awarding of a bonus from public funds violates Section 3 of the Kentucky Constitution, as it uses public funds to pay for services not actually performed. Section 3 of the Kentucky Constitution states, "no grant of exclusive, separate public emoluments or privileges shall be made to any man or set of men, except in consideration of public services." To comply with the Kentucky Constitution, any payment to a public employee should be in consideration of public service, which has been interpreted to mean salary and wages fixed by the city's legislative body.

Insufficient Funds to Cover Payroll

On January 19, 2024, a City employee attempted to cash his paycheck but was immediately advised by the teller that the check could not be cashed due to the City's insufficient funds.

According to the City employee, this was the second time he and other City employees could not cash paychecks. This statement was confirmed by another City employee who noted that the employee's payroll check initially did not go through in November 2023. Such repeated encounters damage the reputation and public trust of both the Mayor and City Council.

Unremitted Funds Related to Benefits

KRS 78.610 and 78.635 establish employee and employer retirement contribution requirements to the Kentucky Public Pension Authority (KPPA). Additionally, KRS 78.625 establishes reporting requirements "necessary for the system to administer" public retirement.

As required by KRS 78.625(2), the following must be filed on or before the tenth day of the month following the period being reported:

- (a) The employee and employer contributions required under KRS 78.610 and 78.635;
- (b) The employer contributions and reimbursements for retiree health insurance premiums required under KRS 78.5540; and
- (c) A record of all contributions to the system on the forms prescribed by the system.

The City, however, failed to pay KPPA \$116,555 between July 1, 2020, and March 31, 2023, on behalf of its staff. Employees also had \$12,786 withheld from their paychecks in calendar years 2021 and 2022, which was not remitted to KPPA. A City employee reportedly contacted KPPA in the fall of 2023 and was told the employee's account was inactive and had not been paid since November 2021.

If all required contributions and reports are not filed on or before the tenth day of the month following the period being reported, interest on the delinquent contributions at the actuarial rate adopted by the board compounded annually, but not less than \$1,000, may be added to the amount due under KRS 78.625(3). Additionally, refunds and retirement allowance payments to members may be suspended until the delinquent contributions, including interest at the rate adopted by the board, compounded annually, or penalties have been paid.

Recommendations

We recommend the City:

- Adopt, by ordinance, a personnel pay and classification plan to include all positions currently or potentially held by city employees and nonelected city officers, setting the pay scale for each position and minimum and maximum pay rates.
- Discontinue paying bonuses to employees in violation of Section 3 of the Kentucky Constitution. Copies of Section 3 of the Kentucky Constitution and OAG Opinion 62-1 are included in Appendix C and D, respectively.
- Ensure the City has sufficient funds for employees to cash paychecks.

- Contact KPPA to discuss options for addressing prior failures to remit funds and determine how best to restore accounts.

Finding 4: Questions About the Validity of the City’s Restaurant Tax Linger Due to Noncompliance With KRS 83A.060.

It is unclear whether the City’s restaurant tax ordinance fully complies with KRS 83A.060, which sets forth the requirements for the proper enactment of city ordinances. Auditors contacted the City and former City Attorney regarding concerns that the ordinance did not fully comply with KRS 83A.060. Because KRS 83A.060(8) requires, among other things, all actions of a city legislative body to become permanent records of the city, auditors requested all information the City had surrounding the City’s compliance with KRS 83A.060 in its enactment and adoption of its restaurant tax ordinance. The City failed to provide any further documentation beyond what appeared to be an unofficial copy of the ordinance itself. Even after auditors followed up and requested additional information a second and third time, no further information was provided.

Beyond the failure to maintain the enacting ordinance as part of the City’s permanent records, the validity of the restaurant tax ordinance remains questionable as well. The version of the ordinance provided to auditors did not, as required by KRS 83A.060(2), include an enacting clause styled as, “Be it ordained by the City of Elkhorn City:”. Additionally, KRS 83A.060(9) states, “[N]o ordinance shall be enforceable until published pursuant to KRS Chapter 424. Ordinances may be published in full or in summary as designated by the legislative body.” However, the City was unable to bring forth evidence of publication. The ordinance is included in Appendix E. Finally, based on the limited information auditors could uncover and were provided, it is unclear whether the City is complying with KRS 91A.400(3), which requires that all restaurant tax moneys be turned over to the City’s tourist and convention commission.

Recommendations

We recommend the City:

- Ensure that the City is generally complying with the requirements of KRS 83A.060, which sets forth the requirements for the proper enactment of city ordinances when it enacts an ordinance.
- Ensure that the current restaurant tax ordinance was enacted in compliance with KRS 83A.060, and, if it cannot be affirmatively said that it does, reenact that ordinance in accordance with that statute.
- Ensure that all moneys collected from the restaurant tax are being turned over to the City’s tourist and convention commission in accordance with KRS 91A.400(3).

CHAPTER 4: Other Observations

Observation 1: Publicly Owned Vehicles Not Properly Identified.

The former City Clerk advised auditors that the City has five work trucks not marked as public vehicles. KRS 186.067(1) states that “[a]ll publicly owned vehicles shall be properly identified by an insignia on one (1) door on each side of every such vehicle.” We suggest that the City properly mark all City vehicles in accordance with KRS 186.067.

Observation 2: Discrepancies in Impound and Surplus Vehicle Receipts.

Auditors found discrepancies in the impound vehicle receipts when comparing the Police records to the City's deposit details. The impound vehicle receipts from the Police Department had a difference of \$1,485 when compared to the City's ledger. Additionally, the Police Department records for three surplus vehicles sold between January 15, 2022, and April 21, 2023, totaling \$2,800, did not agree with the deposit details. An email received from a police officer stated, "No money is passed through the police department hands at any time[.] [N]o money is put into the police department budget[.] [I]t all goes into the general fund and is controlled by the [C]ity [C]lerk." We suggest that the City properly account for all impound and surplus vehicle receipts.

Appendices

Appendix A: KRS 91A.040**91A.040 Annual and biennial city audits – Exemption -- Attestation engagement -- Financial statement -- Publication -- Contents -- Enforcement action -- Penalties -- Extension -- Withholding of state funds for noncompliance -- Audit expenses to be billed to audited city.**

- (1) Except as provided in subsections (2) to (4) of this section, each city shall, after the close of each fiscal year, cause each fund of the city to be audited by the Auditor of Public Accounts or a certified public accountant. The audit shall be completed by March 1 immediately following the fiscal year being audited. The city shall forward an electronic copy of the audit report to the Department for Local Government for information purposes by no later than April 1 immediately following the fiscal year being audited.
- (2) In lieu of the annual audit requirements in subsection (1) of this section, a city with a population equal to or less than one thousand (1,000) based upon the most recent federal decennial census may elect to have an audit performed every other fiscal year in the following manner:
 - (a) After the close of each odd-numbered fiscal year, the city shall for that odd-numbered year cause each fund of the city to be audited by the Auditor of Public Accounts or a certified public accountant. The audits shall be completed by March 1 immediately following the fiscal year to be audited. The city shall forward an electronic copy of the audit report to the Department for Local Government for information purposes by no later than April 1 immediately following the fiscal year being audited; and
 - (b) After the close of each even-numbered fiscal year, the city shall not be required to complete an annual audit but shall forward an electronic copy of its financial statement prepared in accordance with KRS 424.220 to the Department for Local Government by no later than October 1 immediately following the close of the even-numbered fiscal year.
- (3) In lieu of the annual audit requirements in subsection (1) of this section, a city with a population of more than one thousand (1,000) but less than two thousand (2,000) based upon the most recent federal decennial census may elect to have an audit performed every other fiscal year to cover the two (2) fiscal years occurring since the prior audit in the following manner:
 - (a) After the close of each odd-numbered fiscal year, the city shall cause each fund of the city to be audited by the Auditor of Public Accounts or a certified public accountant. The audit shall include both fiscal years since the prior audit and shall be completed by March 1 immediately following the fiscal years to be audited. The city shall forward an electronic copy of the audit report to the Department for Local Government for information purposes by no later than April 1 immediately following the fiscal years being audited; and
 - (b) After the close of each even-numbered fiscal year, the city shall not be required to complete an annual audit but shall forward an electronic copy of its financial statement prepared in accordance with KRS 424.220 to the Department for Local Government by no later than October 1 immediately following the close of the even-numbered fiscal year.
- (4) Any city, which for any fiscal year receives and expends, from all sources and for

all purposes, less than one hundred fifty thousand dollars (\$150,000), and which has no long-term debt, whether general obligation or revenue debt, shall not be required to audit each fund of the city for that particular fiscal year. In addition, each city exempted in accordance with this subsection shall:

- (a) Annually prepare a financial statement in accordance with KRS 424.220 and shall, not later than October 1 following the conclusion of the fiscal year, forward one (1) electronic copy to the Department for Local Government for information purposes; and
- (b) If exempted under this subsection for more than four (4) consecutive fiscal years after July 1, 2022, have prepared an attestation engagement covering the fourth fiscal year in which the city qualified for an exemption under this subsection. An attestation engagement completed pursuant to this subsection shall be:
 1. Prepared by an independent certified public accountant or by the Auditor of Public Accounts pursuant to a contract with the city using generally accepted attestation standards as promulgated by the American Institute of Certified Public Accountants and any additional procedures established by the Department for Local Government through administrative regulation;
 2. Completed by no later than March 1 immediately following the conclusion of the fiscal year in which in the attestation engagement is required;
 3. Submitted to the Department for Local Government as one (1) electronic copy no later than April 1 after its completion;
 4. Advertised to the public within thirty (30) days of its completion by causing the publication of a legal display advertisement of not less than six (6) column inches in a newspaper qualified under KRS 424.120 stating that the attestation has been prepared and copies have been provided to each local newspaper of general circulation, each news service, and each local radio and television station which has on file with the city a written request to receive copies of financial statements under KRS 424.220. Any city advertising under this subparagraph shall be exempt from publishing its financial statement under KRS 424.220(6)(b) for any year in which it is required to have an attestation engagement completed; and
 5. Provided to the Auditor of Public Accounts upon request for review of the final report and all related work papers and documents regarding the attestation engagement.
- (5) If a city is required by another provision of law to audit its funds more frequently or more stringently than is required by this section, the city shall also comply with the provisions of that law.
- (6) The Department for Local Government shall, upon request, make available electronic copies of the audit reports and financial statements received by it under subsections (1) to (4) of this section to the Legislative Research Commission to be used for the purposes of KRS 6.955 to 6.975 or to the Auditor of Public Accounts.

- (7) Each city required by this section to conduct an annual or biennial audit shall enter into a written contract with the selected auditor. The contract shall set forth all terms and conditions of the agreement which shall include but not be limited to requirements that:
- (a) The auditor be employed to examine the basic financial statements, which shall include the government-wide and fund financial statements;
 - (b) The auditor shall include in the annual or biennial city audit report an examination of local government economic assistance funds granted to the city under KRS 42.450 to 42.495. The auditor shall include a certification with the annual or biennial audit report that the funds were expended for the purpose intended;
 - (c) All audit information be prepared in accordance with generally accepted governmental auditing standards which include tests of the accounting records and auditing procedures considered necessary in the circumstances. Where the audit is to cover the use of state or federal funds, appropriate state or federal guidelines shall be utilized;
 - (d) The auditor shall prepare a typewritten or printed report embodying:
 - 1. The basic financial statements and accompanying supplemental and required supplemental information;
 - 2. The auditor's opinion on the basic financial statements or reasons why an opinion cannot be expressed; and
 - 3. Findings required to be reported as a result of the audit;
 - (e) The completed audit and all accompanying documentation shall be presented to the city legislative body at a regular or special meeting; and
 - (f) Any contract with a certified public accountant for an audit shall require the accountant to forward a copy of the audit report and management letters to the Auditor of Public Accounts upon request of the city or the Auditor of Public Accounts, and the Auditor of Public Accounts shall have the right to review the certified public accountant's work papers upon request.
- (8) A copy of an audit report which meets the requirements of this section shall be considered satisfactory and final in meeting any official request to a city for financial data, except for statutory or judicial requirements, or requirements of the Legislative Research Commission necessary to carry out the purposes of KRS 6.955 to 6.975.
- (9) Each city shall, within thirty (30) days after the presentation of an audit to the city legislative body, publish an advertisement in accordance with KRS Chapter 424 containing:
- (a) The auditor's opinion letter;
 - (b) The "Budgetary Comparison Schedules-Major Funds," which shall include the general fund and all major funds;
 - (c) A statement that a copy of the complete audit report, including financial statements and supplemental information, is on file at city hall and is available for public inspection during normal business hours;

- (d) A statement that any citizen may obtain from city hall a copy of the complete audit report, including financial statements and supplemental information, for his or her personal use;
 - (e) A statement which notifies citizens requesting a personal copy of the city audit report that they will be charged for duplication costs at a rate that shall not exceed twenty-five cents (\$0.25) per page; and
 - (f) A statement that copies of the financial statement prepared in accordance with KRS 424.220, when a financial statement is required by KRS 424.220, are available to the public at no cost at the business address of the officer responsible for preparation of the statement.
- (10) Any resident of the city or owner of real property within the city may bring an action in the Circuit Court to enforce the provisions of this section. Any person who violates any provision of this section shall be fined not less than fifty dollars (\$50) nor more than five hundred dollars (\$500). In addition, any officer who fails to comply with any of the provisions of this section shall, for each failure, be subject to a forfeiture of not less than fifty dollars (\$50) nor more than five hundred dollars (\$500), in the discretion of the court, which may be recovered only once in a civil action brought by any resident of the city or owner of real property within the city. The costs of all proceedings, including a reasonable fee for the attorney of the resident or property owner bringing the action, shall be assessed against the unsuccessful party.
- (11) In the event of extenuating circumstances that prevent a city from completing and submitting a required audit or financial statement in compliance with the applicable deadlines in subsections (1) to (4) of this section, the city may submit a written request for an extension of time to the Department for Local Government on a form prescribed by the Department for Local Government. The Department for Local Government shall approve the request if it is submitted on or before the applicable deadline and, in the judgment of the Department for Local Government, the request is warranted by extenuating circumstances beyond the control of the city. Extensions granted under this subsection shall not exceed nine (9) months from the original due date of the audit or financial statement. If the Department for Local Government approves an extension for a city and the city fails to complete and submit the required audit or financial statement in compliance with that extended deadline, then the provisions of subsection (12) of this section shall apply.
- (12) If a city fails to complete an audit or financial statement and submit it to the Department for Local Government as required in subsections (1) to (4) and (11) of this section, the Department for Local Government shall notify the Finance and Administration Cabinet that the city has failed to comply with the audit requirements of this section, and that any funds in the possession of any agency, entity, or branch of state government shall be withheld from the city until further notice. The Department for Local Government shall immediately notify the Finance and Administration Cabinet when the city complies with the requirements of subsections (1) to (4) and (11) of this section for all prior fiscal years it has failed to comply with the audit requirements of this section, and the Finance and Administration Cabinet shall direct the reinstatement of payments to the city,

including any funds that were withheld due to the noncompliance.

- (13) Within a reasonable time after the completion of a special audit or examination conducted pursuant to KRS 43.050, the Auditor shall bill the city for the actual expense of the audit or examination conducted. The actual expense shall include the hours of work performed on the audit or examination as well as reasonable associated costs, including but not limited to travel costs. The bill submitted to the city shall include a statement of the hourly rate, total hours, and total costs for the entire audit or examination.

Effective: July 14, 2022

History: Amended 2022 Ky. Acts ch. 103, sec. 2, effective July 14, 2022. -- Amended 2019 Ky. Acts ch. 91, sec. 1, effective June 27, 2019. -- Amended 2018 Ky. Acts ch. 10, sec. 1, effective July 14, 2018. -- Amended 2016 Ky. Acts ch. 17, sec. 2, effective July 15, 2016. -- Amended 2014 Ky. Acts ch. 5, sec. 3, effective July 15, 2014; and ch. 92, sec. 88, effective January 1, 2015. -- Amended 2010 Ky. Acts ch. 117, sec. 68, effective July 15, 2010. -- Amended 2007 Ky. Acts ch. 47, sec. 62, effective June 26, 2007. -- Amended 2006 Ky. Acts ch. 8, sec. 2, effective July 12, 2006. -- Amended 2000 Ky. Acts ch. 89, sec. 1, effective July 14, 2000. -- Amended 1998 Ky. Acts ch. 69, sec. 46, effective July 15, 1998. -- Amended 1992 Ky. Acts ch. 33, sec. 4, effective July 14, 1992. -- Amended 1990 Ky. Acts ch. 52, sec. 1, effective July 13, 1990. -- Amended 1986 Ky. Acts ch. 331, sec. 22, effective July 15, 1986. -- Amended 1984 Ky. Acts ch. 111, sec. 173, effective July 13, 1984. -- Amended 1982 Ky. Acts ch. 393, sec. 45, effective July 15, 1982; ch. 407, sec. 1, effective July 15, 1982; and ch. 430, sec. 1, effective July 15, 1982. -- Created 1980 Ky. Acts ch. 232, sec. 4, effective July 15, 1980.

Legislative Research Commission Note (4/15/2020). 2020 Ky. Acts ch. 91, sec. 73, which applies to fiscal years 2020-2021 and 2021-2022 and expires June 30, 2022 (see 2020 Ky. Acts ch. 91, sec. 80), states the following:

"Publishing Requirements: Notwithstanding KRS 83A.060, 91A.040, and Chapter 424, a county containing a population of more than 90,000 or any city within a county containing a population of more than 90,000, as determined by the 2010 United States Census, may publish enacted ordinances, audits, and bid solicitations by posting the full ordinance, the full audit report including the auditor's opinion letter, or the bid solicitation on an Internet Web site maintained by the county or city government for a period of at least one (1) year. If a county or city publishes ordinances, audits, or bid solicitations on an Internet Web site, the county or city shall also publish an advertisement, in a newspaper qualified in accordance with KRS 424.120, with a description of the ordinances, audits, or bid solicitations published on the Internet Web site, including the Uniform Resource Locator (URL) where the documents can be viewed. Any advertisement required to be published in a newspaper under KRS Chapter 424 shall contain the following statement at the end of the advertisement:

"This advertisement was paid for by [insert the name of the governmental body required to advertise in a newspaper] using taxpayer dollars in the amount of \$[insert the amount paid for the advertisement]."

Appendix B: Comparison of Financial Statements and Ledgers

General Fund Comparison			
General Fund			
	Ending Balance Per Financial Statement	Ending Balance Per Ledger	Difference in Financial Statement & Ledger
May-21	\$ 156,063	\$ 162,978	\$ (6,915)
Jun-21	106,228	104,785	1,443
Jul-21	95,686	93,800	1,886
Aug-21	126,683	117,638	9,045
Sep-21	101,032	89,366	11,666
Oct-21	73,557	61,891	11,666
Nov-21	108,323	96,658	11,666
Dec-21	39,097	26,933	12,164
Jan-22	220,395	208,231	12,164
Feb-22	225,178	213,014	12,164
Mar-22	157,057	147,118	9,939
Apr-22	104,500	93,561	10,939
May-22	CLOSED	1,481	
Jun-22	CLOSED		
New Account Opened			
May-22	\$ 193,271	\$ 145,900	\$ 47,370
Jun-22	90,233	42,863	47,370
Jul-22	52,870	5,500	47,370
Aug-22	55,496	8,126	47,370
Sep-22	50,864	8,622	42,242
Oct-22	70,317	28,427	41,889
Nov-22	51,616	9,727	41,889
Dec-22	51,419	9,495	41,924
Jan-23	64,868	23,191	41,677
Feb-23	49,187	4,510	44,677
Mar-23	48,019	3,343	44,677

Source: APA, based on financial reports and ledgers provided by the City.

Wastewater Department Comparison

Wastewater Department			
	Ending Balance Per Financial Statement	Ending Balance Per Ledger	Difference in Financial Statement & Ledger
Jan-22	\$ 12,586	\$ 11,015	\$ 1,571
Feb-22	3,109	(1,161)	4,270
Mar-22	14,936	10,148	4,788
Apr-22	7,085	1,365	5,721
May-22	6,756	1,035	5,721
Jun-22	6,743	1,023	5,721
Jul-22	12,330	6,609	5,721
Aug-22	7,819	2,098	5,721
Sep-22	5,434	4,618	816
Oct-22	6,323	5,507	816
Nov-22	5,222	4,406	816
Dec-22	14,753	10,702	4,051
Jan-23	971	(6,080)	7,051
Feb-23	7,717	1,516	6,201
Mar-23	10,730	4,529	6,201

Source: APA, based on financial reports and ledgers provided by the City.

Water Department Revenue Comparison

Water Department Revenue			
	Ending Balance Per Financial Statement	Ending Balance Per Ledger	Difference in Financial Statement & Ledger
Jan-22	\$ 18,414	\$ 17,295	\$ 1,120
Feb-22	32,050	18,672	13,378
Mar-22	18,103	4,726	13,378
Apr-22	42,073	28,696	13,378
May-22	69,530	51,646	17,884
Jun-22	14,954	(2,931)	17,884
Jul-22	17,527	(357)	17,884
Aug-22	17,809	(75)	17,884
Sep-22	43,639	30,755	12,884
Oct-22	12,010	(873)	12,883
Nov-22	7,532	(5,711)	13,243
Dec-22	6,474	(6,461)	12,935
Jan-23	10,303	(2,632)	12,935
Feb-23	36,337	23,401	12,936
Mar-23	26,966	11,029	15,936

Source: APA, based on financial reports and ledgers provided by the City.

Water Department Comparison

Water Department			
	Ending Balance Per Financial Statement	Ending Balance Per Ledger	Difference in Financial Statement & Ledger
Jul-21	\$ 9,875	\$ 12,051	\$ (2,176)
Aug-21	5,340	7,516	(2,176)
Sep-21	9,274	11,450	(2,176)
Oct-21	12,980	15,156	(2,176)
Nov-21	20,438	18,907	1,531
Dec-21	22,400	20,869	1,531
Jan-22	27,620	26,089	1,531
Feb-22	44,259	42,728	1,531
Mar-22	51,690	50,159	1,531
Apr-22	34,965	36,877	(1,912)
May-22	40,622	42,534	(1,912)
Jun-22	18,436	20,347	(1,912)
Jul-22	25,888	27,799	(1,912)
Aug-22	14,991	16,903	(1,912)
Sep-22	22,839	24,751	(1,912)
Oct-22	5,811	7,722	(1,912)
Nov-22	8,856	10,768	(1,912)
Dec-22	8,738	10,649	(1,912)
Jan-23	10,062	11,974	(1,912)
Feb-23	(1,018)	893	(1,912)
Mar-23	(4,070)	(2,159)	(1,911)

Source: APA, based on financial reports and ledgers provided by the City.

Appendix C: Section 3 of the Kentucky Constitution**Section 3 Men are equal -- No exclusive grant except for public services -- Property not to be exempted from taxation -- Grants revocable.**

All men, when they form a social compact, are equal; and no grant of exclusive, separate public emoluments or privileges shall be made to any man or set of men, except in consideration of public services; but no property shall be exempt from taxation except as provided in this Constitution, and every grant of a franchise, privilege or exemption, shall remain subject to revocation, alteration or amendment.

Text as Ratified on: August 3, 1891, and revised September 28, 1891.

History: Not yet amended.

Appendix D: OAG Opinion 62-1**OAG 62-1**

CITIES GENERALLY - Employees, bonus for

To: J. Gordon Lisanby, City Attorney, Princeton, Ky.
By: Walter C. Herdman, Asst. Atty. Genl., January 2, 1962

This is in answer to your telegram of December 27 in which you request an opinion as to whether or not it is legal for the City of Princeton to give a bonus to its city employees and policemen.

We must first consider the fact that the city is dealing with public funds and public employees. § 3 of the Kentucky Constitution prohibits the granting of separate public emoluments to any person or a set of persons except in consideration of public services. Now the employees referred to are paid a salary and this salary is required to be fixed by the city legislative body under the provisions of KRS 64.580 (1950). The granting or awarding of a bonus would seem to us to contravene the section of the Constitution referred to since it would seem to be using public funds for services not actually rendered.

Referring next to McQuillin, Municipal Corporations, Vol. 4, § 12.193, we find the general rule expressed regarding the granting of extra compensation as follows:

"Extra compensation is compensation over and above that fixed by contract or by law when the services were rendered. Where an officer performs duties imposed by law he is entitled to the compensation therefor fixed by law and no other. He is not entitled to extra compensation for services performed in the line of his official duty...."

In connection with the above quote, we refer you to the case of Ludlow Board of Education v. Ritchie, 149 Ky. 674, 149 S.W. 985 (1912). We also wish to refer you to the terms of KRS 64.410(2)(c) which prohibit a public officer from receiving for his services any fee for services not actually rendered and KRS 434.250 which prohibits any officer from paying any person any sum for services not actually rendered.

There is, of course, no prohibition against a city legislative body changing the compensation of city officers as fixed by it during their employment. This, however, would require an amendment to the ordinance setting forth the compensation of city employees.

Under the circumstances, therefore, we do not believe that the city is legally authorized to grant a bonus or additional compensation to city employees out of public funds over and above that amount fixed according to law.

Appendix E: Elkhorn City Restaurant Tax Ordinance

ELKHORN CITY RESTAURANT TAX

DEFINITIONS

(A) For the purposes of this Ordinance, the following definition shall apply unless the context clearly indicates or requires a different meaning.

COMMISSION. The Elkhorn City Tourism and Recreational Commission.

RESTAURANT. As used in this chapter, restaurant means any fixed or mobile commercial establishment that engages in the preparation and serving of ready-to-eat foods in portions to the consumer, including, but not limited to: restaurants, coffee shops, cafeterias, short order cafes, luncheonettes, grilles, tea rooms, sandwich shops, soda fountains, roadside stands, street vendor, catering kitchens, delicatessen, or similar places in which food is prepared for sale for consumption on the premises or elsewhere.

EXEMPTIONS. The following are not considered restaurants or are specifically exempted from the imposition of this tax.

- (a) School cafeterias operated by the Pike County Board of Education;
- (b) Any facility or cafeteria which derives more than 75% of their revenue from private insurance, Medicaid, Medicare or Social Security;
- (c) Food vending machines;
- (d) Establishments serving beverage only in single service or original containers;
- (e) Temporary food stand, operated by non-profit organizations are exempt from this tax; and
- (f) Alcoholic drinks that are taxed under the Alcohol Beverage Control Ordinance.

TAX. On and after January 1, 2021, there is hereby levied upon the retail sale of all food and beverages by a restaurant located within the municipal limits of the city a tax equal to three percent (3%) of the gross amount of each sale (excluding any other tax). This tax may or may not be passed on to the ultimate customer/consumer at the discretion of the restaurant.

REPORTING. On or before the twentieth (20th) day of each calendar month, each restaurant owner and/or operator shall report to the City Clerk on forms provided by the city the gross amount of sales of the restaurant from food and beverages for the preceding calendar month, and calculation of the tax due for that month by computing three percent (3%) of its gross sales from food and beverages. The owner/operator of the restaurant shall remit with the form the tax due to the City Clerk.

TRANSFER OF FUNDS. On or before the last day of each calendar month, the City Clerk shall transfer to the Elkhorn City Tourism and Recreational Commission any and all monies collected from the restaurant tax collected as of the twenty-fifth (25th) of the current month.

COLLECTION AND ENFORCEMENT.

(A) It shall be the duty of the City Clerk to collect and receive the restaurant tax imposed by this Ordinance.

(B) The City Clerk shall keep records showing the amount paid by each restaurant owner and/or operator and the date of such receipt.

(C) The Mayor is hereby charged with the enforcement of provisions of this Ordinance, and is hereby empowered to prescribe, adopt and promulgate, and enforce rules and regulations relating to any matter pertaining to the administration and enforcement of the provisions of the Ordinance, including but not limited to provisions of the reexamination and correction of returns to which any underpayment or overpayment is claimed or found to have been made, and the rules and regulations as promulgated by him shall be binding upon the taxpayer. Provided, however, all such rules, regulations and decisions shall be subject to the consent and approval of the Elkhorn City Council.

(D) The Mayor, or any agent or employee designated by him or her in writing, may examine the books, papers, and records of any restaurant in order to determine the accuracy of any return made, or if no return was made, to ascertain the amount of restaurant tax imposed by the terms of this Ordinance as he or she may deem is reasonably necessary for the purpose incident to the performance of his or her duties hereunder. The Mayor may enforce this right by application to the appropriate court having jurisdiction over these matters.

(E) The Mayor may dispense with examination of the books, papers, and records of any taxpayer in any case where the City Clerk is furnished with a certificate of a qualified Certified Public Accountant, or the sworn statement of any other reputable accountant or bookkeeper stating that the amount of restaurant tax reported conforms to the State or Federal Income Tax Return filed for the applicable period.

(F) A restaurant owner and/or operator who collects the restaurant tax from one (1) or more persons and who fails to file a return and make payments therewith shall in addition to the penalties prescribed herein upon conviction be subject to a civil fine of not less than fifty dollars (\$50.00) nor more than Five Hundred Dollars (\$500.00), for each offense. Such civil penalties shall be in addition to the penalties imposed within this Ordinance.

CONFIDENTIALITY. Any information, including returns, documents, or payments made pursuant hereto and any other information gained by the City Clerk or any other official, agent, or employee of the city as a result of any return, investigation, hearing or verification required or authorized by the Ordinance shall be confidential; except, in accordance with proper judicial order, and any person or agent divulging such information shall, upon conviction, be subject to a fine of not less than fifty dollars (\$50.00) nor more than five hundred dollars (\$500.00) or imprisonment not to exceed thirty (30) days, or both, at the discretion of the court, and upon conviction shall be dismissed from employment by the city. Provided, however, such person may disclose to the Commissioner of the Revenue Cabinet of the state or his or her duly authorized agent, or the Commissioner of Internal Revenue Service, or his or her duly authorized agent, all such information and extend the right to inspect any of the books and records of the city to said Commissioner of the Revenue Cabinet of the state and/or to said Commissioner of the Internal Revenue Service who must grant to the city the reciprocal right to obtain information from the files and records of the internal Revenue Service and maintains the privileged character of the information so furnished to them.

ADMINISTRATIVE DUTIES

The City Clerk, or any agent or employee designated by him or her in writing, shall have the following duties in connection with the restaurant tax:

(A) Keep accurate records of all returns and of all sums received for restaurant taxes. Such records shall contain the names and addresses of each taxpayer, and the dates and amounts of payments. He or she shall keep the original returns on file for a period of not less than three (3) years after filing.

(B) Enforce the provisions of this Ordinance, all in accordance with any policies set forth in any ordinance, municipal order, or executive order.

(C) Prepare forms and instructions for the returns and payments required by this Ordinance. All instructions shall be clear and shall be as short as possible.

(D) Examine returns and for any returns appearing to be incorrect, made inquiries, investigations, and adjustments in the amount of tax due.

(E) Where necessary to determine accurate figures for determining the amount of tax due, examine books, records, and information stored in computers of any taxpayer, provided that each city officer or employee acting under this Ordinance shall identify himself or herself and request the information desired. If the officer or employee is refused admission to any place of business or refused access to any records or computer memory, the City Clerk or employee shall leave the premises and shall seek an appropriate court order, with the assistance of the City Attorney, to obtain access to the information needed.

(F) The City Clerk shall approve the form of all returns and written instructions prior to use by an agent or employee designated by him or her in writing.

(G) The City Clerk may prepare pamphlets for distribution to the public, clearly explaining the restaurant tax, returns, and payments required.

REFUNDS AND OVERPAYMENTS.

(A) Any taxpayer (pursuant to this Ordinance) who truly believes that he has made or permitted an overpayment of his or her liability for any restaurant tax required by this Ordinance may apply for refund of said overpayment provided that he or she files an amended return, verified under oath and setting forth in detail the full explanation of the reason of the said claimed overpayment of his or her liability, within one (1) year of the date of said overpayment is made or the date said restaurant tax payment was due, whichever occurs first.

(B) If a refund has been properly claimed according to the provisions of section (A) above, then the City Clerk, with the Mayor's written approval shall have the authority to honor and refund any such overpayment actually made above actual liability upon the restaurant tax required under this Ordinance which he or she determines within his or her sole discretion was made through honest mistake or inadvertence.

(C) In no event shall any refund be made for any payment upon any restaurant tax unless the refund claim is submitted and filed in strict compliance with the foregoing provisions of this section upon such refund claim forms or amended return forms as hereafter shall be promulgated by the City Clerk from time to time.

FAILURE TO PAY.

(A) If the taxpayer liable for collecting the restaurant tax and filing a return fails to make a return, the City Clerk shall prepare an estimate of the amount of restaurant taxes due based on the best information available to them. The Mayor or City Clerk may make investigations to assist in making the estimate. He or she may consider the volume of business done in the same type of business, and any

other relevant matters. When the City Clerk estimates the restaurant taxes, the amount of interest and late charges provided by this Ordinance shall be added to the taxes due. He or she shall notify the taxpayer of the amount due. Such notification shall be in writing and shall contain a brief description of the method and estimated figures used in arriving at the estimated tax. Any taxpayer may dispute the amount of the estimated tax by filing within thirty (30) days of notification of the estimated taxes a return accompanied by payment of the entire balance due together with the interest and late charges due. Such return shall be processed like any late return, and shall establish the restaurant tax liability of the taxpayer in place of the estimated amount prepared by the City Clerk. However, the City Clerk may later determine that the amount shown in the return is insufficient so there is a deficiency, in the same manner as in the case of other returns.

(B) If the City Clerk determines, by examining available evidence, that the amount of restaurant taxes paid by the taxpayer is less than the amount required by this Ordinance, he or she shall notify the taxpayer of the deficiency. The City Clerk may use any of the methods authorized in division (A) of the section to determine whether a deficiency exists and to determine the amount of such deficiency. He or she shall thereupon notify the taxpayer of the deficiency. Such notice shall be in writing and shall state not only the amount of the deficiency but also the methods and estimates used in arriving at the amount of the deficiency. If the taxpayer does not object in writing within thirty (30) days of the date of receiving such notice, the taxpayer shall be deemed to have accepted the revised figures for the restaurant tax liability. If the taxpayer does file written objection within the time specified, the taxpayer shall pay the fees, together with penalties and interest, under protest and may thereupon pursue administrative and judicial remedies as provided by this chapter and by state law to seek a refund.

(C) If the City Clerk finds that any taxpayer has overpaid, he or she shall notify them of overpayment and shall refund the amount of the overpayment to them.

(D) When the City Clerk notifies any taxpayer of any estimated amount due, alleged overpayment, or refund, he or she shall include in the notice clear instructions on how, when, and where the taxpayer may protest or appeal the decision.

(E) If any taxpayer or any person, firm, association, or corporation required by this ordinance to pay a restaurant tax or to file a return shall fail to file any return for any month, such failure to file shall constitute a continuing offense against the city and the City Clerk may proceed to estimate and collect the restaurant taxes at any time. In all other cases, no increases shall be made in the taxpayer's restaurant tax liability unless the first notice of such increase is received by the taxpayer within three (3) years of the time the return was first due.

PENALTIES

(A) Any person, corporation, partnership, d/b/a or entity who fails to file any return required within the afore stated time or who fails to pay such restaurant tax when same shall become due, shall be charged a penalty of ten percent (10%) of the amount of the unpaid restaurant tax if not paid on or before the due date and another ten percent (10%) for each additional month such return remains un-filed or tax unpaid, not exceeding a penalty of twenty-five percent (25%) in the aggregate.

(B) All restaurant taxes imposed by the Ordinance which remain unpaid after they become due shall bear interest at the rate of one and one-half of one percent (1.5%) per month (or part thereof).

(C) Any person, corporation, partnership, d/b/a or entity who shall fail, neglect or refuse to make any return or pay any tax due required by this Ordinance or to pay the city those so withheld under the terms of this Ordinance, or any person who shall refuse to permit the City Clerk or any agent or

employee designated by him/her in writing, to examine books, records, and papers pertaining to information required under this Ordinance or who shall knowingly make any incomplete, false, or fraudulent return, or who shall attempt to do anything whatsoever to avoid the full disclosure of the amount of gross receipts in order to avoid the payment of the whole or any part of the restaurant license tax, shall become liable to the city for such tax as well as the interest and penalty thereon, and shall in addition, be subject to a fine of not less than fifty dollars (\$50.00) or more than five hundred dollars (\$500.00) or imprisonment for not less than thirty (30) days, each day of non filing constituting a separate offense. Such criminal penalties shall be in addition to the penalties imposed above.

(D) Any person presenting for payment a credit card, check or draft for payment of the taxes set forth in this section and the payment is dishonored, returned for non-sufficient funds (NSF) or charged back to the city account for any reason shall be charged a fee of fifty dollars (\$50.00) in addition to any other penalties, fees or interest provided for herein. Any payment to the city which is dishonored, returned for non-sufficient funds (NSF) or charged back to the city account for any reason shall be treated as if payment had not been received and penalties and interest for non- payment provided for herein shall be charged.

Elkhorn City Response



City of Elkhorn City

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Elkhorn City, Kentucky 41522

Telephone 606-754-5080 • Facsimile 606-754-8588

April 15, 2024

Hon. Allison Ball
Auditor of Public Accounts
209 St. Clair St
Frankfort, KY 40604-1817

RE: Elkhorn City's Response to Examination of Certain Financial Operations & Internal Policies and Controls of the City of Elkhorn City

To Whom It May Concern:

I am the attorney for Elkhorn City, KY. The purpose of this letter is to respond to the recent "Examination of Certain Financial Operations and Internal Policies & Controls of the City of Elkhorn City."

Although it may take some time to implement the recommendations issued throughout the Examination, Elkhorn City is committed a plan of action to adhere to these recommendations. Elkhorn City intends to take the following corrective actions based upon the recommendations contained within the Financial Examination and welcomes any assistance from the Auditor:

Chapter 2: Overall Control Environment

1. Improve management's emphasis on the necessity of a strong internal control environment. Internal controls should be enforced at all levels. Expenditures should be fully supported by documentation that is properly retained. Budget limits should be consistently enforced. Monitoring efforts should be fully implemented and supported.
 - a. Elkhorn agrees with this recommendation. Elkhorn City is currently contracted with a CPA firm to provide the City with audits. The City intends to base the budget upon these audits and will follow this recommendation when we get the audits complete which we anticipate to receive around Summer of 2024.
2. Consult, in detail, KRS 83A.130 to ensure the achievement of all city responsibilities.
 - a. Elkhorn city intends to consult with this Statute and abide by its terms.

3. Evaluate all significant operational processes to develop written policies and procedures and codify these policies in a formal administrative code.
 - a. Elkhorn City intends to develop and pass a formal administrative code.
4. Request guidance from the Kentucky League of Cities in order to develop an administrative code that ensures the City operates in an efficient, effective and professional manner to benefit the public it serves.
 - a. Elkhorn City intends to reach out to the KLC to request assistance on drafting the administrative code.
5. Formally approve the administrative code through an action of the City Council and distribute the code to all City employees.
 - a. Elkhorn City will approve an administrative code and distribute this to all City employees.
6. Review and update the administrative code on a routine basis.
 - a. The City agrees with this recommendation.
7. Implement compensating controls to lessen the risk created by a lack of segregation of duties. Compensating controls can act as a backup to help the City identify errors or fraud later in the process.
 - a. Elkhorn City will look into implementing compensating controls and will ask the KLC for assistance on this recommendation.
8. Develop a contingency plan for dealing with the potential loss of key employees and leadership.
 - a. Elkhorn City intends to developing a contingency plan for dealing with potential loss of key employees and leadership.

Chapter 3 Findings and recommendations

1. Finding One. The city did not comply with statutory requirements regarding financial reporting to DLG.
 - a. Comply with KRS 91A.040 regarding audit requirements.
 - i. The City intends to comply with KRS 91A.040.
2. Finding 2: The city has numerous financial governance weaknesses.
 - a. Detailed invoices and receipts that record the payments for all goods and services purchased by the City. (Should the City determine that exceptions to this policy will be allowed. City generated invoices should include, at minimum, the signatures of provider of goods or services and approval of the appropriate party, as well as details of what was purchased).
 - i. The city agrees and intends to implement this recommendation to improve financial governance weaknesses.
 - b. Documentation to support an expenditure must include the purpose of the expense, date and supervisory approval.

1. Elkhorn City will require more support for expenditures.
 - ii. Definition of the roles and responsibilities of officials and employees in the procurement process, especially as it relates to approving and monitoring expenditures.
 1. The City agrees and will define the roles and responsibilities of officials and employees in the procurement process.
3. Require that City personnel with any level of procurement authority receive formal procurement training on a periodic basis. Such training should include the bidding requirements, distribution of applicable state statutes. City policies and procedures and any other applicable guidance, as well as a discussion of the consequences for failing to adhere to such guidance. City officials should maintain documentation of who has completed the training and should consult the City Attorney regarding procurement laws when questions arise.
 - a. The City agrees. Recently, the City had a change in administration with a new Mayor and City Clerk. City officials and the City Clerk have already taken at least one training from the KLC and intend to seek other training opportunities. The City intends to keep all trainings completed logged and will seek assistance from the City attorney on procurement laws.
4. Ensure all purchases are reasonable in amount, beneficial to the public and not predominately personal.
 - a. The city agrees.
5. Refrain from the use of public funds for bereavement gifts and other more personal expenses. If a bereavement gift or other personal expense is desired to show compassion, we recommend the use of personal funds to cover the expense.
 - a. Personal funds only will be used for bereavement gifts.
6. Investigate and reconcile all past due accounts. Implement sound procedures for collecting all accounts receivable and develop consistent process for the treatment of past due accounts, including fines and service disruptions, as approved by the City Council.
 - a. The city agrees and intends to follow this recommendation.
7. When required, the City should maintain a separate account for tracking certain expenditures, such as LGEAF and federal grants. Additionally, City employees and elected officials should remain knowledgeable of what expense are allowable and not allowable with various funds.
 - a. The City agrees.
8. Provide the City Council with complete and accurate financial reports. These reports should disclose sufficient financial information for City Council members to understand and discuss the City's financial operations.
 - a. The City agrees and City officials have already instructed the city Clerk on the importance of creating correct reports.
9. Properly issue 1099s to all individuals to whom the City pays \$600 or more in non employee compensation who aren't typically employees.

- a. The City agrees.

Finding 3: The City has failed to comply with personnel policy requirements, benefit payments and reporting and laws relating to paid bonuses.

1. Adopt, by ordinance, a personnel pay and classification plan to include all positions currently or potentially held by city employees and nonelected city officers, setting the pay scale for each position and minimum and maximum pay rates.
 - a. The city agrees and intends to implement this recommendation. The City has recently found an old version of the Employee Handbook and is currently revising said handbook. Once the revised handbook is adopted, it will be distributed to all employees.
2. Discontinue paying bonuses to employees in violation of Section 3 of the Kentucky Constitution. Copies of Section 3 of the Kentucky Constitution and OAG Opinion 62-1 are included in Appendix C and D, respectively.
 - a. The City agrees.
3. Ensure the City has sufficient funds for employees to cash paychecks.
 - a. The City agrees.
4. Contact KPPA to discuss options for addressing prior failures to remit funds and determine how best to restore accounts.
 - a. The city agrees.

Finding 4: Questions about the validity of the City's Restaurant Tax Linger Due to noncompliance with KRS 93A.060.

1. Ensure that the City is generally complying with the requirements of KRS 83A.060, which sets forth the requirements for the proper enactment of city ordinance in accordance with that statute.
 - a. The city will consult with KRS 83A.060
2. Ensure that current restaurant tax ordinance was enacted in compliance with KRS 83A.060, and if it cannot be affirmative said that it does, reenact that ordinance in accordance with that statute.
 - a. The City agrees and will implement.
3. Ensure that all money collected from the restaurant tax are being turned over to the City's tourist and convention commission in accordance with KRS 91A.400(3).
 - a. The City agrees.

CHAPTER 4: Other Observations

Observation 1: Publicly Owned Vehicles not properly identified.

The former City Clerk advised auditors that the City has five work trucks not marked as public vehicles. KRS 186.067(1) states that "all publicly owned vehicles shall be properly identified

by an insignia on one (1) door on each side of every such vehicle.” We suggest that the City properly mark all City vehicles in accordance with KRS 186.067.

- a. The City agrees and will order stickers for their vehicles.

Observation 2: Discrepancies in Impound and Surplus Vehicle Receipts

Auditors found discrepancies in the impound vehicle receipts when comparing the Police records to the City’s deposit details. The impound vehicle receipts from the Police Department had a difference of \$1,485 when compared to the City’s ledger. Additionally, the Police Department records for three surplus vehicles sold between January 15, 2022, and April 21, 2023, totaling \$2,800, did not agree with the deposit details. An email received from a police officer stated, “No money is passed through the police department hands at any time. No money is put into the police department budget. It all goes into the general fund and is controlled by the city Clerk. We suggest the City properly account for all impound and surplus vehicle receipts.

If you have any questions or concerns, please contact my office.

Yours truly,

/s/ Steven Bailey
Steven Paul Bailey, JD/MBA