



**EXAMINATION OF SELECTED ACTIVITIES
AND TRANSACTIONS OF THE
MARTIN COUNTY FISCAL COURT**

**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

May 17, 2002

The Honorable Lon Lafferty, Judge-Executive
Martin County Fiscal Court
P.O. Box 309
Inez, Kentucky 41224

RE: Martin County Examination

Dear Judge Lafferty:

We have completed our examination of certain activities and transactions involving Martin County (County) funds. We began this examination because of concerns brought to our attention. The concerns included the use of a County credit card, the purchase of personal items, and issues relating to contract work performed at Pigeon Roost Park.

Our examination was conducted to determine:

- Whether a County credit card was used to purchase personal items; and
- Whether the County's policies and procedures for credit card use were followed.

In addition, we examined the process used by the County to select a contractor for the Pigeon Roost Park project, how the County defined the scope of work performed, and how the total cost of the project was estimated.

During the course of our work we interviewed County officials, County employees, and private citizens. We also examined transaction documentation and other relevant information.

Judge Lafferty
May 17, 2002
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We found that strengthening internal controls could assist in procuring contractors and overseeing projects such as Pigeon Roost Park. Additionally, we identified a possible violation of the Martin County Code of Ethics. We will refer this matter to the Martin County Ethics Commission. We also identified evidence that indicates a County employee personally benefited from a series of transactions involving a County credit card. This matter will be referred to the appropriate authorities for further consideration.

Our findings are contained in the attached report. We wish to thank all parties involved for the cooperation received during the course of our work.

Very truly yours,

A handwritten signature in black ink, appearing to read "Ed Hatchett". The signature is written in a cursive style and is positioned above the typed name.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

EBHJr:kct

**Findings and
Recommendations**

**A County credit card was
used to purchase personal
items.**

The County has five Wal-Mart credit cards available for employees to make small purchases. All County personnel are allowed to use the cards. A tax-exempt card is checked out the same time an employee checks out a credit card.

A log of the employees' use of the cards is maintained by the Judge-Executive's Administrative Assistants. The log lists the individual's name, card check-out date, and return date. County personnel checking out a card do not always sign the log themselves; the Judge-Executive's Administrative Assistants on occasion sign the names of the employees checking out a card.

On June 19, 2001, the log shows that a Wal-Mart card was checked out to Magistrate Harmon. According to the log, the card was returned on June 21, 2001. Magistrate Harmon told us that he did not check out a Wal-Mart card on this date. However, one of the Judge-Executive's Administrative Assistants stated that Magistrate Harmon and a County employee (Employee) were in the Judge-Executive's office together on that date to check out a Wal-Mart card.

Sporting goods costing \$1,234.21 were purchased by a County employee with one of the County's Wal-Mart credit cards.

The Employee stated that she used the Wal-Mart card checked out to Magistrate Harmon at the Paintsville Wal-Mart on June 19, 2001, and acknowledged that she purchased \$1,234.21 of sporting goods to be used at the Pigeon Roost Park (see Exhibit A). According to Magistrate Harmon, he took the sporting goods purchased by the Employee to Pigeon Roost Elementary School about one week after the sporting goods were purchased. However, an inventory was not conducted upon receipt of the goods.

A gift card for \$122.26 appears to have been issued to a County employee for the return of sporting equipment.

On June 20, 2001, certain items identical to those on the sales receipt from the Paintsville Wal-Mart totaling \$115.34 were returned to the Prestonsburg Wal-Mart (see Exhibit B). A gift card in the amount of \$122.26 was issued to the person returning the items. (The original sales receipt was not presented

to the Prestonsburg Wal-Mart when goods were returned. This resulted in a refund of \$6.92 in sales tax not actually paid because of the County's tax-exempt status.)

The gift card was used to purchase \$127.20 of personal items.

Approximately one hour after the gift card was issued to the person returning the sporting goods, the same gift card was used to purchase \$127.20 of personal items including perfume and toys (see Exhibit C).

The Employee was suspended by the County because of the irregular transactions and a personnel hearing was held before the Fiscal Court. During this hearing, the Employee denied returning the sporting goods and purchasing personal items. Additionally, the Employee denied signing the return receipt. After the hearing, the Fiscal Court reinstated the Employee to her previous position.

The name of the Employee who originally purchased the sporting goods is signed on the return receipt. Additionally, the Employee's driver license number appears on the receipt. Based on our interview of the Prestonsburg Wal-Mart Assistant Manager, identification is required for all returned items above \$10 if a customer does not have the original purchase receipt.

No one at the hearing asked the Employee why her driver license number appeared on the receipt. County Attorney Drewie Muncy and Judge-Executive Lafferty informed the auditors that they were unaware that the Employee's driver license number was on the return receipt.

During our interview of the Employee, she acknowledged purchasing the sporting goods. However, before we could obtain any additional information related to the purchase and return of the equipment, the Employee terminated the interview and referred us to her attorney. Her attorney has not responded to our repeated requests for additional information.

Based on the circumstances surrounding the purchase and return of the sporting goods, we are referring this matter to the appropriate authorities for further consideration.

\$670.53 of the sporting goods purchased cannot be accounted for by the County.

The disposition of the majority of sporting goods purchased is still uncertain. The County originally could not account for \$750.03 of the goods originally purchased (see Exhibit D). While examining inventory at the Pigeon Roost Elementary School, we identified an additional \$79.50 of sporting goods. The total value of purchased sporting goods that remains unaccounted for is \$670.53.

Recommendations

We recommend that the County:

- Develop a list of authorized County employees approved to use the Wal-Mart cards;
- Ensure each County employee signs his/her own name on the Wal-Mart credit card log;
- County policy should require the credit card be used only by the employee who checked out the card;
- Reconcile purchase receipts with items purchased; and
- Seek reimbursement of \$115.34 for items returned.

Controversy surrounds the procurement of a contractor and the amount paid for the Pigeon Roost Park project.

The 2000 Kentucky General Assembly enacted House Bill 502 authorizing certain capital construction projects to be administered through local grant programs. These projects are funded with coal severance tax money distributed through the Local Government Economic Development Fund. Included in House Bill 502 was a \$30,000 appropriation for renovation of the Martin County Pigeon Roost Community Center (Pigeon Roost).

In October 2000, the Martin County Fiscal Court (Fiscal Court) passed a resolution authorizing Judge-Executive Lon Lafferty “to take all actions and...to perform any and all acts necessary or appropriate to achieve the [grant’s] purpose... .” (See Exhibit E).

This resolution, as well as other similar resolutions, is being used as a defendant's exhibit in a lawsuit filed by the County Attorney against the Judge-Executive and Fiscal Court. The lawsuit was filed in Martin Circuit Court to determine whether the Judge-Executive is vested with the authority to hire contractors, on behalf of the County, without the approval of the Fiscal Court.

Conflicting statements were made by County officials and the Pigeon Roost workers.

The Judge-Executive stated that he asked local resident Randy Harmon if he would be interested in painting the basketball court at Pigeon Roost Park. The Judge-Executive said he made a verbal request for Mr. Harmon to only look at the site and to submit a cost estimate.

Mr. Harmon told us that the Judge-Executive asked him on two separate occasions if he would be interested in performing the renovation work at Pigeon Roost. Mr. Harmon said he agreed to perform the work after the Judge Executive's second inquiry, but told the Judge-Executive that he couldn't complete the work himself and would have to find others to assist him with the project. Mr. Harmon stated that the Judge-Executive told him that the work needed to be completed as soon as possible. Mr. Harmon said that he was not required to sign a written contract or other agreement to perform the work. Furthermore, Mr. Harmon stated that a price for doing the work was not agreed to in advance of the project.

The Judge-Executive stated he did not authorize the work at Pigeon Roost nor did he know it was being performed.

The Judge-Executive stated he only spoke once with Mr. Harmon about the project and that Mr. Harmon was only asked to go to the site and provide a cost estimate for the work. The Judge-Executive stated that he never received an estimate from Mr. Harmon nor did he authorize Mr. Harmon to begin work at Pigeon Roost. The Judge also stated that he was not aware that work was being performed at Pigeon Roost. Though Mr. Harmon did not provide an estimate and a contract was not signed, Mr. Harmon said that the Judge-Executive authorized him to begin working on the project as soon as possible.

According to Mr. Harmon, after he agreed to perform the work, he met with Deputy Judge-Executive Garry Lafferty to determine the project requirements. The Deputy Judge-Executive, however, denies meeting with Mr. Harmon to discuss the project. Mr. Harmon stated that the Deputy Judge-Executive told him: (1) that the County has an open purchase order with a local hardware store and (2) all necessary supplies and materials for the project should be purchased at this store. Randy Harmon and Magistrate Harmon agreed that Magistrate Harmon visited the park and discussed with Randy work to be performed.

\$4,626.95 of supplies and materials was charged to the County for the Pigeon Roost Project.

Invoices from the hardware store show a total of \$4,626.95 charged to the County for supplies and materials for the project. The invoices, dated July 25, 2001, have yet to be paid by the County.

The Judge-Executive stated that he was not aware of an open purchase order with the hardware store. Furthermore, he stated that pre-approved purchase orders are required to make purchases charged to the County. A memorandum from the Martin County Fiscal Court Finance Office, which detailed this policy, was sent to the hardware store in January 2001, five months before work was performed at Pigeon Roost (see Exhibit F).

Randy Harmon and an unrelated acquaintance Keith Harmon performed the initial work at Pigeon Roost. Keith is the son of Magistrate John Harmon. However, due to physical limitations, Randy Harmon stated that he could not continue to perform the amount of work required and asked local contractor Scott Copley to take over the project. Randy Harmon did not inform the Judge-Executive or any other County official that Mr. Copley was taking over the project and did not know if the Judge-Executive or Deputy Judge-Executive were aware of Mr. Copley's involvement. The Judge-Executive verified that he was not informed of Mr. Copley performing the work.

Once the project was completed, the individuals who worked on the Pigeon Roost project charged the County \$8,950 for the work performed. In our interviews, these individuals stated the amount charged for the project was determined based upon their assessment of a fair price for the work performed. A handwritten invoice detailing the work performed and the total amount charged was submitted to the County. However, the hours worked by the contractor on the project were not included on the invoice.

An invoice for \$8,950 was received in the Judge-Executive's office from a vendor unknown to the Judge-Executive for work performed at Pigeon Roost.

A few days prior to the July 2001 Fiscal Court meeting, an invoice for \$8,950 (see Exhibit G) was received in the County Judge-Executive's office. This invoice was submitted under Mr. Copley's name for work performed at the Pigeon Roost Park. The County Treasurer asked the Judge-Executive about the invoice and whether the work was authorized. The Judge-Executive told the Treasurer that he had not authorized Mr. Copley to perform work at Pigeon Roost and that it was his understanding, based upon the Fiscal Court resolution, that only he (Judge-Executive) had the authority to authorize work performed at Pigeon Roost. As previously stated in this report, the Judge-Executive said that he was not aware that work was done on the Pigeon Roost Park project. The Treasurer and Judge-Executive both agreed that the invoice would not be added to the Claims Listing for payment approval at the July 2001 Fiscal Court meeting.

The Fiscal Court approved the invoice and paid the vendor \$8,950.

Magistrate John Harmon stated that he distributed a copy of the invoice for work performed at Pigeon Roost to each Magistrate as they gathered for the July 2001 Fiscal Court meeting. The Magistrate was aware that his son Keith Harmon worked on this project and would benefit financially if the invoice was paid.

Invoices submitted to the Fiscal Court for approval are compiled on a Claims Listing prepared by the Treasurer. The Claims Listing is mailed to the Magistrates prior to Fiscal Court meetings for the members to review and consider prior to voting whether to pay the invoices. Magistrate Harmon circumvented this process by presenting the \$8,950 invoice to Fiscal Court Magistrates without it being included on the Claims Listing. Also, Magistrate Harmon possibly violated the Martin County Code of Ethics Sections II.C. and II.H. by facilitating a transaction in which his son had a financial interest. We will refer this issue to the Martin County Ethics Commission for determination.

According to the minutes of the meeting, the invoice was approved with 5 “yes” votes with the Judge-Executive voting “no.” Magistrate Harmon made the motion to approve the invoices and voted to approve. The minutes show that the Judge-Executive voted “no” because he believed that the amount charged was excessive. In addition, the Judge-Executive informed us that he did not approve the invoice because he never authorized the work to be performed. The County wrote a check in the amount of \$8,950 on July 25, 2001.

Recommendations

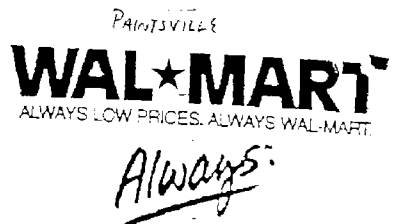
We recommend that the County:

- Follow established policy to submit invoices for Fiscal Court consideration;
- Document, in writing, all requests or offers to perform work;
- Document, in writing, the scope of work to be performed;
- Document, in writing, an agreed upon contract price;
- Develop written procedures for purchases not required to be bid;
- Ensure contracts for services are properly approved prior to initiating work;
- Approve payments only for invoices that follow proper purchasing procedures; and
- Approve payments only for invoices that provide sufficient detail such as hourly rate or unit cost.

EXHIBITS

EXHIBIT A

WOOD BAT	008332150873	
SOFTBALL BAT	004336578761	9.97 H
SBALL GLOVE	008332150934	13.96 H
BASKETBALL	002932164165	49.96 H
BASKETBALL	002932164165	28.77 H
BSBL GLOVE	008332127979	29.96 H
BSBL GLOVE	008332127979	29.96 H
TETHERBALL	002980770345	14.86 H
BASKETBALL	002932164165	28.77 H
BASKETBALL	002932164165	28.77 H
BASKETBALL	002630790661	14.96 H
SOFTBALL	002630790661	3.77 H
THUNDER SFB	002630790661	3.96 H
BASKETBALL	002932164165	28.77 H
12PK BALLS	068113126652	7.88 H
FRISBEE MF	003218780169	6.96 H
OFFLG BBALL	004336512163	1.97 H
T-BALL	002572500661	2.14 H
LLBASEBALL	008332142966	2.46 H
SOFTBALL	002630790660	3.77 H
11 SFTBALL	004336561279	4.94 H
SOFTBALL	002630790661	3.77 H
THUNDER SFB	002630790007	3.96 H
THUNDER SFB	002630790007	3.96 H
11 SFTBALL	004336561279	4.94 H
THUNDER SFB	002630790007	3.96 H
SOFTBALL	002630790660	3.77 H
11 SFTBALL	004336561279	4.94 H
FRISBEE MF	003218780169	6.96 H
FRISBEE MF	003218780169	6.96 H
LLBASEBALL	008332142966	2.46 H
OFFLG BBALL	004336512163	1.97 H
LLBASEBALL	008332142966	2.46 H
CLTH BALL	002572501944	1.97 H
T-BALL	002572500661	2.14 H
CLTH BALL	002572501944	1.97 H
LLBASEBALL	008332142966	2.46 H
LLBASEBALL	008332142966	2.46 H
T-BALL	002572500661	2.14 H
T-BALL	002572500661	2.14 H
OFFLG BBALL	004336512163	1.97 H
LLBASEBALL	008332142966	2.46 H
SUBTOTAL		1,234.21
TOTAL		1,234.21
WALMART CREDIT TENC		1,234.21



WE SELL FOR LESS
MANAGER ROB FELBER
(606) 789-8920

ST# 1233 CP# 00000220 TE# 91 TR# 02789		
BASEBALL GLV	004196957339	19.94 H
BASEBALL GLV	004196957339	19.94 H
TBALL GLOVE	002638894538	15.96 H
BATTING GLV	002572529502	15.96 H
BATTING GLV	002572529502	15.96 H
BATTING GLV	002572529504	15.96 H
BATTING GLV	002572529503	15.96 H
VOLLEYBALL	002932162711	13.96 H
MAGICMITTSET	004473611022	3.96 H
MAGICMITTSET	004473611022	3.96 H
RING TOSS	004473608051	3.96 H
BATTING GLV	002572529503	15.96 H
LAUNTOSS	004473611043	3.96 H
RING TOSS	004473608051	3.96 H
YOUTH BAT	004605699560	14.96 H
TEE BALL BAT	004336580648	18.82 H
LAUNTOSS	004473611043	3.96 H
FOOTBALL	002638843850	22.96 H
NFL FTBL	002638875637	9.96 H
YOUTH GLV	002638854291	17.82 H
FOOTBALL	002638843850	22.96 H
YARD TENNIS	002572508452	4.96 H
YARD TENNIS	002572508452	4.96 H
BSBL GLOVE	008332127979	29.96 H
BSBL GLOVE	008332127979	29.96 H
SBALL GLOVE	008332150934	49.96 H
VOLLEYBALL	002932162711	13.96 H
VOLLEYBALL	002932162711	13.96 H
BSBL GLOVE	008332127979	29.96 H
BSBL GLOVE	008332127979	29.96 H
BSBL GLOVE	008332127979	29.96 H
BSBL GLOVE	008332127979	29.96 H
BSBL GLOVE	008332127979	29.96 H
SBALL GLOVE	008332150934	49.96 H
BASKETBALL	002932164165	28.77 H
BBALL BAT	004336581176	29.96 H
LLEAGUE BAT	004336581102	34.96 H
YOUTH BAT	004605620213	23.96 H
YOUTH BAT	004605620213	23.96 H
YOUTH BAT	004605699560	14.96 H
T-BALL BAT	008592517422	24.96 H
BAT	008332110976	11.96 H
LLEAGUE BAT	008592505064	27.96 H
LLEAGUE BAT	008592505064	27.96 H

ACCOUNT # XXXXXXXXXXXXX
 APPROVAL #0006
 TRANS ID -
 VALIDATION -
 PAYMENT SERVICE - N
 CHANGE # 2 2001 00

RECEIVED

ITEMS SOLD 84

TC# XXXXX XXXX XXXX XXXX

GET PICTURES ONLINE FOR ONLY \$2.74
 06/19/01 12:57:54

CUSTOMER COPY

EXHIBIT B



[Handwritten signature]

PRESTON BORG
 WE SELL FOR LESS
 MANAGER GREG SALYER
 (606) 886 - 6681
 ST# 0696 DP# 00000800 TE# 91 TR# 08397
 *** REFUND SLIP ***

*** NO RECEIPT
 BASKETBALL 002932164165 ✓ 28.77-J
 BASKETBALL 002932164165 ✓ 28.77-J
 YOUTH BAT 004605620213 ✓ 23.96-J
 YOUTH BAT 004605699560 ✓ 14.96-J
 TEE BALL BAT 004336580648 ✓ 18.88-J
 SUBTOTAL 115.34-
 TAX 1 6.000 % 6.92-
 TOTAL 122.26-
 NET REFUND ITEMS 115.34-
 GIFT CARD 6002:XXX (122.26 H
 CASH TEND 0.00
 CHANGE DUE 0.00

ST# 0696 DP# 00000800 TE# 91 TR# 08397
 BASKETBALL 002932164165 28.77-J
 BASKETBALL 002932164165 28.77-J
 YOUTH BAT 004605620213 23.96-J
 YOUTH BAT 004605699560 14.96-J
 TEE BALL BAT 004336580648 18.88-J
 SUBTOTAL 115.34-

REF # 003601
 ACCOUNT XXXXXXXXXXXXXXXX
 APPR. CODE = 534738
 GIFT CARD 60024 XX XXXX 122.26
 *** TRANSACTION BEING REFUNDED ***
 NO RECEIPT
 ** REFUND VERIFICATION REQUEST **
 ** CUST # KYA930XXXX **
 REFUND TOTAL = 122.26
 ***** REFUND HISTORY *****

NUMBER OF REFUNDS = 0

 CSM 00000014 MARGARET HALL 20
 SALES TAX 1 6.92-
 TOTAL 0.00
 NET REFUND ITEMS 115.34-
 REFUND DENIAL OVERRIDE
 CASH TEND 0.00
 CHANGE DUE 0.00
 06/20/01 11:25:40

[Handwritten signature]
 SIGNATURE:
 *** NO RECEIPT 122.26-
 CUSTOMER ID # KYA930XXXX
 MGMT VERIFICATION

EXHIBIT C

PRESTONSBURG

ST# 0896 DP# 00000037 TE# 15 TR# 04712

FIFTH AVE	008500539040S	24.98 J
FIFTH AVE	060538899650S	25.96 J
** VOIDED ENTRY **		
FIFTH AVE	060538899650S	25.96-J
2.5 FIG	004555713245S	2.94 J
2.5 FIG	004555713244S	2.94 J
DIGIMON	004555713239S	2.94 J
LTL SNOOPY	007538072775S	7.97 J
ELMO PHONE	004818839473S	8.97 J
GOLF BALLS	002638826674S	12.88 J
CATALINA SHO	001978249982S	11.94 J
TWL PLY WLK	068113118820S	8.88 J
TWL PLY WLK	068113118807S	8.88 J
ELAS BK PTR	068113118837S	8.88 J
NS STRETCH C	066324665931S	9.00 A
NS ENZ WASH	003979411993S	7.00 A
PRINGLES	003700034904SF	0.88 B
GY CRPT CLNR	00787424311S	0.97 J
	SUBTOTAL	120.03
	SALES TAX 1	7.15
	TOTAL	127.20

REF # 005178
ACCOUNT XXXXXXXXXXXXXXXX

APPR. CODE = 005357
GIFT CARD TEND 122.26
CASH TEND 5.00
CHANGE DUE 0.06

TC# XXXX XXXX XXXX XXXX
06/20/01 12:23:32

EXHIBIT D

Items Unmarked For

Batting Glove	15.96	Baseball Glove	29.96
" "	15.96	Soccerball	14.86
" "	15.96	Basketball	14.96
" "	15.96	Thunder Softball	3.96
Volley Ball	13.96	Basketball	28.77
Ring Joss	3.96	12 Pack Balls	7.88
Batting Glove	15.96	Frisbee	6.96
Lawn Joss	3.96	Official Baseball	1.97
Ring Joss	3.96	Little League Baseball	2.46
Football	22.96	11 Soft Balls	4.94
NFL Football	9.96	Thunder Softball	3.96
Youth Glove	17.82	" "	3.96
Football	22.96	11 Softballs	4.94
Yard Tennis	4.96	Thunder Softball	3.96
" "	4.96	11 Softballs	4.94
Baseball Gloves	29.96	Frisbee	6.96
" "	29.96	" "	6.96
Softball Glove	49.96	Little League Baseball	2.46
Volley Ball	13.96	Official Baseball	1.97
" "	13.96	Little League Baseball	2.46
Softball Gloves	49.96	Clth Ball	1.97
Basketball	28.77	" "	1.97
Youth Bat	23.96	Little League Baseball	2.46
Bat	11.96	" " "	2.46
Little League Bat	27.96	Official Baseball	1.97
" " "	27.96	Little League B Ball	2.46
Softball Glove	49.96		
Softball Glove	29.96		\$ 750.03

EXHIBIT E

RESOLUTION

A RESOLUTION AUTHORIZING THE COMMONWEALTH OF KENTUCKY TO TAKE ALL NECESSARY ACTIONS TO EXPEND UP TO \$30,000 OF MARTIN COUNTY'S SINGLE COUNTY LOCAL GOVERNMENT ECONOMIC DEVELOPMENT FUNDS FOR THE PIGEON ROOST COMMUNITY CENTER-DEVELOPMENT PROJECT INCLUDED IN HOUSE BILL 502 ENACTED BY THE 2000 GENERAL ASSEMBLY; AND AUTHORIZING THE MARTIN COUNTY JUDGE/EXECUTIVE TO EXECUTE AND SUBMIT ANY AND ALL DOCUMENTS WHICH ARE NECESSARY TO CARRY OUT THE ABOVEMENTIONED PROJECT.

WHEREAS, the Martin County Fiscal Court recognizes the importance of a diversified economy capable of providing stable, high paying jobs for the residents of Martin County; and

WHEREAS, at the request of the Martin County Judge/Executive, the Commonwealth of Kentucky has set-aside funds for replacing lighting, resurface basketball court & walking track, picnic tables, hand rails around community center, backstop, balls and gloves which is funded in an amount not to exceed thirty thousand dollars (\$30,000) during FY 2000-01 and zero dollars (\$0) during FY 2001-02 from actual receipts realized and available in the single county fund of the County of Martin, and

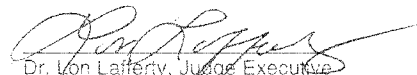
WHEREAS, Martin County Fiscal Court desires to see said project constructed in a timely manner to maximize their positive economic and social impact on Martin County.

NOW THEREFORE, BE IT RESOLVED:

Section One: The Martin County Fiscal Court hereby authorizes the Commonwealth of Kentucky to take any and all actions necessary to expend up to \$30,000 from Martin County's single county account for the project which was approved by the 2000 General Assembly in House Bill 502;

Section Two: The Martin County Judge/Executive is hereby authorized and empowered on behalf of the County to take all actions and to execute, deliver and record any and all documents and to do and to perform any and all acts necessary or appropriate to achieve the above-stated purpose, and to carry out the authority granted herein, upon such terms and conditions as the County Judge/Executive shall deem necessary.

Section Three: This resolution shall be signed by the Martin County Judge/Executive, attested by the Fiscal Court Clerk, recorded and shall be in effect at the earliest time provided by law.


Dr. Lon Lafferty, Judge Executive
County of Martin, Kentucky

ATTEST:


Tonya DeLong
Fiscal Court Clerk

EXHIBIT F

MARTIN COUNTY FISCAL COURT
P.O. BOX 309
INEZ, KY 41224

January 22, 2001

TO ALL VENDORS:

Please be advised it is our position that all purchases **MUST** have a properly approved purchase order for **EACH ITEM** or **SERVICE** purchased **PRIOR** to the actual purchase. Without a correctly authorized purchase order, the Court **WILL NOT** approve or issue payment for such merchandise or services.

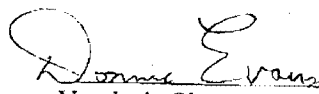
Please make certain that you obtain a completed copy of the purchase order or a verbal approval of total and purchase order number from the Finance Office before rendering any merchandise or services. Otherwise, the transaction will **NOT** be considered a valid transaction of the Martin County Fiscal Court.

Your attention to this matter is necessary; your adherence to this policy will expedite transactions and be appreciated by the Court. Please acknowledge receipt of this notice by signing a copy and returning it to us as soon as possible.

Sincerely,
Martin County Fiscal Court
Finance Office

Vendor's Response:

I hereby acknowledge receipt and understating of this policy this 30 day of Jan, 2001.


Vendor's Signature

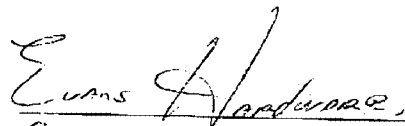

Company

EXHIBIT G

Pigeon Roost Park

Community Center

Labor

- 1) Cleaned Community Center Inside
- 2) Cleaned both bathrooms
- 3) Cleaned deck and Porch
- 4) Painted both bathrooms
- 5) Painted Complete Community Center outside
- 6) Stained Complete Porch (3 coats)
- 7) Trimmed outside Community (3 coats)
- 8) Stained & Cleaned 6 picnic tables (3 coats)
- 9) Stained Wooden bench (3 coats)
- 10) Cleaned barbecue grill
- 11) Sanded barbecue grill
- 12) Painted barbecue grill (3 coats)
- 13) Painted three doors inside & out
- 14) Painted rails on deck (3 coats)
- 15) Installed shed over barbecue grill
- 16) Installed tether ball set
- 17) Cleaned Windows in Center
- 18) Installed light fixtures
- 19) Painted Floor of Community Center

Basketball Court

- 1) Cleaned basketball court & Prepared
- 2) Patched cracks @ hard top filler
- 3) Tennis Court Sealed & Mixed Sand Filler (3 coats)
- 4) Sand blasted rims backboard & Poles
- 5) Painted rims, backboard, and Poles (3 coats)
- 6) Masked all lines on court to be painted
- 7) Painted all lines on court (3 coats)
- 8) Installed two benches
- 9) Stained two benches

Dugouts

- 1) Painted dugouts inside & out (2 coats)
- 2) Painted benches inside (2 coats)
- 3) Replaced one bench

Total \$8,950.00



Scott Copley

MARTIN COUNTY JUDGE-EXECUTIVE RESPONSE



Lon Lafferty
Martin County Judge/Executive

P.O. Box 309
Inez, Kentucky 41224

(606) 298-2800
(606) 298-4404 Fax

May 6, 2002


Edward B. Hatchett, Jr.
Auditor of Public Accounts
144 Capitol Annex
Frankfort, KY 40601

Dear Mr. Hatchett:

In your draft proposal you indicated the county failed to apply adequate internal controls to the Pigeon Roost Park project. Your office performed a clinical analysis of the Pigeon Roost Park project without drawing any conclusions from the facts. Your recommendations, although sound, failed to recognize that the statements made by Mr. (s) Harmon do not in any way match the facts, and further that the approval of the payment, although authorized by the Fiscal Court in a five to one vote, did not in any way address or conform to the administrative code as it now exists, nor to the recommendations that you have stated in your draft.

It is clear that Mr. (s) Harmon did a disservice to the county of Martin and that Mr. Harmon's undertaking did a disservice to the office of Magistrate. I believe any investigator left to his own devices could have come to that conclusion and it should have been reflected in your draft.

Sincerely,


Lon Lafferty
Martin County Judge/Executive

WRITTEN POLICY OF MARTIN COUNTY JUDGE'S OFFICE

Use of Walmart Credit Cards:

1. Only the below named individuals will be approved to use the Walmart credit card:

Lon Lafferty
Garry Lafferty
Patty Webb
Dallas Sweeney
Carolea Dials
Michelle Chapman

2. No credit card shall leave the Judge's office before the employee authorized to use same has signed his or her own name on the credit card log and properly dated and timed the receipt.
3. Only the employee to whom the card is checked out shall use the card during the check out period.
4. Each employee shall reconcile the purchase receipt with the items purchased at or before the time the card is returned, and the card shall be returned on the next business day after use.

**POLICY IN PLACE FOR
MARTIN COUNTY JUDGE'S OFFICE**

1. No employee of the Martin County Judge's office shall make a request for work performed, or receive an offer for work to be performed, without a writing outlining the conversation, request or offer and the writing shall be in the memo form and shall be dated.
2. No employee of the Martin County Judge's office shall discuss the scope of work to be performed unless the discussion is reduced to writing.
3. No employee of the Martin County Judge's office will agree to or receive a contract price unless the price is in writing and signed by the individual or corporation to perform the work.
4. No employee of the Martin County Judge's office shall make any purchases not required to be bid unless the requirements of paragraphs 1, 2 and 3 above are met, unless the Martin County Judge Executive declares an emergency and authorizes purchases of an emergency nature under the administrative code.
5. No employee of the Martin County Judge's office and no member of the Fiscal Court shall award contract for purchase without proper approval by the Fiscal Court or proper approval under the procedures outlined in paragraphs 1, 2, 3 and 4 above.

Date: May 7, 2002



Lon Lafferty
Martin County Judge/Executive

AUDITOR'S REPLY

The response of Judge-Executive Lafferty is based on a preliminary draft of our examination report. The policies included in his response were adopted subsequent to our examination.

The Judge-Executive was given an opportunity to respond to our final report and declined to update his response.