EXAMINATION OF
SPECIFIC FINANCIAL ACTIVITY OF THE
CITY OF PROVIDENCE

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April 6, 2004

The Honorable Jerry Fritz, Mayor
City of Providence
201 East Main Street
P.O. Box 128
Providence, Kentucky 42450

RE: Special Examination of the City of Providence

Dear Mayor Fritz:

We have completed our examination of specific transactions and other financial related activity of the City of Providence (City). This examination was initiated as a result of specific information presented to our office by concerned citizens.

The scope of our examination focused on the following financial processes and transactions:

- Utility billings, receipts, and deposits from January 1, 2003, through March 16, 2004;
- Questionable checks made payable to the City Clerk;
- Financing the purchase of a personal vehicle for a City employee;
- Reimbursement obligations due to the City from former City employees; and,
- Transfer of restricted funds.

The City’s records document a discrepancy of $334,736 between payments credited to customer accounts and the deposit of utility receipts. In addition, we identified four City checks totaling $8,720.45 paid to the City Clerk that could not be supported as bona fide obligations of the City. These two issues will be referred to the Attorney General’s Office for further investigation.

The City is not enforcing reimbursement contracts with former employees. Contracts signed with former City employees for the purchase of retirement and for training require each former employee to reimburse the City. The total amount due to the City from these contracts is $91,829.52.
City funds were used to finance a vehicle purchased for the personal use of a City employee. Furthermore, the City provides loans to its employees for purchasing items of a personal nature.

The findings noted during the performance of our examination are presented and explained in the attached detailed report. We wish to thank you and all City personnel for the cooperation received during the course of our work.

Very truly yours,

[Signature]

Crit Luallen
Auditor of Public Accounts
**Background**

The City of Providence (City) is a fourth class city located in Webster County. According to the City’s audited financial statements, the City’s General Fund receipts for fiscal year 2003 totaled $1,018,500. By contrast, utility fund receipts for the same period were approximately $3.4 million. The City, in agreement with Kentucky Utilities (KU), maintains the utility infrastructure within the City and purchases its electricity from KU.

The City employs four individuals who are responsible for all utility billing, receipting, depositing, and accounting duties. Due to the magnitude of the City’s utility receipts, coupled with existing concerns regarding the City’s financial condition, we developed test procedures to determine whether utility receipts were properly processed and deposited.

**Findings and Recommendations**

$334,736 of recorded utility payments could not be traced to bank deposits.

We obtained an understanding of the city utility billing and control processes to determine how utility accounts could be posted as paid though there are no city records documenting that payments for these accounts were deposited.

City utility bills are mailed to customers at the beginning of each month. These bills are payable on the 15th of each month, with late fees assessed if the city does not receive payment by the 20th of the month. After the 25th, a cut-off report is generated identifying all unpaid accounts that are subject to having service turned off.
The City receives utility bill payments via mail, through a night deposit box, and over the counter. One utility employee is responsible for collecting and posting payments received through the mail and the night deposit box. Two employees have access to the night deposit box. The City received payments by cash, check, or money order.

When a city employee receives a utility payment, the employee will stamp the back of the customer billing stub with the date the payment was received. The payment, along with the customer-billing stub, is placed in the employee’s assigned cash drawer. Each utility employee, other than the City Clerk, is assigned to a cash drawer. Utility employees stated that the City Clerk often received utility bill payments using other utility employees’ cash drawers.

At the end of a working day, each utility employee counts the money in her assigned cash drawer. These employees also sum the amounts on billing stubs in their cash drawers. According to utility employees, it is not unusual for the City Clerk to perform these closing procedures for other employees. The City Clerk stated she assisted other utility employees to expedite the closing process. Using the billing stubs, the utility employees then post payments from their cash drawers to the City’s automated utility database. User ID’s and passwords are not required to access the utility database. From this database each employee generates a daily posting report detailing payments posted for the day. The total amount from the daily posting report is reconciled to the total billing stubs to ensure postings are accurate and complete. Proper segregation of duties is not achieved by allowing a single employee to both receive and post utility transactions.

City employees using a calculator, total the billing stubs in each cash drawer, sign the calculator tape, and place on the tape the date the stubs posted to the utility database. The documents are then filed by month.
Each City utility employee, other than the City Clerk, maintains a daily cash sheet. This sheet is manually prepared and summarizes daily receipting activity from the employee’s assigned cash drawer. However, the City Clerk may complete this process for a utility employee. The amounts from each employee’s daily cash sheet are totaled and entered on a master daily cash sheet. The master daily cash sheet summarizes the total utility payments received by the City for each day.

Deposit amounts on the daily cash sheets matched deposited amounts on deposit tickets and bank statements.

We requested a composite daily posting report to compare to previous daily posting reports.

We asked the City to generate a composite report from its utility database for the period January 1, 2003 through March 16, 2004. This report identifies all customer utility bill payments credited to an account each day. The daily total amounts from the composite report were compared to the total amounts on the daily posting reports for each cash drawer, which are printed from the utility database at the close of each business day.

This comparison revealed a substantial discrepancy between the composite report and the individual daily posting reports. As shown in Exhibit A, customer billings totaling $334,736 appeared as paid on the composite report that were not included on the daily posting report totals. This total is comprised of 1,818 individual customer billings that were credited as payments to customer accounts, but that were not deposited into the City’s bank accounts.

Billing stubs could not be located for accounts comprising the discrepancy amount.

Customer billing stubs were maintained for all accounts reported on the daily posting reports. However, the additional accounts posted as paid on the composite report had no corresponding billing stubs on file.
Customer accounts appearing on the composite report but not on the daily posting reports were traced to the monthly transaction listing. This listing records all account activity for a particular month. This procedure confirmed that the billing amounts were from current bills and were credited as payments in the system.

The computer system allowed for transactions to reflect a posting date different from the date the transactions were actually entered into the system. Our analysis of the monthly transaction listings revealed evidence that many transactions were dated earlier than the actual date of the posting.

In addition to posting the current day’s utility bill payments, it appears that utility bill payments were frequently posted in the utility database with a date prior to the current day’s activity. This allowed a utility account not to be reported as delinquent on the past due list generated at the end of the month and also not to appear on the daily cash sheet that we compared to the bank’s deposit documentation. Because the utility database will accept a posting date prior to the actual date of entry, it is possible to circumvent the controls in place to ensure all utility bill payments made are properly accounted for and deposited into the City’s bank accounts.

According to City utility employees, utility receipts are deposited exclusively into utility accounts of the City and are not deposited directly into any of the other accounts of the City. Because we cannot account for $334,736 of receipts from utility bills credited as paid, we will refer this matter to the Attorney General’s Office for further investigation.

We recommend the City implement the following controls to strengthen its receipting process:

- The automated utility database should require a User ID to access the utility database.
- The receipt of utility payments and access to cash drawers should be segregated from the posting function.

<table>
<thead>
<tr>
<th>Accounts were posted as paid with dates other than the actual date of entry.</th>
</tr>
</thead>
</table>

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<table>
<thead>
<tr>
<th>Recommendation</th>
</tr>
</thead>
</table>

We are referring the $334,736 discrepancy to the Attorney General’s Office for further investigation.
• Limit employee access to the night deposit box. Employees with posting duties should not have access to the night deposit box.

• The City should consider employing a dual sequentially numbered receipt process for utility receipt payments.

• The utility database should be modified to require utility transactions to reflect the actual date of posting.

• The City should study the feasibility of acquiring an integrated cash receipts system that automatically posts a transaction upon entry into a cash register.

• The City should ensure employees are assigned a specific cash drawer that cannot be accessed by other employees.

• Each employee should close the cash drawer assigned to them each day.

• The composite report should be reconciled monthly to the daily posting report and to the utility bank deposits.

The City Clerk initiated checks made payable to herself that could not be supported as bona fide obligations of the City.

Four City checks paid to the City Clerk were questioned.

The City Auditor performed initial audit procedures for the questioned checks.

In addition to the Mayor, the City Clerk has signature authority for all accounts and the Assistant Clerk has this authority for certain accounts only. A stamp of the Mayor’s signature is maintained for endorsing City checks in his absence. The City Clerk had access to this stamp through December 2003.

We identified four City checks payable to the City Clerk that appear to be personal in nature and not bona fide obligations of the City. The checks were made in the amounts of $3,000; $2,700; $2,500; and $520.45 totaling $8,720.45 (Exhibit B).

During the initial phase of our examination, we gathered information from various sources regarding the checks in question. One of these sources was the City’s external auditor (City Auditor). The City Auditor performed the initial inquiries into the questioned checks identified to our office.
The City Clerk told the City Auditor that she purchased a computer for the City police department with her own funds.

Neither the former nor current police chief remember a computer being purchased for the police department.

The City Clerk stated to the City Auditor that the four questioned checks were reimbursements for items she purchased for the City with her personal funds.

The City Clerk offered a different explanation of the four questioned checks during our initial interview.

According to the City Auditor, the City Clerk informed him that the $3,000 check was to reimburse her for a computer she purchased for the City police department with her personal funds. The City Clerk further stated to the City Auditor that the former City police chief had the original documentation for the purchase of the computer.

We asked the former police chief whether he had documentation for the purchase of this computer or knew of a computer purchased for the office. He stated that he had no documentation for the purchase of a $3,000 computer for the police department. He stated the only computer he remembers that was purchased for the police department during his tenure was for approximately $600. This computer was purchased several months prior to the date of the $3,000 check.

We also questioned the current police chief to determine whether he had knowledge of computers purchased for the police department. He was not aware of any computers purchased for the police department.

The City Auditor also asked the City Clerk for information regarding the other three checks made payable to her. According to the City Auditor, the City Clerk stated the other three checks made payable to her were to reimburse her for items she had purchased for the City with her personal funds. Specifically, she stated that the $2,700 check was to reimburse her for the purchase of a desk, the $2,500 check was to reimburse her for the purchase of a safe, and the $520.45 check was a reimbursement for cleaning services at the City’s community center.

During our initial interview of the City Clerk, we requested she provide documents for the four items she informed the City Auditor were purchased with her personal funds. Upon this request the City Clerk stated that she had not purchased any items for the City but had deposited her personal funds directly into the City’s accounts because of the City’s dire financial position. The City Clerk further said she deposited $9,000 of her personal funds into the City’s accounts but was only reimbursed $8,200. However, while three of the questioned reimbursement checks total $8,200, the fourth check increases the total to $8,720.
The City Clerk provided a copy of an $8,000 City deposit ticket as proof of her personal payments to the City.

We requested the City Clerk provide us with documentation of the personal funds she deposited into the City’s accounts, as well as the City’s corresponding deposit tickets. The City Clerk provided us with a copy of an $8,000 deposit ticket from the City’s Federal Emergency Management Agency (FEMA) account (Exhibit C). The deposit ticket was dated September 12, 2003. The deposit ticket provided did not match the City Clerk’s previous statement that $9,000 in personal funds was deposited into City accounts.

In our second interview of the City Clerk, we asked if the $8,000 FEMA deposit ticket represented the personal funds she deposited into the City’s accounts. The clerk acknowledged it was the ticket for the deposit she made with her personal funds.

Bank statements of the City account document no deposits during the month identified on the deposit ticket.

We examined the FEMA bank statement from September 2003 to verify the City Clerk’s claim of an $8,000 deposit into the City’s FEMA account. According to the FEMA bank statement from September 2003, no deposits were made into the account during the entire month (Exhibit D). Due to the discrepancy between the deposit ticket and the FEMA bank statement, we contacted Integra Bank who confirmed no bank deposit was made during September 2003.

While examining the September 2003 FEMA bank statement, we noted that an $8,000 transfer was made from the FEMA account to one of the City’s utility accounts. The City’s cash receipts log documents the transfer of $8,000 from the FEMA account to one of the City’s utility accounts. We also obtained written documentation from Independence Bank verifying this transfer (Exhibit E). However, the City’s Municipal Utilities General Ledger (General Ledger) documents the $8,000 FEMA transfer was voided and replaced with another deposit of $8,000 described as a “Misc. Income” that posted on September 12, 2003 (Exhibit F).

We asked the Assistant City Clerk how voided entries are made in the General Ledger. According to the Assistant City Clerk, the accounting software used by the City prompts the user to approve each deposit entered into the system before the deposit is posted to the General Ledger. Any deposits previously approved and posted that need to be changed at a later date must first be voided in the system by the user, and then the new data may be entered. A record of the new data,
as well as the voided data, is captured by the system. While the system allows postings to be made to the General Ledger with a date other than the actual date of entry, the actual date of entry is captured by the system and indicated on the Bank Deposit Worksheet printed from the General Ledger.

According to the Bank Deposit Worksheet, the FEMA transfer was voided and the “Misc. Income” deposit was approved and posted to the General Ledger on December 19, 2003 (Exhibit G). However, we could not trace the $8,000 “Misc. Income” deposit ticket to bank deposit documentation nor to the cash receipts log.

The City Clerk provided our office copies of her personal checks as proof that her personal funds were deposited into the City’s accounts. We received copies of four checks totaling $3,800. All four checks were made payable to “Cash.” The remaining amount deposited into the City by the City Clerk was allegedly made with cash.

We will refer this matter to the Attorney General’s Office for further investigation.

Reimbursement checks received by the City Clerk were dated weeks before the deposit ticket.

The four checks written to the clerk were dated weeks before the $8,000 FEMA deposit ticket dated September 12, 2003. Furthermore, two of the four personal checks the City Clerk claims to have deposited into the City’s accounts were dated October 10, 2003, and October 15, 2003, which is after the FEMA deposit ticket date. These inconsistencies refute the City Clerk’s assertions that the four checks written to the City Clerk were reimbursements. These issues will be referred to the Attorney General’s Office for further investigation.

Recommendation

We recommend that the City seek reimbursement from the City Clerk for the four checks she received totaling $8,720.45. We further recommend that the Mayor’s signature stamp be secured and used solely by the Mayor.

City funds were improperly used to finance the purchase of a personal vehicle for a City police officer.

City policy allows employees who are issued a City vehicle to drive the vehicle home if the employee lives within the City limits. One City police officer (Officer) relocated outside the City limits and had no other transportation than the City vehicle assigned to him. Since the vehicle assigned to the Officer could not by policy be used to commute outside the City limits, the Officer needed to purchase a vehicle to drive to and from work.
The City purchased a vehicle for an employee several years ago.

According to the City Clerk, the Officer approached the Mayor to inquire about the possibility of the City providing funds necessary for him to purchase a personal vehicle. The Officer would then reimburse the City when he was financially able. The Officer was aware that the City had purchased a vehicle a few years earlier for another City police officer and allowed the officer to reimburse the City. The Mayor confirmed that he informed the Officer “that something could be worked out.”

The Officer negotiated with a local auto dealership to purchase a vehicle. However, the dealer refused to accept a check from the City because a recent City check received at his other business bounced due to insufficient funds when he presented it to the bank for payment. Thus, in lieu of the City directly purchasing a vehicle for the Officer, the City Clerk decided to purchase the vehicle for the Officer and to reimburse herself with City funds.

The City Clerk received a $10,000 check from the City.

The City Clerk paid the dealership $11,000 from her personal funds to purchase the vehicle. The City Clerk then reimbursed herself by writing a $10,000 check made payable to cash from one of the City’s General Fund accounts. The Officer reportedly reimbursed the remaining $1,000 to the City Clerk. The Mayor stated that he was not aware of the vehicle purchase and subsequent reimbursement check to the City Clerk because he was out of town during this time.

Conflicting statements were taken from the City Clerk and Mayor.

The City Clerk attempted to obtain the Assistant City Clerk’s signature on the $10,000 reimbursement check but the Assistant City Clerk refused to sign the check. The City Clerk stated that the Mayor personally endorsed the reimbursement check. However, the Mayor stated that he did not endorse the check.

According to the Application for Kentucky Certificate of Title/Registration for the vehicle purchased for the Officer, the date of sale of the vehicle was October 29, 2003. The City check written to reimburse the City Clerk was dated October 9, 2003. The City was not reimbursed for the $10,000 vehicle purchase until January 20, 2004.
According to *Funk v. Milliken*, Ky., 317 S.W.2d 499 (1958), a decision of Kentucky’s highest court, expenditures of public funds should be necessary, reasonable in amount, beneficial to the public, *not predominantly personal in nature*, and supported by adequate documentation. [Emphasis added] The use of City funds to reimburse the City Clerk for the purchase of a personal vehicle for the Officer did not adhere to the criteria of this decision.

The City provides loans to its police officers to purchase firearms for personal use.

In addition to the City providing financing for the purchase of a personal vehicle, the Mayor and City Clerk stated that the City provides loans to its police officers to purchase firearms for personal use. In the past, the City required its police officers to furnish their own service revolvers. The City would loan money to its officers to purchase these service revolvers. However, they did not enter into written agreements with the officers to ensure reimbursement.

The Mayor stated that the City now provides its officers with service revolvers. Even though the City now provides its officers with service revolvers, the City continues to loan money to its officers to purchase firearms for their personal use. City funds loaned to its police officers for purchasing firearms to be used for personal use does not comport with the holding of *Funk v. Milliken*.

Recommendation

We recommend that the City cease loaning public funds to its employees for personal use. Public funds should be expended only for expenditures that are necessary, reasonable in amount, beneficial to the public, not predominantly personal in nature, and supported by adequate documentation.

The City failed to enforce reimbursement contracts with former City employees.

The City offers to pay its police officer trainees the costs associated with training to become commissioned police officers. Because the City incurs substantial expenses in the process of hiring and training its police officer trainees, the City enters into written contracts with police officer trainees that receive training assistance from the City. These contracts require the police officer trainees to serve at least two years with the City police department. In the event the trainee fails to complete the required two years of service, the contract requires the trainee to reimburse the City a prorated amount identified in the contractual agreement.
The City is owed over $9,100 by former police officers.

According to information received from the City Clerk, four police officers left the City’s employment since 1999 without fulfilling the required two years of service with the City police department. The total amount due to the City from these police officers is over $9,100.

The City Attorney stated that he was only aware of two former officers that failed to honor their reimbursement contracts with the City. According to the City Attorney, the City has filed lawsuits against these two former officers and that the courts have filed a judgment favoring the City with one of the lawsuits. The other lawsuit is currently pending.

The City provided financial assistance for employees to purchase retirement service credit.

In March 1993, the City began participating in the County Employees Retirement System administered by the state. At that time, the City offered its employees with prior service to the City an opportunity for the City to purchase retirement service credit. Each participating employee who received financial assistance from the City to purchase prior service time entered into a contract with the City to reimburse the cost of the service time purchased.

The City is owed $82,728.30 by former employees for retirement service credit purchased by the City.

According to documentation obtained from the City Clerk, 17 employees left City employment before fulfilling their obligations to repay the City for service credit purchased. The total amount owed the City by these former employees is $82,728.30. The Mayor stated that the City is actively receiving reimbursement payments from all but one of these previous City employees. We verified the Mayor’s statement with the City Attorney.

Recommendation

We recommend the City continue its efforts to collect amounts due from employees that received loans from the City.

Restricted funds were used for the City's general operating expenses.

We examined activity related to a Certificate of Deposit (CD) purchased by the City for $84,020.29. The funds used to purchase the CD were bequeathed to the City for the purpose of maintaining the Lakeview Cemetery located in the City.
Due to City cash flow problems, the City redeemed the CD in September 2003 for principal and interest totaling $87,811.05. The City deposited $30,000 into one of its General Fund accounts and $57,811.05 into one of its utility accounts. We received a concern that using the funds for any other purpose than designated in the Last Will and Testament of the donor was not allowable.

The City sought advice from the Department for Local Government.

In a letter dated January 14, 2004, the Department for Local Government (DLG) advised the City that no statutory restrictions prevent restricted funds to be transferred from state Municipal Road Aid Funds or Local Government Economic Assistance Funds to other funds for general operations expenditures as long as the money is transferred back to the restricted fund prior to the close of the fiscal year. DLG states that the same principal would apply to endowed funds, absent any restrictions in the grant of endowment (Exhibit H).

The restricted funds must be returned by the end of the fiscal year and any lost interest must also be paid.

We spoke with DLG about the transfer and use of the CD proceeds by the City. DLG said that it reviews provisions of endowments in order to evaluate any restrictions on the principal and interest. Usually, funds provided for operation and maintenance expenses are generated from interest revenues of the principal amount. If the principal is explicitly restricted in an endowment, DLG would not allow the principal amount to be used for any other purpose than what is designated in the endowment. In the City’s situation, DLG believes that the interest and principal is combined and no such restriction of principal is evident. DLG stated that the funds should be transferred back prior to the end of the fiscal year and any lost interest on the redeemed CD should be repaid.

Recommendation

We recommend that the City follow the advice of DLG and transfer the funds received from the redemption of the CD back into the original account prior to the end of the 2004 fiscal year. Additionally, we recommend the City pay any lost interest on the redemption of the CD into the account.
EXHIBITS
### Exhibit A

**Discrepancies Between Posted Collections and Bank Deposits**

**January 1, 2003 through March 16, 2004**

<table>
<thead>
<tr>
<th>Posting Date</th>
<th>Total Billings Collected per Composite Report</th>
<th>Total Collections Deposited per Daily Posting Reports</th>
<th>Difference</th>
<th>Number of Individual Accounts</th>
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<td>1/3/2003</td>
<td>$31,970.75</td>
<td>$23,606.71</td>
<td>$(8,364.04)</td>
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<td>1/10/2003</td>
<td>42,351.21</td>
<td>34,432.20</td>
<td>(7,919.01)</td>
<td>44</td>
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<td>1/23/2003</td>
<td>23,927.52</td>
<td>19,166.74</td>
<td>(4,760.78)</td>
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<tr>
<td>2/4/2003</td>
<td>20,647.58</td>
<td>20,499.43</td>
<td>(148.15)</td>
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<tr>
<td>2/10/2003</td>
<td>55,304.99</td>
<td>41,012.40</td>
<td>(14,292.59)</td>
<td>63</td>
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<td>2/12/2003</td>
<td>25,140.06</td>
<td>24,955.76</td>
<td>(144.30)</td>
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<tr>
<td>2/14/2003</td>
<td>33,656.70</td>
<td>33,393.59</td>
<td>(263.11)</td>
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<tr>
<td>2/19/2003</td>
<td>100,949.83</td>
<td>76,864.64</td>
<td>(24,085.19)</td>
<td>100</td>
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<tr>
<td>2/24/2003</td>
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<td>55,204.19</td>
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<td>3/4/2003</td>
<td>26,870.89</td>
<td>26,666.90</td>
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<td>3/21/2003</td>
<td>32,028.39</td>
<td>31,782.77</td>
<td>(245.62)</td>
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<td>3/24/2003</td>
<td>6,383.20</td>
<td>5,960.89</td>
<td>(412.31)</td>
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<tr>
<td>4/3/2003</td>
<td>43,367.01</td>
<td>43,101.40</td>
<td>(265.61)</td>
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<td>4/16/2003</td>
<td>41,508.92</td>
<td>24,542.78</td>
<td>(16,966.14)</td>
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<tr>
<td>4/24/2003</td>
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<td>4/25/2003</td>
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<td>5/9/2003</td>
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<td>28,358.29</td>
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<td>5/23/2003</td>
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<td>5/27/2003</td>
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<td>(1,757.01)</td>
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<td>6/3/2003</td>
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<td>17,781.06</td>
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<tr>
<td>6/5/2003</td>
<td>31,886.48</td>
<td>19,254.13</td>
<td>(12,632.35)</td>
<td>103</td>
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<tr>
<td>6/19/2003</td>
<td>6,164.02</td>
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<td>6/24/2003</td>
<td>23,406.62</td>
<td>9,748.83</td>
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<td>6/26/2003</td>
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<td>7/11/2003</td>
<td>39,949.05</td>
<td>39,766.82</td>
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<td>7/16/2003</td>
<td>47,212.29</td>
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</tr>
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<td>7/25/2003</td>
<td>17,819.13</td>
<td>13,128.41</td>
<td>(4,690.72)</td>
<td>29</td>
</tr>
<tr>
<td>7/30/2003</td>
<td>2,872.26</td>
<td>0.00</td>
<td>(2,872.26)</td>
<td>19</td>
</tr>
<tr>
<td>8/1/2003</td>
<td>10,538.12</td>
<td>12,375.90</td>
<td>1,837.80</td>
<td>0</td>
</tr>
<tr>
<td>8/25/2003</td>
<td>38,477.64</td>
<td>13,085.79</td>
<td>(25,391.85)</td>
<td>143</td>
</tr>
<tr>
<td>8/26/2003</td>
<td>194.74</td>
<td>0.00</td>
<td>(194.74)</td>
<td>1</td>
</tr>
<tr>
<td>9/10/2003</td>
<td>37,556.88</td>
<td>37,496.63</td>
<td>(100.25)</td>
<td>1</td>
</tr>
<tr>
<td>9/24/2003</td>
<td>25,245.12</td>
<td>15,827.28</td>
<td>(9,417.84)</td>
<td>68</td>
</tr>
<tr>
<td>10/24/2003</td>
<td>22,459.51</td>
<td>12,587.55</td>
<td>(9,871.96)</td>
<td>58</td>
</tr>
<tr>
<td>11/18/2003</td>
<td>20,776.63</td>
<td>7,441.64</td>
<td>(13,334.99)</td>
<td>96</td>
</tr>
<tr>
<td>12/19/2003</td>
<td>32,343.80</td>
<td>19,589.41</td>
<td>(12,754.39)</td>
<td>84</td>
</tr>
<tr>
<td>1/9/2004</td>
<td>32,483.53</td>
<td>10,980.73</td>
<td>(21,502.80)</td>
<td>100</td>
</tr>
<tr>
<td>1/23/2004</td>
<td>16,769.49</td>
<td>10,960.30</td>
<td>(5,809.19)</td>
<td>31</td>
</tr>
<tr>
<td>2/20/2004</td>
<td>60,292.12</td>
<td>41,644.43</td>
<td>(18,647.69)</td>
<td>73</td>
</tr>
<tr>
<td>2/23/2004</td>
<td>24,056.93</td>
<td>20,324.54</td>
<td>(3,732.39)</td>
<td>19</td>
</tr>
<tr>
<td>2/26/2004</td>
<td>4,941.53</td>
<td>3,759.67</td>
<td>(1,181.86)</td>
<td>5</td>
</tr>
<tr>
<td>3/4/2004</td>
<td>27,788.24</td>
<td>24,637.54</td>
<td>(3,150.70)</td>
<td>14</td>
</tr>
<tr>
<td>3/5/2004</td>
<td>27,689.45</td>
<td>19,709.49</td>
<td>(7,979.96)</td>
<td>34</td>
</tr>
</tbody>
</table>

Cash shortage - Posted collections versus bank deposits

$ (334,736.80)

Total number of individual billings posted but not deposited

1,818
<table>
<thead>
<tr>
<th>Date</th>
<th>9 - 12 - 03</th>
</tr>
</thead>
<tbody>
<tr>
<td>CURRENCY</td>
<td></td>
</tr>
<tr>
<td>COINS</td>
<td></td>
</tr>
<tr>
<td>CHECKS 1</td>
<td>8000.00</td>
</tr>
<tr>
<td>CHECKS 2</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>8000.00</td>
</tr>
</tbody>
</table>
GET A GIFT CARD WORTH UP TO $30 WHEN YOU OPEN A NEW CHECKING ACCOUNT WITH DIRECT DEPOSIT AND ONLINE BILL PAYING. USE YOUR GIFT CARD AT NEARLY 70 MAJOR RETAILERS. SEE INSERT IN YOUR STATEMENT FOR DETAILS.

CITY OF PROVIDENCE FEDERAL EMERGENCY MANAGEMENT ACCOUNT WILL CALL PROVIDENCE 22285 PO BOX 128 PROVIDENCE KY 42450

STATE & MUNICIPAL INT

<table>
<thead>
<tr>
<th>Previous Balance</th>
<th>8-31-03</th>
<th>16,039.50</th>
</tr>
</thead>
<tbody>
<tr>
<td>+Deposits/Credits</td>
<td></td>
<td>0.00</td>
</tr>
<tr>
<td>-Checks/Debits</td>
<td>2</td>
<td>16,000.00</td>
</tr>
<tr>
<td>-Service Charge</td>
<td></td>
<td>7.50</td>
</tr>
<tr>
<td>+Interest Paid</td>
<td></td>
<td>1.48</td>
</tr>
<tr>
<td>Current Balance</td>
<td></td>
<td>33.48</td>
</tr>
<tr>
<td>Days in Statement Period</td>
<td></td>
<td>30</td>
</tr>
</tbody>
</table>

* * * INTEREST SUMMARY * * *

- Interest Paid this Year: 21.12
- Average Daily Balance: 8,039.50

* * * DAILY BALANCE SUMMARY * * *

<table>
<thead>
<tr>
<th>Date</th>
<th>Balance</th>
<th>Date</th>
<th>Balance</th>
<th>Date</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>8-31</td>
<td>16039.50</td>
<td>9-15</td>
<td>39.50</td>
<td>9-30</td>
<td>33.48</td>
</tr>
</tbody>
</table>

* * * DESCRIPTIVE TRANSACTIONS * * *

<table>
<thead>
<tr>
<th>Date</th>
<th>Tracer</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>9-30</td>
<td>999</td>
<td>SERVICE CHARGE</td>
<td>7.50</td>
</tr>
<tr>
<td>9-30</td>
<td>999</td>
<td>INTEREST PAYMENT</td>
<td>1.48</td>
</tr>
</tbody>
</table>

* * * CHECKS PAID * * *

<table>
<thead>
<tr>
<th>No.</th>
<th>Date</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1096</td>
<td>9-15</td>
<td>8000.00</td>
</tr>
<tr>
<td>1097</td>
<td>9-15</td>
<td>8000.00</td>
</tr>
</tbody>
</table>
March 24, 2004

This is to verify that the attached check # 1096 drawn on account # of the City of Providence Federal Emergency Management Account was deposited into the City of Providence Municipal Utilities Fund account # at Independence Bank on 09/12/03.

Dixie E. McWorthy
Assistant Vice President
FEDERAL EMERGENCY MANAGEMENT ACCOUNT

PAY TO: Utility Fund

Amount: $9,000.00

Dollars and Cents: Eight Thousand Dollars

Date: September 18, 1973

Signature: Jerry R. Fritz

For:

John R. Steen

001096
8000.00
CITY OF PROVIDENCE MUNICIPAL UTILITIES FUND
815 S. MAIN ST.
P.O. BOX 126
PROVIDENCE, KY 42150

DEPOSIT TICKET

DATE: 09/12/03

AMOUNT: 8,000.00

CHECK DEPOSIT

09/12/03 12:43:07 PM
C002 22 0C02 9417
8 0:00:00

09/12/2003 8000.00

RECORD OF CHECKS FOR DEPOSIT

09/12/2003 8000.00
Independence Bank
Providence

Station 02  Teller 0022  Seq# 0149
09/12/03  12:40:06 PM

Checking Deposit

Account #:  

Amounts Received:
Checks In:  
8,000.00

Grand Total:  
8,000.00

All items credited subject to payment.

Thank you for banking at
Independence Bank.
Have a great day!
<table>
<thead>
<tr>
<th>DATE</th>
<th>TT</th>
<th>REF NO</th>
<th>RECEIVED FROM</th>
<th>AMOUNT</th>
<th>DEPOSIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>09/12/03</td>
<td>CS</td>
<td></td>
<td>MISC INCOME</td>
<td>8,000.00</td>
<td>X</td>
</tr>
<tr>
<td>12/19/03</td>
<td>CS</td>
<td></td>
<td>UTILITY FUND II</td>
<td>30,000.00</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Total Checks/Cash</td>
<td>8,000.00</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>minus Cash Back</td>
<td>0.00</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Equals Total Deposit</td>
<td>8,000.00</td>
<td></td>
</tr>
</tbody>
</table>

For Bank Account: INDEPENDENCE BANK
Deposit Date: 9/12/2003
January 14, 2004

Honorable Jerry Fritz, Mayor
City of Providence
P. O. Box 123
East Willow Street
Providence, Ky. 42450

Dear Mayor Fritz:

Mike Overby requested a response from this office relating to the temporary transfer of money from restricted use and/or endowed funds to general operating funds to solve cash flow problems. There are no statutory restrictions on this practice from state Municipal Road Aid Funds or Local Government Economic Assistance Funds provided the funds are returned to these funds prior to the close of the fiscal year. Regarding endowed funds the same would apply absent any restrictions in the grant of endowment.

I trust this answers your questions. If not, please feel free to contact me.

Sincerely,

Dan Yeast

Dan Yeast, manager
Cities and Special Districts Branch
CITY OF PROVIDENCE RESPONSE
April 5, 2004

Hon. Crit Luallen, Auditor of Public Accounts
Commonwealth of Kentucky
105 Sea Hero Road, Suite 2
Frankfort, KY 40601-5404

Via Fax: 502-573-0067 and Overnight Delivery

Re: EXAMINATION OF SPECIFIC FINANCIAL ACTIVITY
OF THE CITY OF PROVIDENCE

Dear Ms. Luallen:

We have reviewed the examination of specific financial activity of the City of Providence. We appreciate the hard work performed by your staff and the recommendations made to the City, to strengthen its accounting processes.

I. A number of the recommendations were communicated to us during the Examination and have been implemented by the City as follows:

A. A dual, sequentially numbered receipt process for utility payments was implemented April 1, 2004.

B. Employees were assigned a specific cash drawer that cannot be accessed by other employees effective March 22, 2004.

C. Each employee closes and balances the cash drawer assigned to that employee each day, effective March 22, 2004.

D. City Clerk Sara Stevens will be given the opportunity to respond to the recommendation that she reimburse the City in the amount of $8,720.45. The City will pursue collection of any amount it concludes is due and owing.

E. The City no longer loans public funds to employees for personal use. The City is aware of only one previous loan of this nature that has not been collected in full.
F. The City is continuing its efforts to collect amounts due from employees resulting from contractual loans by the City, for City purposes.

G. The City will follow the advice of the Department for Local Government and transfer funds received from redemption of the $84,020.29 Certificate of Deposit plus any lost interest, to a new Certificate of Deposit, prior to the end of the 2004 Fiscal Year. We should subtract any maintenance expenses for Lakeview Cemetery during the Fiscal year.

II. With respect to the additional recommendations to strengthen the City’s utility receipt process, there are some limitations because of the small size of our finance office staff compared to the quantity of business conducted, and because of budgetary constraints:

A. We believe we will be able to require a user ID to access the utility data base in the near future.

B. We will segregate receipt of utility payments and access to cash drawer function from the posting function, to the maximum extent practicable. Employees with posting duties shall not have access to the night deposit box, to the extent practicable.

C. We have been advised by our utility data base vendor that it will be very difficult to permanently fix the actual date of posting utility transactions. We will endeavor to satisfy this requirement however.

D. The City will study the feasibility of acquiring an integrated cash receipt system to automatically post transactions upon entry into a cash register. As you know, our funds are limited and we believe this to be an expensive project.

E. We believe that a composite report can be generated and reconciled monthly to the daily posting report and utility bank deposits, with our existing computer installation.

Again, thank you for assisting us with this special examination.

Yours very truly,

[Signature]

Jerry R. Bultz, Mayor