



**Auditor of State
Betty Montgomery**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants Report	3
Supplement to the Special Audit Report	
Background Information	7
Relevant Individuals and Entities	8
Summary of Results:	
Issue 1 - Award and Payment of Housing Repair Expenditures	9
Issue 2 - Contracts with Lutheran Housing Corporation	19
Issue 3 - Entertainment Expenses	22



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Saratha Goggins, Mayor
City of East Cleveland
14340 Euclid Avenue
East Cleveland, Ohio 44112

We have conducted a special audit by performing the procedures enumerated in the attached Supplement to the Special Audit Report for the period March 1, 2001 through November 28, 2001 (the Period), solely to determine whether certain Community Development Block Grant (CDBG) expenditures made by the City of East Cleveland Community Development Department were supported by underlying documentation, services were provided, and checks were endorsed by the party to whom they were issued; to determine whether sub-recipient agreements were certified and that payments were made within the scope of the contract documents; and to determine whether certain expenditures related to a groundbreaking ceremony were authorized and related to a purpose of a CDBG program.

This engagement was conducted in accordance with consulting standards established by the American Institute of Certified Public Accountants. The procedures and associated findings are detailed in the attached Supplement to the Special Audit Report. A summary of our procedures and significant results is as follows:

1. We reviewed expenditures to companies and individuals affiliated with Cecelia George, former Director of the City's CDBG program, to determine whether those expenditures were supported by underlying documentation, services were provided, and checks were endorsed by the party to whom they were issued.

Significant Results: The City was unable to provide us with a complete general ledger of payments issued by the CDBG department during the Period; therefore, we have no reasonable assurance that all payments to the specific vendors were identified. From a listing of Detailed Expense Transactions, we identified four payments to S & M General Contractors and four payments to MCH Associates.

Of four checks issued to S & M General Contractors, only one contained a company signature that resembled the signature found on the incorporation papers filed with the Ohio Secretary of State. Two of the checks totaling \$5,969 were deposited into an account held by Charles Reed Jr., former Director George's brother, and the other two, totaling \$16,115, were deposited into an account held by Willie George, former Director George's son. None of the four checks issued to S & M General Contractors was deposited into that company's bank account.

Additionally, on or about the time the S & M General Contractors' checks were deposited into Charles Reed and Willie George's accounts, those accounts then issued checks to Cecelia George for \$600 and \$3,000, respectively.

All four checks issued to MCH Associates, totaling \$85,375, were deposited into an MCH Associates business account. However, within five days of depositing those checks, MCH Associates issued six checks to Charles Reed Sr., former Director George's father, totaling \$13,029, and one check to Willie George, former Director George's son, for \$10,000. The George & George account where this \$10,000 check was deposited on August 20, 2001, then issued a check to Charles Reed Sr. in the amount of \$500, and two days later, on August 22, 2001, issued a check to Cecelia George in the amount of \$3,000. An additional check was issued from the George & George account to Cecelia George on September 11, 2001, in the amount of \$3,400.

We issued a Finding for Recovery against Cecelia George for \$107,459, for contracting with friends and relatives, and issued the finding jointly against MCH Associates for \$85,375, against Greenbay Inc., for \$5,969, and against George & George for \$16,115. We also issued a Federal Questioned Cost for these expenditures totaling \$107,459.

In addition to the irregularities noted above, we issued a Noncompliance Citation for issuing purchase orders after the receipt of an invoice, thereby incurring liabilities prior to certification that funds were available to meet those obligations. We also issued Noncompliance Citations for failing to keep records in accordance with the City's records retention policy and Ohio Revised Code requirements, and for not obtaining price quotes in accordance with the City's purchasing procedures.

2. We determined whether sub-recipient agreements with the Lutheran Housing Corporation were certified by required City officials and that payments were made within the scope of the contract documents.

Significant Results: Each of the three contracts awarded during the Period was certified by the City and Lutheran Housing officials. Of \$332,743 of expenditures we selected to review, the City was unable to provide specific documentation to support expenditures totaling \$295,480. We issued a Federal Questioned Cost for these undocumented expenditures, as well as a Noncompliance Citation for violating the City's Records Retention Policy and the Ohio Revised Code.

Additionally, the City's Reference Search by Vendor report contained numerous errors, for which we issued a Management Comment, recommending the City address the completeness and accuracy of its reports.

3. We determined whether expenditures related to a groundbreaking ceremony were authorized and related to a purpose of a CDBG program.

Significant Results: Cecelia George authorized expenditures totaling \$35,799 for payments related to a groundbreaking ceremony and party. These expenditures were paid using CDBG funds, which have specific guidelines for allowable costs. The expenditures related to this party were not in accordance with federal regulations; therefore, we issued a Federal Questioned Cost in the amount of \$35,799.

Additionally, on at least three occasions, Ms. George authorized the payment of grant funds to her brother's entertainment company. We issued a Finding for Recovery against Ms. George and Rush Entertainment, her brother's company, in the amount of \$3,775.

This report is intended solely for the information and use of the City and is not intended to be and should not be used by anyone other than these specified parties. However, reports by the Auditor of State are a matter of public record and use by other components of state government or local government officials is not limited.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

November 15, 2004

This page intentionally left blank.

Supplement to the Special Audit Report

Background

On October 29, 2001, we met with representatives of the United States Department of Housing and Urban Development (HUD) and three employees of the City of East Cleveland to discuss allegations of contract fraud involving the Director of the City's Community Development Department, Cecelia George. According to the employees, Director George routinely created false price quotes for housing repairs from two or three companies allegedly owned by her friends and relatives. Prior to Director George's arrival at the City, up to 22 vendors were used to obtain quotes for housing projects; however, since March 2001, these types of projects had been almost exclusively awarded to these two or three companies. It was alleged that the work was performed by Ms. George's friends and relatives, possibly at inflated costs.

On November 19, 2001, we again met with representatives of HUD to discuss a possible course of action to address the allegations. Based on the information obtained from our meetings with HUD representatives, on November 20, 2001, the Auditor of State's Special Audit Committee voted to initiate a special audit of the City of East Cleveland Community Development Department.

On November 21, 2001, Cleveland's The Plain Dealer reported that East Cleveland City Mayor Emmanuel Onunwor "dismissed Director George and several of her staff after receiving a letter from the Department of Housing and Urban Development in which HUD said it had 'tentatively identified' improper relationships among individuals and companies paid with federal grants."

We received a letter dated October 3, 2002, from the office of the United States Attorney, requesting that we delay the release of this special audit report until their investigation, also in conjunction with HUD, was complete. On December 8, 2003, we again met with representatives from the U.S. Attorney's office, who asked that we continue to hold our special audit report pending the investigations of Cecelia George and Mayor Onunwor.

On August 11, 2004, Cecelia George pled guilty to conspiracy and fraud charges in U.S. District Court. Additionally, her father, Charles Reed, brother, Charles Reed Jr., and son, Willie George, also entered guilty pleas on various charges. They are all scheduled to be sentenced in November 2004.

On August 30, 2004, former Mayor Emmanuel Onunwor was convicted on 22 counts, including extortion, racketeering, mail fraud, and tax fraud. He is also scheduled to be sentenced in November 2004.

Supplement to the Special Audit Report

Relevant Individuals and Entities

Cecelia George

Cecelia George is the former Director of the City's Community Development Department. She was hired on November 3, 2000, and was dismissed on November 20, 2001.

Charles Reed, Sr.

Charles Reed, Sr. is Ms. George's father. During a November 23, 2001 interview with HUD Special Agents, conducted after our office declared the Special Audit, Ms. George stated her father did a substantial amount of work for the City of East Cleveland for which he never received payment. Charles Reed, Sr. is the "C" in MCH Associates referred to below.

George & George, LLC, Willie George - Owner

Willie George is Ms. George's son. During the Period, two checks issued to S & M General Contractors (below) were actually deposited into a bank account held in the name of Willie George.

Greenbay, Inc. and Rush Entertainment, Charles Reed, Jr. - Owner

Charles Reed Jr. is Ms. George's brother. During the Period, two checks issued to S & M General Contractors (below) were actually deposited into a bank account held in the name of Charles Reed, Jr. Additionally, the City, under the approval of former Director George, issued three checks totaling \$3,775 to Rush Entertainment.

MCH Associates, Maurice Senkfor - Owner

Maurice Senkfor is a long-time friend of Ms. George's father, Charles Reed, Sr. The name "MCH Associates" is comprised of Maurice Senkfor (M), Charles Reed, Sr. (C), and an unidentified individual with the first name Harold (H).

S & M General Contractors

This company is owned by Sara and Michael Slaughter. During the Period, the City issued four payments to S & M General Contractors, none of which were deposited into their business checking account. (See Issue No. 1, Result No. 2.) Additionally, of four checks and four price quotes allegedly provided by S & M General Contractors, only one document contained a signature which resembled Michael Slaughter's signature on the company's incorporation papers, on file with the Ohio Secretary of State.

Supplement to the Special Audit Report

Issue No. 1 – Award and Payment of Housing Repair Expenditures

We reviewed disbursements to companies and individuals affiliated with the former Director of the City's CDBG program to determine whether expenditures were supported, services were provided, and checks were endorsed by the appropriate party.

PROCEDURES

1. Through interviews of City employees and meetings with HUD representatives, we documented the names of vendors and individuals who received payments from the City's CDBG program and who were believed to be affiliated with Ms. George
2. We requested a general ledger printout of payments made to those vendors and individuals identified in Procedure No. 1, above. We obtained the supporting documentation for the identified payments, including but not limited to the bid requests, price quotes, voucher packets, purchase orders, and approvals to determine if established procurement procedures were followed. Additionally, we interviewed homeowners and/or residents to determine if the described work had been completed.
3. From the City's Treasurer, we obtained the original canceled checks issued to those vendors and individuals identified in Result No. 1, below. Where possible, we identified the endorsing party and the banking institution to which the check was presented for deposit. We prepared and delivered subpoenas to those banking institutions identified, obtained documents related to all activity in those accounts during the Period, and reported on any unusual items noted.

RESULTS

1. The following vendors and individuals were identified as having a personal relationship with Ms. George and having participated in home repairs performed by the City:
 - Willie George, son, owner of George & George, LLC
 - Charles Reed, Jr., brother, owner of Greenbay Inc., and Rush Entertainment
 - Charles Reed, Sr., father
 - S & M Contractors, company owned by Michael D. Slaughter, friend
 - MCH Associates, company owned by Maurice Senkfor, friend
2. General Ledger:

The City was unable to provide us with a complete general ledger of payments issued by the CDBG Department during the Period. Additionally, although we requested and received "Reference Search by Vendor" reports for the specific vendors identified above, the Reference Search by Vendor reports provided to us for Issue No. 2, Contracts with Lutheran Housing Corporation, contained numerous errors and were therefore unreliable. Although the Reference Search by Vendor reports for the vendors identified in Result No. 1 above did not contain obvious errors; overall, we have no reasonable assurance that all payments to the specific vendors have been identified.

Supplement to the Special Audit Report

Results of Voucher Test

There were eight checks issued to the identified companies, as shown below:

Payee	Amount	Date	Purpose
MCH Associates	\$9,426	03/23/01	emergency furnace repair at home of resident
MCH Associates	9,775	04/20/01	emergency lock and furnace repair at CDBG office
MCH Associates	58,000	08/15/01	painting and cleaning of City jail and legal offices
MCH Associates	8,174	09/28/01	emergency furnace replacement at home of resident
S & M General Contractors	2,795	05/25/01	emergency door repair at CDBG office
S & M General Contractors	3,174	07/27/01	emergency wall repair at abandoned property
S & M General Contractors	9,315	09/14/01	emergency roof repair at CDBG office
S & M General Contractors	6,800	09/28/01	emergency heat repair at CDBG office
Total Identified Payments	<u>\$107,459</u>		

Of the eight checks totaling \$107,459 issued to specific vendors during the Period:

- there were two checks totaling \$16,115 where the invoice date preceded the purchase order date;
- one invoice for \$9,426 was not dated;
- one expenditure for \$58,000, which did not have an invoice, was supported by two proposals, neither of which was from the company to which payment was issued;
- one expenditure included a bid from Greenbay Inc., a company owned by Ms. George's brother;
- two purchases totaling \$12,570 were not supported by invoices; and
- three invoices submitted by S & M General Contractors were formatted differently; the fourth expenditure did not have an invoice.

We will issue Noncompliance Citations for issuing payments on invoices which were dated before the purchase order date, and for not maintaining invoices in accordance with the City's Records Retention Policy. Additionally, although three price quotes were required by the City's purchasing policies, two expenditures were supported by only two price quotes. We will issue a Noncompliance Citation for failing to follow the City's established policy with regard to obtaining price quotes.

Supplement to the Special Audit Report

Purpose of Payments and Site Visits:

Of the eight specific payments we reviewed, three were related to community home repairs and five were for repairs at the Community Development Department building. Through employee interviews, we confirmed that repair work at the Community Development Department had been performed. The HUD OIG visited all three sites of home repairs and obtained the following information:

Site No. 1, payment of \$9,426, paid on March 23, 2001

The resident at this site confirmed a new boiler had been installed after the Community Development Department was notified the previous system was broken. The resident went on to state that Charles Reed, Sr. performed the installation.

Site No. 2; payment of \$3,174, paid on July 27, 2001

According to the business located adjacent to this project, a 3.5' by 5.0' board was placed over a hole caused by a fire in the adjacent building. No other work was confirmed as having been performed and the business owner was unaware of who performed the work.

Site No. 3, payment of \$8,174, paid on September 28, 2001

This resident confirmed with the HUD OIG that the furnace at this home was replaced. The resident also noted that Charles Reed, Sr. performed the work related to this job.

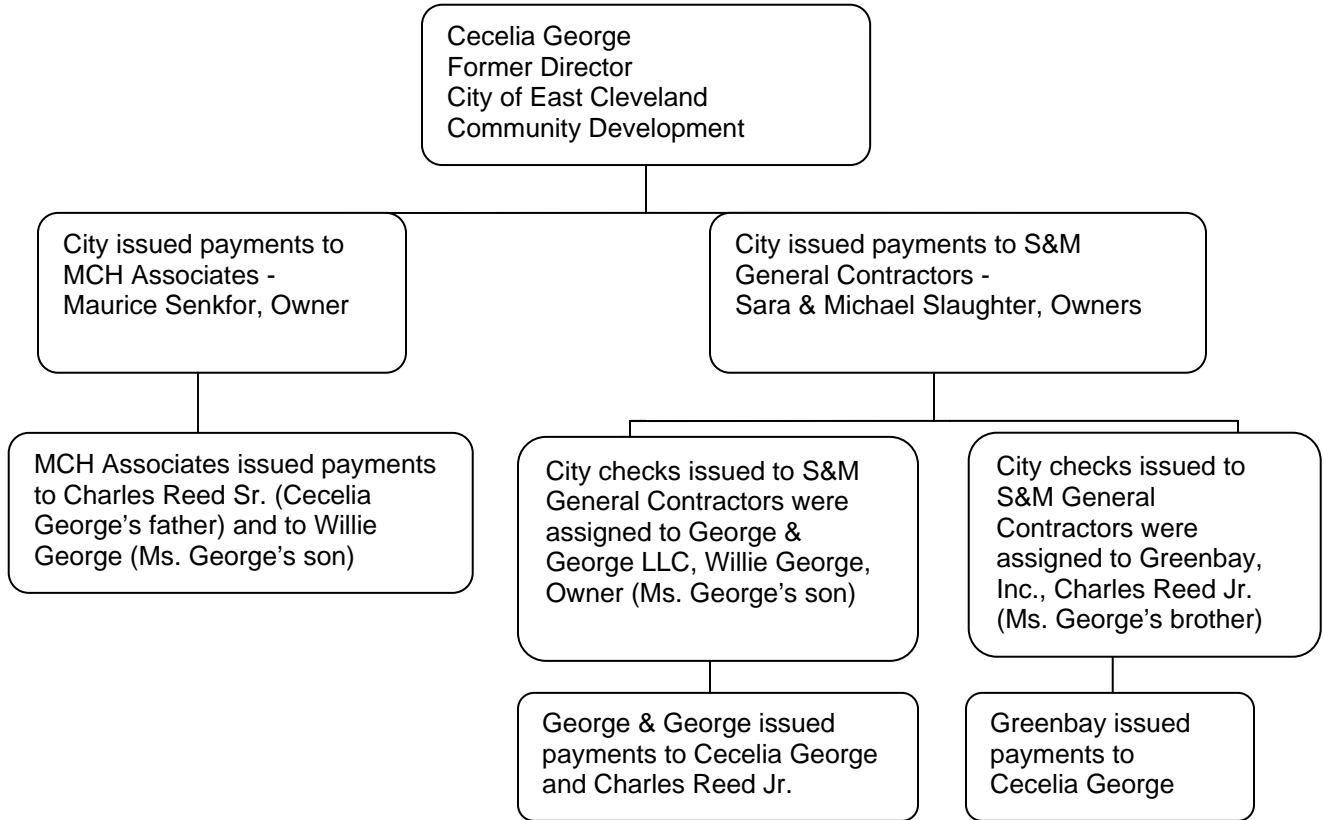
3. Our review of documents provided by the City and the financial institutions from which the various individuals and companies conducted business revealed the following scheme which enabled Ms. George and certain relatives to indirectly receive City funds:

Ms. George approved the issuance of checks to MCH Associates and S & M General Contractors. During the Period, Mr. Senkfor, owner of MCH, received and deposited \$85,375 from the City, and issued checks to Charles Reed, Sr. and Willie George totaling \$13,029 and \$10,000, respectively.

Conversely, all checks issued to S & M General Contractors were assigned to either Willie George or Charles Reed, Jr., deposited directly into their bank accounts, and were never deposited to an S & M General Contractors bank account. Willie George's account then issued two checks payable directly to Cecelia George in the amounts of \$3,000 and \$3,400; and issued two checks to himself totaling \$6,186, with notations in the memo that included Cecelia George's name.

The following organizational chart is designed to provide a diagram of the process by which Ms. George's family and friends benefited from City payments. It is not intended to imply that any of these persons work for the others; it is simply to show the mechanism by which City funds flowed from the Community Development Department to Ms. George's family members. Detailed information regarding each transaction related to these individuals follows this chart.

Supplement to the Special Audit Report

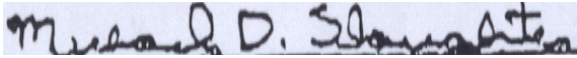


Supplement to the Special Audit Report

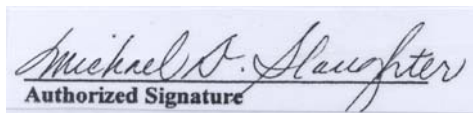
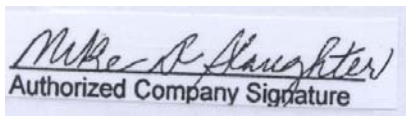
City checks issued to S & M General Contractors

During the Period, the City issued four checks to S & M General Contractors with a combined value of \$22,084. Each of these expenditures was supported by documents claiming it to be an “emergency” repair. Although each project was awarded to S & M General Contractors, none of the signatures on the price quotes submitted by S & M General Contractors resembled Michael D. Slaughter’s signature on the company’s incorporation papers, on file with the Ohio Secretary of State.

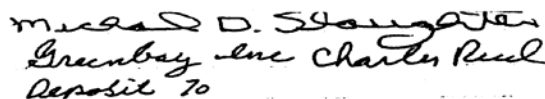
Mr. Slaughter’s signature on his company’s incorporation papers:



The signatures of Michael D. Slaughter on price quotes for each of the four projects:



All four of the checks were endorsed with “Michael D. Slaughter” but only one check contained a signature that resembled his signature on the company’s incorporation papers. That check, presented below, for \$2,795, was assigned to “Greenbay Inc., Charles Reed,” and was deposited into Mr. Reed’s account on June 4, 2001:



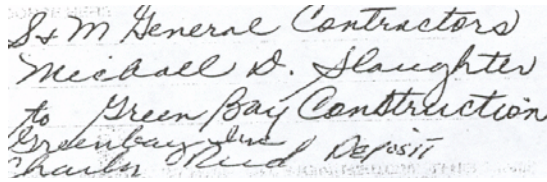
On June 10, 2001, the same Greenbay account, held by Charles Reed Jr., issued a check to Charles Reed in the amount of \$300¹. The memo portion of that check referred specifically to the East Cleveland property address provided in the City’s voucher packet.

Of the three remaining checks, each endorsement appeared to be in Cecelia George’s handwriting; one (\$3,174) was assigned to “Greenbay Construction, Greenbay Inc., Charles Reed,” and the other two (combined value of \$16,115) were assigned to G(eorge) & G(eorge) LLC, Willie George.

¹ The endorsement of this check did not clearly identify if it was cashed by Charles Reed Jr., or Charles Reed Sr.

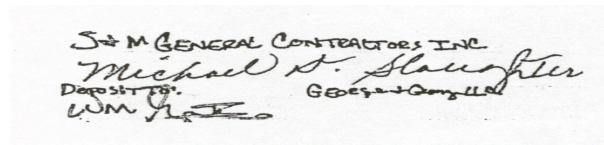
Supplement to the Special Audit Report

- A) Endorsement of check for \$3,174, issued to S & M General Contractors on July 27, 2001:



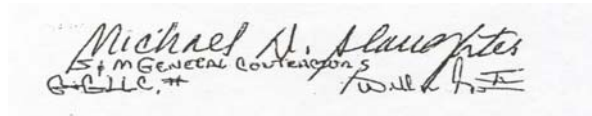
This check was deposited into Mr. Reed's Greenbay account and on July 31, 2001, the same Greenbay account issued a check for \$600 to Cecelia George.²

- B) Endorsement of check for \$9,315, issued to S & M General Contractors on September 14, 2001:



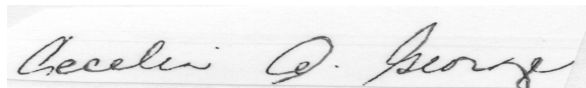
This check was deposited into a George & George bank account on September 17, 2001. On September 14, 2001, the George & George account issued checks to Cecelia George for \$3,000 and to Willie George for \$1,200, with "S & M pymts" written in the memo portion of that check. Then, on September 17, 2001, the George & George account issued a check for \$200 to Charles Reed.³

- C) Endorsement of check for \$6,800, issued to S & M General Contractors on September 28, 2001:



This check was deposited into a George & George bank account on October 1, 2001. On September 28, 2001 and October 2, 2001, the same George & George account issued checks to Willie George in the amounts of \$2,300 and \$3,886, respectively, with notations in the memo portion of the check that included the names of Cecelia George and S & M General Contractors.

- D) Cecelia George's signature:



² Our review of the Greenbay account also revealed at least three occasions totaling \$1,400 where Charles Reed Jr. issued checks for cash and the memo portion of each check referred to payroll payments and certain individuals' names. Although this was not within the scope of our audit, questions could be raised about Mr. Reed issuing cash payroll payments to employees and whether those payments were reported to the Internal Revenue Service, if required.

³ See Footnote 1.

Supplement to the Special Audit Report

City checks issued to MCH Associates⁴

Our review of MCH Associates' Small Business Checking Account revealed the City's check for emergency furnace repair in the amount of \$9,426 was deposited on March 26, 2001, and on March 30, 2001, a check was issued from the MCH account to Meteor Heating & Air Conditioning in the amount of \$4,019. The memo portion of this check referred to "furnace repairs." Additionally, the MCH checking account issued a check to Charles Reed, Sr. on March 31, 2001, for "consulting" in the amount of \$2,050.

On April 20, 2001, the City issued a check to MCH Associates for \$9,775 for emergency lock repairs and furnace work at the Community Development Department building. Included in the City's voucher packet for this project was a work proposal submitted by Greenbay Inc., Charles Reed Jr. The \$9,775 check was deposited into the MCH Associates Small Business Checking Account on April 23, 2001. On April 21, 2001, MCH Associates issued a check to Charles Reed Sr. for "misc repairs" in the amount of \$7,415. On April 23, 2001, Charles Reed Sr. deposited \$5,415 of the \$7,415 into his personal checking account, receiving the balance of \$2,000 in cash, and on April 27, 2001, Cecelia George deposited \$2,200 cash into her personal account.

On August 15, 2001, the City issued a check to MCH Associates for \$58,000, which was deposited on August 17, 2001. The City's voucher packet (which did not include an invoice) contained two vendor proposals for painting and cleaning; one in the amount of \$31,300 from Service-Tech Corporation and the other from Dejai Painting for \$27,000. The voucher packet did not include any explanation as to why the check was issued to MCH Associates while the proposals were received from other companies.

On August 17, 2001, MCH Associates Small Business Checking account issued checks for \$10,000 to G & G Construction (endorsed by Willie George)⁵, \$25,270 to Service-Tech Corporation, and \$16,800 to Dejai Painting. The memo line of the check issued to G & G Construction was blank, while the other two checks referred to East Cleveland City Hall.

On August 20, 2001, MCH Associates issued a check to Charles Reed Sr. for "E. Cleve Clean" in the amount of \$1,000, and issued a check to Acorn Mechanical for \$1,900 for working on East Cleveland City Hall.

MCH Associates deposited the City's check for \$8,174 on October 1, 2001. Just prior to that date, on September 29, 2001, MCH Associates issued a check for \$1,762 to Charles Reed Sr., and a check for \$5,100 to Minute Man Plumbing. The memo line of each check contained the address of the property referred to in the City's voucher packet.

During the Period, MCH issued two additional checks to Charles Reed Sr.; one for \$277 on May 19, 2001 for "painting" and the other for \$525 on October 27, 2001 for "fairway." We were unable to reconcile these payments to any projects for which the City paid MCH Associates during the Period.

⁴ Although the City provided us with a Professional Services contract that had been awarded to Maurice Senkfor, in an amount not to exceed \$14,000, the City's general ledger did not document any payments associated with this contract.

⁵ The George & George account where this \$10,000 was deposited on August 20, 2001, then issued a check to Charles Reed in the amount of \$500, and two days later, on August 22, 2001, issued a check to Cecelia George in the amount of \$3,000. An additional check was issued from the George & George account to Cecelia George on September 11, 2001, in the amount of \$3,400.

Supplement to the Special Audit Report

FINDING FOR RECOVERY

During her employment as Community Development Director, Cecelia George authorized payments totaling \$107,459 to two companies, MCH Associates and S & M General Contractors. Two of the checks issued to S & M General Contractors were deposited into a bank account held by Charles Reed Jr., former Director Cecelia George's brother. Two of the checks issued to S & M General Contractors were deposited into an account held by Willie George, Ms. George's son. The bank records of Charles Reed Jr. and Willie George revealed checks were issued from those accounts to Cecelia George.

The checks issued to MCH Associates were deposited to an account held in that name; however, that account also issued payments to Ms. George, her father, and her son.

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code §117.28, a Finding for Recovery for illegal expenditure of public money is hereby issued against MCH Associates in the amount of \$85,375, against Charles Reed Jr. in the amount of \$5,969, against Willie George in the amount of \$16,115, and jointly against Cecelia George, former Director, Community Development Department, in the amount of \$107,459, and in favor of the City of East Cleveland Community Development Department.

Total Finding for Recovery: \$107,459

FEDERAL QUESTIONED COST

CFDA, Department of Housing and Urban Development, Sections 14.218, "Community Development Block Grants/Entitlement Grants" and 14.219, "Community Development Block Grants/Small Cities Program" each state that program costs will be determined in accordance with OMB Circular A-87.

OMB Circular A-87, Attachment (A), Section C, Basic Guidelines, requires that to be an allowable cost it must, (a) be necessary and reasonable, (b) be authorized or not prohibited under State or local laws or regulations, (c) conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the federal award, or other governing regulations as to types or amounts of cost items, and (d) be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit. Accordingly, the previous Finding for Recovery will be questioned, in the amount of \$107,459.

Total Federal Questioned Cost: \$107,459

Supplement to the Special Audit Report

NONCOMPLIANCE CITATIONS

Purchase Orders dated after Invoice Dates

Ohio Rev. Code §5705.41(D) states, "No orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances."

The following exceptions to this basic requirement are provided by statute:

Then and Now Certificate: This exception provides that, if the fiscal officer can certify that both at the time that the contract or order was made and at the time that he is completing his certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

Amounts of less than \$100 for counties, or less than \$1,000 for other political subdivisions, may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

Of eight expenditures reviewed, there were two instances where the invoice dates preceded the purchase order dates. Additionally, as noted in Issue No. 3, there were two entertainment-related expenses which had invoice dates prior to the purchase order dates. By receiving the invoices prior to the issuance of purchase orders, the City incurred liabilities prior to the certification that funds were available to meet those obligations. Failure to certify availability of funds in a timely manner (i.e., prior to incurring an obligation) could result in the City spending in excess of its established budget.

We recommend the City issue purchase orders prior to incurring an obligation of funds. If it is not possible to issue the purchase order in advance, we recommend the City utilize the "Then and Now Certificate" within 30 days of the receipt of a valid invoice.

Supplement to the Special Audit Report

Records Retention

Ohio Rev. Code §149.351 states “records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions provided for under Sections 149.38 to 149.42 of the Revised Code.”

The City’s Records Retention Policy, Section V, Part G, Number 6, states, “A schedule of records retention and disposition specifies the period of time each record series will be retained by the agency, and provides continuing authority for the disposition of the record at the expiration of the stated retention period.” The City’s Suggested Records Retention Periods for Ohio Municipal Records, Section 1, General Administrative Records, states that “Expense Records” are to be maintained for three years. Section 8, Financial Records, suggests a three year retention period for “Invoices and Supporting Documents.”

Neither the Finance Department nor the Community Development Department was able to provide us with all requested documents for our review of specific vouchers. Of eight payments we reviewed, three invoices were not provided by the City.

We recommend all documents related to a particular expenditure be maintained in the Finance Department. While we can understand the need for the Community Development Department to retain documents related to its projects, we recommend original source documents be maintained in the Finance Department, with photocopies provided to the Community Development Department.

Lack of Price Quotes

The City’s Procedures for Purchasing Products or Services Costing less than \$15,000 requires, “Requisitions for products or services ranging from \$3,500 to \$6,999 must be accompanied by a written statement from the department head listing the names and received from at least three vendors contacted by telephone and stating that the requisition represents the quote of the best vendor.” The City’s Charter, Section 72, Contracts, states, in pertinent part, “When any expenditure within any department other than the compensation of persons employed therein, exceeds \$2,500 or the amount stipulated by State law, whichever amount is the greater, such expenditure shall first be authorized and directed by ordinance of the Council, and when so authorized and directed, the Mayor shall make a written contract with the lowest and best bidder after advertisement of not less than two nor more than four consecutive weeks in a newspaper...within Cuyahoga County, Ohio.”

Of eight expenditures we reviewed, two in the amount of \$60,795 had only two price quotes. By not obtaining and maintaining price quotes or contract bids, the City is not ensured that the best prices were received for services rendered.

We recommend the City obtain price quotes as required by its formal purchasing policy. We further recommend that when contracts are awarded, the City maintain and file all documents related to the request, receipt, and opening of bids.

Supplement to the Special Audit Report

ISSUE 2: Contracts with Lutheran Housing Corporation

We determined whether contracts with the Lutheran Housing Corporation were certified by required City officials and that payments were made within the scope of the contract documents.

PROCEDURES

1. We obtained copies of the contracts entered into during calendar year 2001. We reviewed each agreement, noting the applicable time periods, funding awards, and the approvals of City and Lutheran Housing officials.
2. We obtained copies of checks and related documentation which supported payments made to the Lutheran Housing Corporation during the Period, to determine whether payments were made within the scope of the contracts.

RESULTS

1. The following contracts were provided by the Lutheran Housing Corporation:

Date of Agreement	Amount	Funding Year⁶
June 26, 2001	\$84,600	2000
June 26, 2001	28,200	2000
July 18, 2001	450,000	2000

Each of the above agreements was signed by City officials and representatives of the Lutheran Housing Corporation.

2. In response to our request for all payments issued to Lutheran Housing Corporation, the City provided us with a "Reference Search by Vendor" report; however, this report contained numerous errors. The "Paid Date" of the report did not agree to the actual check date on six occasions. Additionally, one check issued by the City for \$33,933 was not included in the report. For these reasons, we were unable to rely on the completeness of the City's documents for payments made to Lutheran Housing Corporation. We will issue a recommendation regarding completeness and accuracy of the City's Reference Search by Vendor reports.

⁶ Although each agreement was entered into during 2001, the contracts were funded by the City's year-2000 allocation from the US HUD Home Programs.

Supplement to the Special Audit Report

The incomplete ledger provided to us by the City documented \$332,743 was paid to Lutheran Housing Corporation in association with the contracts in Result No. 1, above. Of that amount, the City was unable to provide documentation to support expenditures totaling \$295,480, for which we have issued a Federal Questioned Cost and a Noncompliance Citation for failure to maintain documents in accordance with the City's records retention schedule and Ohio Revised Code guidelines.

The remaining expenditures were supported by documentation which appeared to be within the scope of the contracts.

FEDERAL QUESTIONED COST

OMB Circular A-87, Attachment (A), Section C(1)(a) requires that all costs must be necessary and reasonable for proper efficient performance and administration of federal awards. Section (C)(1)(j) requires that all costs must be adequately documented. In addition, they must be legal, proper, and consistent with the policies that govern the recipient's own expenditures.

CFDA, Department of Housing and Urban Development, Sections 14.218, "Community Development Block Grants/Entitlement Grants" and 14.219, "Community Development Block Grants/Small Cities Program" each state that program costs will be determined in accordance with OMB Circular A-87.

We selected expenditures totaling \$332,743 for review. Of these, \$295,480 were not supported by a voucher package or a packing slip providing evidence that purchased goods were received. By not obtaining and maintaining supporting invoices for all services or goods received, the City may inadvertently issue duplicate or inappropriate payments. We recommend the City obtain supporting documents, such as vendor invoices and packing slips, prior to issuing any payments for goods or services received. These supporting documents should be attached to a copy of the corresponding check and purchase order and should be maintained in an appropriate filing system.

Total Federal Questioned Cost: \$295,480

NONCOMPLIANCE CITATION

Records Retention

Ohio Rev. Code Section 149.351 states records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions provided for under Sections 149.38 to 149.42 of the Revised Code.

The City's Records Retention Policy, Section V, Part G, Number 6, states, "A schedule of records retention and disposition specifies the period of time each record series will be retained by the agency, and provides continuing authority for the disposition of the record at the expiration of the stated retention period." The City's Suggested Records Retention Periods for Ohio Municipal Records, Section 1, General Administrative Records, states that "Expense Records" are to be maintained for three years. Section 8, Financial Records, suggests a three year retention period for "Invoices and Supporting Documents."

The City was unable to provide supporting documentation for each transaction selected for review. Of \$332,743 in expenditures we reviewed, the City was unable to provide documentation to support expenditures totaling \$295,480. The lack of a documented audit trail prevented us from verifying all transactions were for a purpose related to the contract specifications.

We recommend the City maintain all documents which support expenditure transactions.

Supplement to the Special Audit Report

MANAGEMENT COMMENT

Vendor Transaction Listings

When attempting to identify all payments to the specific vendors in this audit report, the City provided us with "Reference Search by Vendor" listings which were supposed to document the amount, date, check number, voucher and invoice information for all payments to each vendor. However, our review of the Lutheran Housing Corporation vendor search identified six errors and one omission. Therefore, we were unable to rely on these vendor listings, not only for this Issue, but also for Issue No. 1, Award and Payment of Housing Repair Expenditures.

We recommend the City investigate the method by which its computer system gathers the information which is then input to the Reference Search by Vendor data files. Obstacles or problems with the transmission of data should be identified and corrected.

Supplement to the Special Audit Report

ISSUE 3: Entertainment Expenses

We determined whether expenditures related to a groundbreaking ceremony were authorized and related to a purpose of a CDBG program.

PROCEDURES

We obtained documents related to expenditures for the ceremony held on April 6, 2001, including but not limited to the bid requests, price quotes, voucher packets, purchase orders, and approvals. We reviewed each expenditure noting if it was authorized and for a purpose related to the operations of a Community Development Department.

RESULTS

The City provided us with voucher packets totaling \$35,799, from 14 vendors for payment of various services related to the groundbreaking ceremony. Those services included the rental of tables, chairs and flatware, the purchase of food, party favors, corsages and other flowers, invitations, and service fees for trolley tours and disc jockeys.

One expenditure in the amount of \$3,369 included supporting documentation from the vendor that the order was placed by Charles Reed. Additionally, one expenditure for \$925 was paid to Rush Entertainment (a company owned by Charles Reed, Jr.) and was deposited by Charles Reed, Jr. into his Greenbay account (see Issue No. 1).

In addition to the above payment which was issued to Rush Entertainment for the ceremony held on April 6, 2001, the City issued two checks totaling \$2,850 for entertainment at other City-sponsored events. All three of the checks issued to Rush Entertainment were deposited into a bank account held in the name of Charles Reed, Jr., Ms. George's brother. Additionally, there was no evidence that Ms. George obtained price quotes for any of these three expenditures, one expenditure was not supported by an invoice, and the remaining two had invoice dates prior to the purchase order dates, a direct violation of Ohio Rev. Code Section 5705.41 (see Noncompliance Citations under Issue No. 1).

Supplement to the Special Audit Report

FINDING FOR RECOVERY

Rush Entertainment

During her employment as Community Development Director, Cecelia George authorized payments totaling \$3,775 to her brother's company, Rush Entertainment, to provide entertainment at City-sponsored events.

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code §117.28, a Finding for Recovery for illegal expenditure of public money is hereby issued against Cecelia George, former Director, Community Development Department, and Charles Reed Jr., owner of Rush Entertainment, jointly and severally, in the amount of \$3,775, and in favor of the City of East Cleveland Community Development Department.

Total Finding for Recovery: \$3,775

FEDERAL QUESTIONED COST

Groundbreaking Ceremony

The Catalog of Federal Domestic Assistance, issued by the Executive Office of the President, includes specific guidelines on the expenditure of federal grant funds. Section 14.219 is designated to the objectives, uses and restrictions on the expenditure of funds from the Community Development Block Grants/Entitlement Grants program. Specifically, "all eligible activities must either benefit low- and moderate-income persons, aid in the prevention or elimination of slums or blight, or meet other community development needs having a particular urgency."

During the Period, former Director Cecelia George authorized 14 expenditures totaling \$35,799, for costs related to a groundbreaking ceremony and party. These expenditures expressly violated the provisions for which Community Development Block Grants funds were awarded. We recommend the City use its CDBG funds for the purpose in which they were intended to be used, in accordance with grant guidelines.

Total Federal Questioned Cost: \$35,799



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

**CITY OF EAST CLEVELAND COMMUNITY DEVELOPMENT DEPARTMENT
CUYAHOGA COUNTY**

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 18, 2004**