



**CITY OF CLEVELAND**

**ONE STOP CAREER CENTER  
AND EMPOWERMENT ZONE / JTPA CONTRACTS**

**SPECIAL AUDIT REPORT**

**APRIL 1, 1996 THROUGH DECEMBER 31, 1998**



**JIM PETRO**  
**AUDITOR OF STATE**  

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**STATE OF OHIO**



CITY OF CLEVELAND  
CUYAHOGA COUNTY

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**CITY OF CLEVELAND  
CUYAHOGA COUNTY**

**SCHEDULE OF ELECTED OFFICIALS AND ADMINISTRATIVE PERSONNEL  
AS OF DECEMBER 31, 1998**

**ELECTED OFFICIALS**

Michael R. White	Mayor
Michael D. Polensek	President of Council
Ruby F. Moss	Clerk of Council
Joseph T. Jones	Ward 1 Council
Robert J. White	Ward 2 Council
Odelia V. Robinson	Ward 3 Council
Kenneth L. Johnson	Ward 4 Council
Frank G. Jackson	Ward 5 Council
Patricia J. Britt	Ward 6 Council
Fannie M. Lewis	Ward 7 Council
William W. Patmon	Ward 8 Council
Craig E. Willis	Ward 9 Council
Roosevelt Coats	Ward 10 Council
Michael D. Polensek	Ward 11 Council
Edward W. Rybka	Ward 12 Council
Joe Cimperman	Ward 13 Council
Nelson Cintron, Jr.	Ward 14 Council
Merle R. Gordon	Ward 15 Council
Larry Moran	Ward 16 Council
Timothy J. Melena	Ward 17 Council
Jay Westbrook	Ward 18 Council
Joseph J. Zone	Ward 19 Council
Martin J. Sweeney	Ward 20 Council
Michael A. Dolan	Ward 21 Council

**ADMINISTRATIVE PERSONNEL**

Martin J. Carmody	Director, Department of Finance
Carlean Alford	Manager, Internal Audit, Department of Finance
Gayle Goodwin Smith	Manager, Division of Accounts, Department of Finance
Joseph Nolan	Director, Department of Personnel and Human Resources
Christopher P. Warren	Director, Department of Economic Development
Robert W. Dolan	Controller, Financial Reporting and Control, Department of Finance
Miguel Torres	Administrator, Department of Personnel and Human Resources

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STATE OF OHIO  
OFFICE OF THE AUDITOR

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## REPORT OF INDEPENDENT ACCOUNTANTS

The Honorable Jane Campbell  
Mayor

City of Cleveland  
601 Lakeside Avenue  
Cleveland, Ohio 44114-1015

We have conducted a Special Audit and performed the procedures summarized below, and detailed in our "Supplement to the Special Audit Report," which were agreed to by former Mayor Michael White, for the period April 1, 1996, through December 31, 1998 ("the Period"). These procedures were performed solely to determine whether certain City of Cleveland ("the City") payments for the renovation of the One-Stop Career Center and certain City Job Training Partnership Act ("JTPA") and Empowerment Zone ("EZ") grant expenditures complied with the requirements of the Ohio Revised Code, City Charter, City Codified Ordinances, City policies, contractual terms, and federal regulations. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of this report. Consequently, we make no representations regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested, or for any other purpose. The procedures we performed are summarized as follows:

1. We reviewed the contracts awarded to Rivera Construction and Remodeling, Precision Remodeling, and Teletronics, Inc. for the renovation of the One-Stop Career Center and the related payments to those vendors to determine whether they were in compliance with applicable authority and/or City policy and were for a purpose related to the operations of the City.

Significant Result - The City paid Rivera Construction and Remodeling Co. and Precision Remodeling \$17,800 and \$48,016, respectively, for interior renovation of the One Stop Career Center. Although some renovations appear to have occurred, neither the City, Rivera Construction and Remodeling, nor Precision Remodeling could provide materials invoices and payroll records to support materials purchased and labor costs for which they invoiced the City and received payment.

Although federal funding sources were available and it appeared the City intended to request federal reimbursement for expenditures to Rivera Construction and Remodeling Co., Precision Remodeling, and Teletronics, Inc., the City did not actually request reimbursement and thus incurred unnecessary City expenditures totaling \$125,718.

We also made management comments regarding development of a conflict of interest policy and the City's monitoring of emergency purchases.

2. We reviewed a training contract awarded to MBM Equipment, Inc. (MBM) and the related payments to that vendor to determine whether they were made in compliance with applicable authority and/or City policy and were for a purpose related to the operations of the City.

Significant Result - Patrick J. Murray, President of MBM, received \$30,004 for providing 1,038 instructor's hours which were allegedly provided solely by him during the period May 1, 1998 through June 12, 1998. However, neither the City nor MBM could provide time sheets or time records of Mr. Murray to substantiate the number of instruction hours. MBM also received \$51,015 for equipment usage in the training of 27 other drivers. However, neither the City nor MBM could provide signed attendance sheets or other documentation to substantiate the number of drivers trained.

As was the case in Issue No. 1, federal funding sources were available to the City for the \$81,019 of expenditures made to MBM; however, the City did not utilize those sources.

We understand that the City is currently in civil litigation with Mr. Murray and MBM in Cuyahoga County Common Pleas Court to recover monies related to nonperformance of his contract.

3. We reviewed 23 JTPA and 11 Empowerment Zone contracts and related payments to the respective vendors to determine whether they were made in compliance with applicable authority and/or City policy and were for a purpose related to the operations of the City.

Significant Results - The City paid the Cleveland Board of Education \$2,727,970 in advance of services related to a JTPA Contract for the Board to provide a Summer Youth Program. However, subsequent invoices and related documentation only supported \$2,610,576 of expenses incurred by the Board. As a result, a Finding for Recovery in the amount of \$117,394 against the Board was considered. Upon notifying the City, the City requested and received payment of \$117,394 from the Board prior to the completion of our audit. As such, we consider this finding repaid under audit.

For 11 of 23 JTPA contracts, neither the City nor the respective contractor, were able to provide payroll records to support payments received for payroll costs incurred. Additionally, 3 of the 11 contractors were unable to provide documentation for nonpayroll related expenses. As a result, we issued federal questioned costs for the JTPA Program totaling \$477,964.

For 7 of 11 EZ contracts, neither the City nor the respective contractor, were able to provide payroll records to support payments received for \$246,468 of payroll costs incurred. Of that amount the City requested and received only \$53,420 in federal funds thus unnecessarily incurring \$193,048 in City paid expenses when federal funding was available. Following our exit conference with the City, the City provided documentation to support \$22,820. As a result, we issued federal questioned costs totaling \$30,600 for the EZ program.

An Ordinance passed by Council authorized the Directors of Economic Development and Personnel and Human Resources to expend federal EDI Grant funds from Fund 18007. However, only \$799,439 of the \$1,716,373 of EZ program related expenses we reviewed were paid from Fund 18007. The remaining EZ expenditures we reviewed were paid from Fund 13065. In addition, although all of the contract agreements we reviewed between the City and EZ stated that the funding for activities to be undertaken pursuant to those contracts was the City's federal EDI Grant, the City requested and received only \$125,314 in federal reimbursement.

In total for all three Issues reviewed during this special audit, the City did not request \$1,716,777 from the EDI Grant for EZ program related expenditures incurred. The City used its own monies to fund activities of the federal Empowerment Zone program even though federal funding sources were available to the City and as a result, incurred an unnecessary financial burden.

The City recorded a "Grants Receivable" in Fund 18007 in the amounts of \$2,776,687 and \$1,858,536 as of 12/31/99 and 12/31/00, respectively. We noted numerous instances in this report where the City did not request reimbursement for EZ related expenses causing questions regarding the completeness and accuracy of the "Grants Receivable" recorded in the City's financial records for Fund 18007.

The City had large negative cash balances in two funds which account for Empowerment Zone financial activity. For the two years ended 12/31/99 and 12/31/00, the combined negative cash balances recorded were \$3,301,685 and \$2,940,357, respectively.

We also noted other weaknesses in the City's administration of the JTPA and EZ contracts and made recommendations to assist the City in improving this area.

4. On December 11, 2001 we held an exit conference with the following City employees:

Frank Badalamenti	Manager of Internal Audit
Cornell Carter	Chief of Staff
Jeffery K. Patterson	Director of Personnel and Human Resources
Christopher Warren	Director of Economic Development
Valerie McCall	Director of Empowerment Zone
Judith Weyburne	Chief of Work Force
Dan Rehar	Controller of Economic Development
Marilyn Henderson	Operations Manager, Human Resources
Barry Withers	Executive Assistant to the Mayor
Kelly E. Clark	Director of Finance

These individuals were given an opportunity to respond to this special audit report. We received a response on December 28, 2001 from the City's then Finance Director, Ms. Kelly E. Clark. The response was evaluated and changes were made to the report as deemed appropriate.

We were unable to obtain representations from former Mayor Michael White indicating the City had provided all records requested to perform our audit procedures; that all inquiries had been answered; and that he was unaware of any irregularities or illegal acts that would have an impact on our report. However, we did obtain a representation letter from Frank Badalamenti, Manager of Internal Audit, with such representations.

Our detailed procedures and the results of applying these procedures are contained in the attached "Supplement to the Special Audit Report". Because these procedures do not constitute an examination conducted in accordance with generally accepted auditing standards, we do not express an opinion or limited assurance on any of the accounts or items referred to above. Also, we express no opinion on the City's internal control system over financial reporting or any part thereof. Had we performed additional procedures, or had we conducted an examination of the financial statements in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported to you. This report relates only to transactions relating to the above procedures, and does not extend to any financial statements of the City, taken as a whole.

This report is intended for the use of the specified users listed above and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. 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.

**Jim Petro**  
Auditor of State

June 20, 2001

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### BACKGROUND INFORMATION

The City of Cleveland administered activities related to two of its federal programs through the Department of Personnel and Human Resources. The Empowerment Zone was a 10-year, \$177,000,000 program funded through federal Economic Development Initiative ("EDI") grants and loan guarantees administered by the U.S. Department of Housing and Urban Development ("HUD"). The Empowerment Zone was designed to stimulate economic growth in the City's poorest neighborhoods: Fairfax, Glenville, Hough, and the Midtown Corridor. The Job Training Partnership Act was a city-wide program developed, managed, and administered through the State of Ohio Job Training Partnership Ohio (Power Ohio) program. These federally funded programs were designed to train and place low-income City residents into jobs.

On December 18, 1999, PricewaterhouseCoopers LLP ("PwC") issued a Report on Agreed-Upon Procedures related to the City's Department of Personnel and Human Resources expenditure reimbursement process. PwC performed procedures which included reviewing a sample of JTPA and EZ grant expenditures from the period January 1, 1998 to October 31, 1998 to determine whether contracts were established in accordance with grant requirements, vouchers were properly approved in accordance with applicable City and Department policies, vouchers were supported by original source documentation, and expenditures were allowable under the specific grant and contract requirements. In general, this report detailed improper reimbursements to contracted agencies and instances where contract and voucher approval procedures were not clearly documented or consistently applied.

In addition, various newspaper articles contained reports of possible irregularities involving the former City Human Resources Administrator, payments to a JTPA and EZ program contractor, and the City's use of emergency contracts to renovate the Empowerment Zone One-Stop Career Center. Based on the results contained in PwC's report and the issues contained in the newspaper articles, the Auditor of State's Special Audit Committee voted on February 9, 1999 to initiate a special audit. The agreed-upon procedures report issued by PwC was utilized as the basis for developing the scope of our engagement.

We held our engagement conference with City representatives on May 6, 1999, at which time we presented them with our Letter of Arrangement ("LOA"). Our LOA identified the procedures we were going to perform and stated it was the City's responsibility to provide us with such records, documents, and evidential matter as needed to perform those procedures. At that time, City representatives pledged their cooperation to us. We also requested the City's Mayor and Director of Finance sign our LOA to acknowledge they received a copy of the LOA and agreed with the planned procedures and estimated fee. We made numerous requests to the City between May 6, 1999 and December 31, 1999 for our original LOA; however, the City did not respond to our requests. On January 10, 2000, the City requested we provide another LOA because they could not locate the original LOA provided to them. We presented the City with another LOA on January 24, 2000. On February 1, 2000, the City returned the LOA signed by the City's Mayor and Director of Finance.

## **SUPPLEMENT TO THE SPECIAL AUDIT REPORT**

On May 4, 1999 we faxed our Prepared by Client Listing ("PBC") to the Director of Finance. This letter requested, in detail, the City documents which were needed to start our engagement. The City asked that we submit all requests for records to either of two designated liaisons, the Fiscal & Monitoring Manager of Personnel and Human Resources or the Manager of the Office of Internal Audit. On May 12, 1999, we submitted our request letter to those designated liaisons. The City liaisons requested sufficient time to gather the documents because of the volume of records requested. The liaisons promised their full cooperation and immediate attention to our request. We received some of the requested documents, piecemeal, between May 12, 1999 and July 2, 1999. During that time, the City did not provide us with any expenditure ledgers. We held frequent meetings with the City's liaisons to express our concern that a piecemeal approach was neither time nor cost effective and considered temporarily halting the engagement due to the City's lack of cooperation in providing the requested records. The City's liaisons promised immediate action and we agreed to remain on site as long as we had sufficient documents. On July 2, 1999, we received the expenditure ledgers from the City. On July 28, 1999, we temporarily stopped the audit for two weeks due to lack of requested documentation.

On 8 occasions between May 21, 1999 and January 19, 2000, we prepared updated lists of requested documents which had not yet been provided and submitted those lists to the City's liaisons. On January 19, 2000, we submitted our final request for documents to the City. We also provided the City, at their request, a list of all City documents which we possessed and the City's source for those documents.

Our review of the City's expenditures to JTPA and EZ vendors revealed, in many instances, the City's files did not maintain the required supporting documentation from those vendors. As a result, we sent letters to those vendors requesting the required supporting documentation and allowed those vendors 10 business days to respond. A number of vendors either did not respond or submitted insufficient or incorrect supporting documents which prompted additional communication with those vendors. A number of vendors permitted us to review their records at their office sites due to the volume of their records. The process of reviewing records at vendors' office sites was time-consuming, but necessary, in order to verify the existence of the required supporting documentation.

On August 7, 1998, the President of the United States signed the Workforce Investment Act (WIA). This act initiated a new delivery system for providing employment and training services beginning July 1, 2000, effectively ending the JTPA program. Subsequent to July 1, 2000, all activity of the JTPA program was closed out and the program had no further activity as of November 30, 2000.

In January 1999, Governor Taft announced the merger of the Ohio Department of Human Services and the Ohio Bureau of Employment Services, which administered the JTPA program in Ohio, into the Ohio Department of Job and Family Services beginning July 1, 2000.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### APPLICABLE AUTHORITY

#### FEDERAL REGULATIONS

1. Office of Management and Budget (OMB) Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments" effective September 1, 1995, Section C. 1., establishes basic guidelines for determining allowable costs for Federal awards carried out through grants, cost reimbursement contracts, and other agreements with State and local governments. To be allowable under Federal awards, costs must meet the following general criteria:
  - a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
  - b. Be allocable to Federal awards under the provisions of this Circular.
  - c. Be authorized or not prohibited under State or local laws or regulations.
  - d. 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.
  - e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.
  - f. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other costs incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
  - g. Except as otherwise provided for in this Circular, be determined in accordance with generally accepted accounting principles.
  - h. Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation.
  - i. Be the net of all applicable credits.
  - j. Be adequately documented.
2. Office of Management and Budget (OMB) Circular A-87, Attachment B, Section 11 d. (1) and (2) provides principles to be applied in establishing the allowability or unallowability of fringe benefits. These sections state:
  1. Fringe benefits are allowances and services provided by employers to their employees as compensation in addition to regular salaries and wages. Fringe benefits include, but are not limited to, the costs of leave, employee insurance, pensions, and unemployment benefit plans. Except as provided elsewhere in these principles, the costs of fringe benefits are allowable to the extent that the benefits are reasonable and are required by law, governmental unit-employee agreement, or an established policy of the governmental unit.
  2. The cost of fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as for annual leave, sick leave, holidays, court leave, military leave, and other similar benefits, are allowable if: (a) they are provided under established written leave policies; (b) the costs are equitably allocated to all related activities, including Federal awards; and, (c) the accounting basis (cash or accrual) selected for costing each type of leave is consistently followed by the governmental unit.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

3. Office of Management and Budget (OMB) Circular A-87, Attachment B Section 11 h. (1) through (7), provides standards regarding time distribution documentation required in addition to the standards for payroll documentation. These sections state:
- (1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.
  - (2) No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.
  - (3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certification that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.
  - (4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activities reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:
    - (a) More than one Federal award,
    - (b) A Federal award and a non-Federal award,
    - (c) An indirect cost activity and a direct cost activity,
    - (d) Two or more indirect activities which are allocated using different allocation bases, or
    - (e) An unallowable activity and a direct or indirect cost activity
  - (5) Personnel activity reports or equivalent documentation must meet the following standards:
    - (a) They must reflect an after-the-fact distribution of the actual activity of each employee,
    - (b) They must account for the total activity for which each employee is compensated,
    - (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
    - (d) They must be signed by the employee.
    - (e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:
      - (i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;
      - (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and
      - (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

- (6) Substitute systems for allocating salaries and wages to Federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee effort.
    - (a) Substitute systems which use sampling methods must meet acceptable statistical sampling standards including:
      - (i) The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results except as provided in subsection (c);
      - (ii) The entire time period involved must be covered by the sample; and
      - (iii) The results must be statistically valid and applied to the period being sampled.
    - (b) Allocating charges for the sampled employees' supervisors, clerical and support staffs, based on the results of the sampled employees, will be acceptable.
    - (c) Less than full compliance with the statistical sampling standards noted in subsection (a) may be accepted by the cognizant agency if it concludes that the amounts to be allocated to Federal awards will be minimal, or if it concludes that the system proposed by the governmental unit will result in lower costs to Federal awards than a system which complies with the standards.
  - (7) Salaries and wages of employees used in meeting cost sharing or matching requirements of Federal awards must be supported in the same manner as those claimed as allowable costs under Federal awards.
4. 24 CFR Part 85.36 (d) "Methods of procurement to be followed" states:
- (4) Procurement by noncompetitive proposals is a procurement through solicitation of a proposal from only one source, or after solicitation of a number of sources, competition is determined inadequate.
    - (i) Procurement by noncompetitive proposals may be used only when the award of a contract is feasible under small purchase procedures, sealed bids or competitive proposals and one of the following circumstances applies:
      - A. The item is available only from a single source;
      - B. The public exigency or emergency for the requirement will not permit a delay resulting from competitive solicitation.
      - C. The awarding agency authorizes noncompetitive proposals; or
      - D. After solicitation of a number of sources, competition is determined inadequate.
    - (ii) Cost analysis, i.e., verifying the proposed cost data, the projections of the data, and the evaluation of the specific elements of costs and profit, is required.
    - (iii) Grantees and subgrantees may be required to submit the proposed procurement to the awarding agency for pre-award review in accordance with the awarding agency review.

24 CFR Part 85 is the federal "common rule" which provides the authority for noncompetitive procurement when using federal funds.

## **SUPPLEMENT TO THE SPECIAL AUDIT REPORT**

### **STATE OF OHIO JOB TRAINING PARTNERSHIP (POWER OHIO) REGULATIONS**

1. Job Training Partnership Act (Power Ohio) Policy Letter Number 4-95, Monitoring Instructions, states “each Occupational Job Training (OJT) employer awarded an OJT contract(s) must be monitored on-site at least once during the program year. A monitoring guide must be developed to assure compliance with the standards set forth in regulation 627.240(g), as follows:

(1) OJT agreements shall be monitored periodically on-site by the entity issuing the contract to assure that the validity and propriety of amounts claimed for reimbursements are substantiated by payroll and time and attendance records and that the training is being provided as specified in the agreement.

(2) Brokering contractors shall conduct on-site monitoring of the OJT employers and other subcontractors to verify compliance with subcontract terms before making payments.

(3) Nothing in this paragraph (g) shall relieve recipients and SDA’s from responsibility for monitoring expenditures under the Act.

Each SDA/SSG must include a monitoring plan and policy in its job training plan for on-site programmatic, OJT, financial, procurement and compliance monitoring.”

2. Job Training Partnership Act (Power Ohio) Policy Letter Number 5-95 implements the general principles affecting allowability of costs and compensation for personal services. This policy letter incorporates the requirements of OMB Circular A-87 with elaboration.
3. Job Training Partnership Act (Power Ohio) Policy Letter Number 6-95 implemented procurement procedures and standards to be used in purchasing goods and services with funds provided by the Job Training Partnership Act under the Job Training Reform Amendment of 1992 and its regulations. Policy Letter Number 6-95 states, “A requirement that the proposer provide a line item budget that contains, at a minimum: A detailed breakout of the proposer’s staff costs, which includes an hourly rate per staff member, hours a week devoted to the proposed project, number of weeks devoted, and a description of each staff person’s duties, as they relate to completion of the proposed project.”

### **CITY OF CLEVELAND JTPA CONTRACTUAL PROVISIONS**

1. All City of Cleveland JTPA Contract Agreements, Section 22 of the Terms and Conditions state, “The Contractor shall adhere to and follow those requirements placed on SDA/SSA No. 20 Grant Recipient where applicable to Contractor pursuant to Office of Management and Budget (OMB) Circular No. A-87 and A-102, A-128 and A-133 or any successor provisions thereto as they relate to the application, acceptance and use of federal funds which are incorporated herein by this reference, as if fully rewritten. The Contractor shall also adhere to any and all amendments or modifications thereto where such administrative requirements and procedures have been specifically superseded by JTP-Ohio Policy Letter for Ohio Bureau of Employment Services.”

## **SUPPLEMENT TO THE SPECIAL AUDIT REPORT**

2. All City of Cleveland JTPA Contract Agreements within Scope of Work, Section II. A. 2. , Cost Reimbursement Invoice Procedure, state, “The Contractor shall utilize the invoice formats and procedures of the SDA No. 20 Administrative Entity to report costs incurred monthly, in accordance with Cost Reimbursement Budget. For an invoice to be accepted for review by the SDA No. 20 Administrative Entity, it must be accompanied by documentation in support of costs incurred, as reported on the Invoice Summary form. Summary titles, consistent with the title of the invoice line item (or subjects), shall identify which costs the documentation is intended to support. (E.g. Staff Salaries, a copy of a payroll ledger will follow; if there are salaries included on the ledger which are not a part of the contractual budget, underlining or other hand-written notation shall be used to clarify the documentation. If budget line items include professional service consultants, the Contractor shall submit an itemized list of specific work functions performed, the hourly rate, and the number of hours related thereto.) Likewise, duplicate copies of vendor invoices, receipts, etc., shall be orderly submitted; a cover shall state the nature and purpose of the documentation, and notations shall segregate the allowable costs under the budget from those are not contractually authorized.”

### **CITY OF CLEVELAND EMPOWERMENT ZONE CONTRACTUAL PROVISIONS**

1. All City of Cleveland EZ Contract Agreements, Section 4.04 C., Payroll and Distribution of Time, state, “Payroll expenditures must be supported by a detailed account of all employees who work Community Development Block Grant projects. To provide adequate accounting for payroll expenditures, all employees paid in whole or in part from Economic Development Initiative/Community Development Block Grant funds must prepare a time sheet indicating the hours worked on Block Grants projects for each pay period. Based on these time sheets and hourly payrolls cost for each employee, a statement indicating the distribution of payroll charges shall be prepared. Fringe benefits’ costs will also be prorated in accordance with the payroll distribution breakdown. All payroll costs must be properly documented in order to be eligible for Block Grant reimbursement.”
2. All City of Cleveland EZ Contract Agreements, Section 4.02, Administrative Requirements, in part states, “Contractor, as recipient of Cleveland EDI Grant funds, agrees to adhere to the requirements set forth in the Common Rule for Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments, issued by the Federal Government, 29 CFR Part 97 (hereinafter “the Common Rule”) which by this reference is made a part hereof as if fully rewritten herein.”
3. All City of Cleveland EZ Contract Agreements Section 3.08, Legal Requirements, state, “Contractor agrees to follow all federal, state, and local law and regulations pertaining to any employees which Contractor may use to provide services under this Contract.”

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### CITY OF CLEVELAND CODIFIED ORDINANCES

1. City of Cleveland, Codified Ordinance, Section 181.11, details the circumstances required for noncompetitive purchases. This ordinance provides for noncompetitive purchases under the following circumstances: the purchase is for the purpose of determining the fitness or suitability of any product to meet the special requirements of the City...in no event more than \$500; emergency repairs or necessary replacement parts are required immediately...involving an expenditure of not more than \$3,500; the director of a department requisitions the purchase of any commodity or article by brand name setting forth the reasons why no other commodity or article except the one specified is suitable for the intended use...when the amount is less than \$500 and the Director of Finance has approved such purchase, and with the additional approval of the Mayor when the amount is more than \$500 but not more than \$3,500. (Ord. No. 627-68. Passed 3-18-68, effective 3-19-68)
  
2. City of Cleveland Codified Ordinance 181.12, Emergency Purchases and Contracts states "When an emergency occurs requiring an immediate purchase in order to prevent the interruption of public service endangering public health, safety or welfare, the Commissioner of Purchases and Supplies may make such purchase notwithstanding that the amount involved exceeds ten thousand dollars (\$10,000), if the Mayor, the President of Council, the Chairman of the Finance Committee of Council and the Director of Finance determine such immediate purchase necessary, provided that such purchase shall be reported to Council at the next regular meeting thereof. It is provided further, that nothing contained in this section shall be deemed to authorize any contract for service to be performed beyond the period of the second meeting of Council following the authorization of such contract by the officials so empowered hereunder. (Ord. No. 2725-89, Passed 12-18-89, effective 12-22-89)."

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### Issue No. 1 - Review of Contracts and Payments for Renovation of One-Stop Career Center

We reviewed the contracts awarded to Rivera Construction and Remodeling, Precision Remodeling, and Teletronics for the renovation of the One-Stop Career Center and the related payments to those vendors to determine whether they were in compliance with applicable authority and/or City policy and were for a purpose related to the operations of the City.

#### PROCEDURES

1. Through inquiry of City officials, review of City policies, City ordinances, and review of the applicable Ohio Revised Code and Administrative Code sections, we identified the City's procedures for requesting, opening, and awarding bids. We identified procedures to be used in the event of an emergency and the applicable authority which allows the City to enter into emergency contracts.
2. We identified and reviewed City policies, ordinances, statutes, and grant agreements (where applicable), regarding conflicts of interest and related-party transactions.
3. We obtained the official minute records of the City Council and reviewed the awarding of contracts to the above vendors, noting the date the contract was awarded, whether bidding procedures were followed, whether the contract was awarded as an emergency, and the amount and duration of the contract.
4. We identified expenditures to the above vendors for the respective contracts noting the fund from which each payment was made. For disbursements of federal awards from federal funds, we obtained and reviewed applicable federal allowable costs requirements to determine whether the type of expenditure was allowable. In addition we reviewed each of the disbursements identified to the above vendors to ensure they were for a purpose related to the operations of the City, authorized, supported by underlying documentation, and for services prior to Council's second meeting following the authorization of the emergency contract in accordance with City of Cleveland, Codified Ordinance 181.12.
5. We reviewed any changes in contract terms and amounts for authorization.
6. We inquired with officials from the Cleveland Police Department to determine whether there was an investigation of the City's former Human Resource Director with regard to possible related-party transactions and whether any formal charges would be pursued.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### RESULTS

1. The City of Cleveland is a Charter form of government as authorized by Chapter 731 of the Ohio Revised Code and thus the City's Ordinances supersede any Ohio Revised Code authority governing emergency purchases. City of Cleveland Codified Ordinances, 181.06 through 181.11, detail the purchasing procedures to be followed with respect to:

- ▶ Procedures for Requisitions
- ▶ Supplies or Services from Other Departments
- ▶ Purchases not Exceeding \$10,000
- ▶ Purchases not Exceeding \$500
- ▶ Purchases Exceeding \$10,000 to be Authorized by Ordinance; Bids; Contracts

With respect to emergency purchases, City of Cleveland Codified Ordinance 181.12 Emergency Purchases and Contracts states "When an emergency occurs requiring an immediate purchase in order to prevent the interruption of public service endangering public health, safety or welfare, the Commissioner of Purchases and Supplies may make such purchase notwithstanding that the amount involved exceeds ten thousand dollars (\$10,000), if the Mayor, the President of Council, the Chairman of the Finance Committee of Council and the Director of Finance determine such immediate purchase necessary, provided that such purchase shall be reported to Council at the next regular meeting thereof. It is provided further, that nothing contained in this section shall be deemed to authorize any contract for service to be performed beyond the period of the second meeting of Council following the authorization of such contract by the officials so empowered hereunder, (Ord. No. 2725-89, Passed 12-18-89, effective 12-22-89)."

2. City of Cleveland Codified Ordinance, 615.10, prohibits a City employee from having an unlawful interest in a public contract. Our review did not identify any other City policies, ordinances, statutes, and grant agreements (where applicable) which governed conflicts of interest and related party transactions.
3. The City did not enter into formal contracts with Rivera Construction and Remodeling, Precision Remodeling, and Teletronics, Inc.; however, we noted the following entries in the Council minutes related to authorizing emergency purchases from these vendors for renovation of the One-Stop Career Center:
  - A. On January 14, 1998, City Council authorized Requisition Emergency No. 11901, in the amount of \$17,800 to Rivera Construction and Remodeling for emergency no-bid interior renovation to the One-Stop Career Center pursuant to City of Cleveland, Codified Ordinance, Section 181.12 and the City's Accounting Policies and Procedures.
  - B. On January 12, 1998, City Council authorized Requisition Emergency No. 11903, in the amount of \$48,016 to Precision Remodeling for emergency no-bid interior renovation to the One-Stop Career Center pursuant to City of Cleveland, Codified Ordinance, Section 181.12 and the City's Accounting Policies and Procedures.
  - C. On May 18, 1998, City Council authorized Requisition Emergency No. 11736, in the amount of \$59,902 to Teletronics, Inc. for an emergency no-bid telephone system for the One-Stop Career Center pursuant to City of Cleveland, Codified Ordinance, Section 181.12 and the City's Accounting Policies and Procedures.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

On June 16, 1997, the City passed Ordinance 853-97 authorizing the costs of the contracts related to the renovation and improvement of the One-Stop Career Center to be paid from Fund 18007, EDI Grant Fund. This ordinance was effective June 24, 1997.

4. Based on our review of City ledgers and related vouchers, we identified the following payments to Rivera Construction and Remodeling, Precision Remodeling, and Teletronics, Inc.:

### **Rivera Construction and Remodeling**

The City's Vendor Activity Listing reports indicated Voucher No. 58217, dated January 30, 1998, and Voucher No. 65901, were issued for payment to Rivera Construction and Remodeling, each in the amount of \$8,900. Both expenditures were made from Fund 18007, the SEZ - EDI Job Match Services Fund. Voucher No. 58217 contained supervisory approval. Because the City could not locate Voucher No. 65901, we could not identify the date of the voucher or determine whether it contained required approvals. The payee and amount of Warrant No. 2662 agreed to Voucher No. 58217. The City could not locate Warrant No. 489766 related to Voucher No. 65901 issued on March 31, 1998 in the amount of \$8,900 to Rivera Construction and Remodeling.

Based on the City's chart of accounts, Fund 18007 was identified as a federal fund. According to the City, expenditures from Fund 18007 were to be submitted to HUD for reimbursement from the EDI (Empowerment Zone) Grant. The city did not request federal reimbursement for any of the expenditures to Rivera Construction and Remodeling.

We physically inspected the One-Stop Career Center. Although some renovations appeared to have occurred, neither the City nor Rivera Construction and Remodeling could provide us with documentation which supported materials purchased and labor costs. Mr. Rivera submitted 2 lump sum invoices to the City for payment, each in the amount of \$8,900. In response to a formal request for documentation, Mr. Ray Rivera provided a typed summary of materials purchased totaling \$6,647 and labor costs totaling \$8,652; however, did not provide materials invoices or payroll records to support those expenditures. Mr. Rivera also did not provide materials invoices or payroll records to support the \$2,501 difference between the \$17,800 invoiced and received and the \$15,299 typed summary. Rivera Construction and Remodeling provided copies of IRS Form 1099's issued to employees totaling \$4,348; however, provided no documentation to support that the labor provided by those people was the labor billed to the City.

Had the City submitted these expenditures for reimbursement from the EDI Grant, they would have been federal questioned costs for lack of sufficient documentation as required by OMB Circular A-87. In Issue No. 3, we made management recommendations that the City obtain documentation which supports expenditures by contractors prior to issuing payments to the contractors and request federal reimbursement for expenditures when available rather than using City monies to operate federal programs.

Miguel Torres, former Director of Personnel and Human Resources, approved the purchase requisition to Rivera Construction and Remodeling by signing in the Commissioner Purchases and Supplies space. Ray Rivera, President of Rivera Construction and Remodeling, was the brother-in-law of Mr. Torres.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### Precision Remodeling

The City's Vendor Activity Listing reports indicated Voucher No. 64499, dated January 30, 1998, in the amount of \$27,915, and Voucher No. 67346, dated April 29, 1998, in the amount of \$20,101 were issued for payment to Precision Remodeling. The payment for Voucher No. 64499 was made from Fund 18007, the SEZ - EDI Job Match Services Fund. The payment for Voucher No. 67346 was made from Fund 13064, the EZ One-Stop Career Facility Renovation Fund. Both vouchers contained supervisory approval. The payees and amounts of Warrant Nos. 479941 and 2661 agreed to the vouchers.

As previously noted, the City's chart of accounts identified Fund 18007 as a federal fund. The chart of accounts did not identify Fund 13064 as a federal fund. The City did not request federal reimbursement from the EDI grant for any of the expenditures to Precision Remodeling.

We physically inspected the One-Stop Career Center. Although some renovations appear to have occurred, neither the City nor Precision Remodeling could provide us with materials invoices or payroll records to support the costs incurred by Precision Remodeling while working on the One-Stop Career Center. Invoices submitted to the City contained only project names, general descriptions of services performed such as "install new carpet," "labor," and "all materials," and a lump sum amount. No further details such as descriptions of materials purchased, employee names, or number of hours worked were included.

As was the case with Rivera Construction and Remodeling, had the City requested federal reimbursement for any of the expenditures to Precision Remodeling, they would have been federal questioned costs due to lack of documentation which met federal requirements. In Issue No. 3, we made management recommendations that the City obtain documentation which supports expenditures by contractors prior to issuing payments to the contractors and request federal reimbursement for expenditures when available rather than using City monies to operate federal programs.

We also identified 2 invoices, one each from Rivera Construction and Remodeling and Precision Remodeling for the renovation of the One-Stop Career Center which were dated after the second meeting of Council following the authorization of those emergency purchases. As a result, the payments to those vendors may have circumvented the City's requirements for an emergency purchase.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### Teletronics, Inc.

The City's Vendor Activity Listing reports indicated Voucher No. 67347, dated April 29, 1998, in the amount of \$30,170 and Voucher No. 71233, in the amount of \$29,732 were issued for payment to Teletronics, Inc. Both expenditures were made from Fund 13064<sup>1</sup>, the EZ One-Stop Career Facility Renovation Fund. Voucher No. 67347 contained supervisory approval and the payee and amount of Warrant No. 497940 agreed to Voucher No. 67347. Because the City could not locate Voucher No. 71233, we could not identify the date of the voucher, determine whether this expenditure contained the required approvals, or determine whether the payee and amount of Warrant No. 515618 agreed to the voucher.

We physically inspected the One Stop Career Center and some physical renovations to the Center appear to have occurred. Teletronics, Inc. submitted detailed invoices to the City to support materials purchases and labor payments for the \$59,902 it received.

5. There were no changes to the terms or amounts of the approved emergency ordinances for purchases of services from Rivera Construction, Precision Remodeling or Teletronics, Inc. to renovate the One Stop Career Center.
6. In a discussion with representatives from the City's Police Department on August 3, 1999, they indicated that based on their results of investigating Mr. Torres, the City probably would not pursue any charges against Mr. Miguel Torres related to a possible conflict of interest. As of the date of this report, the City has not pursued charges against Mr. Torres.

### CITATION

City Ordinance No. 853-97 passed by Council on June 16, 1997 and effective June 24, 1997 authorized the Directors of Economic Development and Personnel and Human Resources to renovate and improve the One-Stop Career Center, the costs of which were to be paid from Fund 18007.

We reviewed City expenditures to Precision Remodeling and Teletronics, Inc. in 1998 in the respective amounts of \$20,101 and \$59,902 for renovations and improvements to the One-Stop Career Center. Those payments were made from City Fund 13064.

We recommend the City follow the provisions of their ordinances and pay for expenses as authorized by Council.

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<sup>1</sup>As previously noted in this Issue, Fund 13064 was not identified in the City's chart of accounts as a federal fund.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### MANAGEMENT COMMENTS

#### Conflict of Interest Policy

Although City of Cleveland Codified Ordinance, 615.10, prohibits a City employee from having an unlawful interest in a public contract, our review did not identify any other City policies or Codified Ordinances which governed conflicts of interest and related party transactions. Miguel Torres, former Director of Personnel and Human Resources, approved the purchase requisition to Rivera Construction and Remodeling by signing in the Commissioner's space. Ray Rivera, President of Rivera Construction and Remodeling, was Mr. Torres's brother-in-law.

We recommend the City develop a conflict of interest or related party policy which details the relationship a vendor may or may not have with a City employee.

#### Emergency Purchases

City of Cleveland Codified Ordinance, 181.12, Emergency Purchases and Contracts states "When an emergency occurs requiring an immediate purchase in order to prevent the interruption of public service endangering public health, safety or welfare, the Commissioner of Purchases and Supplies may make such purchase notwithstanding that the amount involved exceeds ten thousand dollars (\$10,000), if the Mayor, the President of Council, the Chairman of the Finance Committee of Council and the Director of Finance determine such immediate purchase necessary, provided that such purchase shall be reported to Council at the next regular meeting thereof. It is provided further, that nothing contained in this section shall be deemed to authorize any contract for service to be performed beyond the period of the second meeting of Council following the authorization of such contract by the officials so empowered hereunder, (Ord. No. 2725-89, Passed 12-18-89, effective 12-22-89)."

We identified 2 invoices, one each from Rivera Construction and Remodeling and Precision Remodeling, for the renovation of the One-Stop Career Center which were dated after the second meeting of Council following the authorization of the emergency purchases. Documentation was not available from the City or the vendors to determine whether services were actually provided before or after the second meeting of Council following the authorization of the emergency purchases. As a result, the payments to those vendors may have circumvented the City's requirements for an emergency purchase.

We recommend the City implement policies and procedures which ensure that City expenditures comply with the City's requirements for emergency purchases. This should include monitoring whether services for an emergency purchase are provided prior to the second meeting of Council following the authorization of those services.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### Issue No. 2 - Review of a Training Contract and Payments to MBM Equipment, Inc.

We reviewed a training contract awarded to MBM Equipment, Inc. (MBM) and the related payments to that vendor to determine whether they were made in compliance with applicable authority and/or City policy and were for a purpose related to the operations of the City.

#### PROCEDURES

1. We obtained the official minute records of the City Council and reviewed the awarding of the training contract to MBM noting the date the contract was awarded, whether the contract was awarded through bidding, as a non-competitive bid or an emergency purchase, and the amount and duration of the contract.
2. We scheduled the expenditures related to this contract and identified the fund(s) from which payments were made. We reviewed any changes in contract terms and amounts for authorization. We verified that expenditures made were approved, for a purpose related to the operations of the City, and were supported by underlying documentation.
3. We inquired whether the City had filed a lawsuit against MBM to recover money paid to MBM and documented the status of such.

#### RESULTS

1. The City entered into an agreement with MBM on June 12, 1998 in the amount of \$81,019. The City indicated the authority for that purchase was Emergency Ordinance 852-97, passed by Council on June 16, 1997, which was a blanket authorization for EDI expenditures not to exceed \$552,000 in personnel costs and \$1,218,000 in other costs. The contract with MBM was a non-competitive bid contract. The term of the agreement between the City and MBM was from May 1, 1998 through April 30, 1999. City of Cleveland, Codified Ordinance, Section 181.11, details the circumstances required for noncompetitive purchases. The purchase of the services provided by MBM did not meet the requirements of that codified ordinance.
2. The City paid MBM \$81,019 to provide truck driving and diesel technician job training and placement at the completion of training. According to the contract, \$30,004 was for payments to instructors and \$51,015 was for equipment usage by the students. The equipment usage was further broken down to reflect 155 hours of training each for 27 students at a unit cost of \$12.19 per hour.

Patrick J. Murray, President of MBM, submitted 3 invoices to the City which were stamped received by the City on June 12, 1998. These invoices requested reimbursement of \$30,004 for 1,038 instructor hours which were allegedly provided solely by Mr. Murray during the period May 1, 1998 through June 12, 1998 prior to entering into a contract with the City. Neither the City nor MBM were able to provide us with time sheets or time records to substantiate the number of hours Mr. Murray provided instruction. If the invoices are accurate, Mr. Murray, as the sole instructor, worked more than 24 hours per day for every day in that period, including weekends and a holiday. The 3 invoices also included \$51,015 for training of 27 students. Neither the City nor MBM were able to provide signed attendance sheets or other documentation to substantiate that 27 drivers were trained.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

The contract agreement between the City and MBM stated the funding for activities to be undertaken pursuant to the contract was the City's federal EDI Grant (Empowerment Zone Program). Emergency Ordinance 852-97 passed by Council authorized the Directors of Economic Development and Personnel and Human Resources to expend EDI Grant funds from Fund 18007<sup>2</sup>. However, the City encumbered and paid for the expenditures to MBM from Fund 13065<sup>3</sup>, EZ One-Stop Career Center Subgrantees Fund, contrary to the Ordinance. The City did not request federal reimbursement for any of the expenditures to MBM. Had the City requested federal reimbursement for any of the expenditures to MBM, they would have been federal questioned costs due to lack of documentation which met federal requirements. We will include a noncompliance citation with provisions of the City's contract with MBM related to adequate documentation of services rendered. In Issue No. 3, we made management recommendations that the City obtain documentation which supports expenditures by contractors prior to issuing payments to the contractors and request federal reimbursement for expenditures when permitted rather than using City monies to operate federal programs.

There were no changes in the contract terms. All payments to MBM were authorized by appropriate City employees.

The City's Department of Personnel and Human Resources issued a set of procedures on March 3, 1998 titled Invoicing Instructions. This document stated that upon reviewing an invoice for approval, if inaccurate or missing documentation is identified by the Invoice Verification Specialist, the remainder of the invoice will be processed, leaving the inaccurate portion to be corrected or resubmitted. No supporting documentation was submitted to the City by MBM other than their invoices. The Invoice Verification Specialist approved, by signature, the City's Cost Reimbursement Invoices to that contractor; however, the Income Verification Specialist did not follow-up with the contractors to obtain supporting documentation.

3. As of the date of this report, the City was in civil litigation (Cuyahoga County Common Pleas Court under Case No. 371801) with Patrick J. Murray and MBM in an attempt to recover monies paid to MBM related to nonperformance of their contract.

### CITATIONS

1. Section 4.04(A) of the contract between the City and MBM states "records shall be maintained with respect to all matters covered by this contract." Section 4.04(B) of the contract between the City and MBM states "all costs shall be supported by properly executed payrolls, time records, invoices, contracts, or other official documentation evidencing in proper detail the nature and propriety of the charges. All checks, payrolls, invoices, contracts, voucher orders, or other accounting documents pertaining in whole or part to this contract shall be clearly identified and readily accessible." Section 4.04(C) of the contract between the City and MBM states "to provide adequate accounting for payroll expenditures, all employees paid in whole or in part from EDI/Community Development Block Grant funds must prepare a time sheet indicating the hours worked on Block Grant projects for each pay period. Based on these time sheets and hourly payroll cost for each employee, a statement indicating the distribution of payroll charges shall be prepared. Fringe benefit costs will also be prorated in accordance with the payroll distribution breakdown. All payroll costs must be properly documented in order to be eligible for Block Grant reimbursement."

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<sup>2</sup>As noted in Issue No. 1, Fund 18007 was identified in the City's chart of accounts as a federal fund.

<sup>3</sup>Fund 13065 was not identified in the City's chart of accounts as a federal fund.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Patrick J. Murray, President of MBM, submitted 3 invoices to the City which were stamped received by the City on June 12, 1998, for reimbursement in the total amount of \$30,004 for 1,038 instructor's hours which were allegedly provided by him during the period May 1, 1998 through June 12, 1998. Neither the City nor MBM provided us with time sheets or time records of Mr. Murray to substantiate the payroll related charges of Mr. Murray.

Those same 3 invoices also reflected charges in the total amount of \$51,015 for training. The invoices indicated a total of 27 drivers were trained. Neither the City nor MBM provided us with signed attendance sheets or other documentation to substantiate that 27 drivers were trained.

We recommend the City monitor the provisions of its contracts and not make payments to vendors who do not comply with contract provisions related to proper supporting documentation for services rendered.

2. Section 1.03 of the contract agreement between the City and MBM stated the funding for activities to be undertaken pursuant to the contract was the City's EDI Grant. City Ordinance 852-97 passed by Council authorized the Directors of Economic Development and Personnel and Human Resources to expend EDI Grant funds from Fund 18007.

The City's expenditures to MBM were made from Fund 13065 rather than Fund 18007.

We recommend the City follow the provisions of their ordinances and contracts and use funding sources for expenditures as authorized by Council.

3. City of Cleveland, Codified Ordinance, Section 181.11 details the circumstances required for noncompetitive purchases. This ordinance provides for noncompetitive purchases under the following circumstances: the purchase is for the purpose of determining the fitness or suitability of any product to meet the special requirements of the City....in no event more than \$500; emergency repairs or necessary replacement parts are required immediately....involving an expenditure of not more than \$3,500; the director of a department requisitions the purchase of any commodity or article by brand name setting forth the reasons why no other commodity or article except the one specified is suitable for the intended use...when the amount is less than \$500 and the Director of Finance has approved such purchase, and with the additional approval of the Mayor when the amount is more than \$500 but not more than \$3,500. (Ord. No. 627-68. Passed 3-18-68, effective 3-19-68)

Although Ordinance No. 852-97, passed by the City Council on June 16, 1997 was a blanket authorization for EDI expenditures, City of Cleveland, Codified Ordinance, Section 181.11, as reflected above, details the criteria required for noncompetitive purchases. The City's purchase of MBM's services did not meet the requirements of City of Cleveland, Codified Ordinance, Section 181.11 as an allowable noncompetitive purchase. In addition, 24 CFR Part 85.36(d)(4) is the federal "common rule" which provides the authority for noncompetitive procurement when using federal funds. Although federal law, in certain circumstances, provides for the procurement of services by noncompetitive proposals, the City's purchase of services from MBM did not appear to meet the criteria for an allowable noncompetitive purchase with federal funds.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

If Council's intent, when passing Ordinance No. 852-97, was to blanket authorize all EDI expenditures up to the dollar threshold of \$552,000 in personnel costs and \$1,218,000 in other costs and supercede all other City purchasing ordinances, authorization in such a general and vague manner is a severe weakness in internal control. We recommend the City not approve expenditures in that manner and follow the existing Codified Ordinances and procurement policies of the City. If Council's intent was to generally authorize EDI expenditures up to the above mentioned dollar thresholds but to have individual contracts awarded pursuant to the existing Codified Ordinances, then the award of the contract to MBM did not meet the requirements of City of Cleveland, Codified Ordinance, Section 181.11. If the City intends to award noncompetitive purchases with federal funds, we recommend the City amend City of Cleveland, Codified Ordinance, Section 181.11 to include language of 24 CFR Part 85.36(d)(4) to identify circumstances in which noncompetitive purchases using federal funds are allowable.

### MANAGEMENT COMMENT

#### Contracts

Patrick J. Murray, President of MBM, submitted 3 invoices to the City which were stamped received by the City on June 12, 1998. The City entered into the contract for those services on June 12, 1998, after the services had been provided. The City could not provide any purchase order(s) or contract(s) which indicated the City had an agreement with MBM for services or compensation prior to the agreement dated June 12, 1998.

We recommend the City enter into agreements with contractors prior to receiving goods or services and those contracts should explicitly detail the goods or services to be provided and the compensation to be paid.

**SUPPLEMENT TO THE SPECIAL AUDIT REPORT**

**Issue No. 3 - Review of JTPA and Empowerment Zone Contracts and Payments to Vendors**

We reviewed the following JTPA and Empowerment Zone contracts and related payments to the respective vendors to determine whether they were made in compliance with applicable authority and/or City policy, and for a purpose related to the operations of the City.

<b>JTPA Contracts</b>			
<u>Vendor Name</u>	<u>Contract No.</u>	<u>Contract Period</u>	<u>Contract Amount</u>
Westside Ecumenical Ministry	52649	02/01/97 - 06/30/98	\$ 90,000
Youth Opportunities Unlimited	52648	06/02/97 - 08/31/97	89,000
Cuyahoga Community College	51765	02/01/97 - 06/30/98	100,000
Polaris Career Center	52964	01/01/98 - 08/31/98	16,070
Cleveland Institute of Dental/Medical	52736	01/01/98 - 01/31/99	75,000
Towards Employment	52935	03/01/97 - 08/31/98	118,202
Meadowmark Computer	53129	05/01/98 - 09/11/98	35,074
Downtown Development Coordinating	53395	06/29/98 - 11/30/98	60,000
Cleveland Board of Education	53087	03/01/98 - 09/30/98	3,343,986
Cleveland Public Theater	53140	06/01/98 - 08/31/98	44,757
Commission on Catholic Community Action	49991	05/01/96 - 06/30/97	193,600
Center for Employment Training	52363	07/01/97 - 06/30/98	300,000
Phillis Wheatley	53007	06/01/97 - 08/31/97	95,000
David G. Hill	50546	06/01/96 - 06/30/98	125,000
Millisor & Nobil	53575	04/01/98 - 06/30/00	125,000
Merrick House	53137	11/01/96 - 10/31/97	49,350
American Red Cross	52933	07/01/97 - 06/30/98	39,690
Bryant & Stratton	51053	09/01/96 - 12/31/98	41,116
Cleveland Initiative for Education	53086	06/01/98 - 08/31/98	114,691
United Labor Agency	53399	07/01/98 - 06/30/99	953,958
Geric Training Services, Inc.	53434	01/01/98 - 12/31/98	151,534
Cleveland Industrial	52562	08/01/97 - 11/30/98	48,000
Hard Hatted Women	50406	04/01/96 - 12/31/96	97,262

<b>Empowerment Zone Contracts</b>			
<u>Vendor Name</u>	<u>Contract No.</u>	<u>Contract Period</u>	<u>Contract Amount</u>
Vocational Guidance Services	52725	12/01/97 - 11/30/98	\$ 809,939
MBM Equipment, Inc. <sup>4</sup>	52990	05/01/98 - 04/30/99	81,019
Towards Employment	52991	05/01/98 - 04/30/99	895,000
Hu Ani and Associates	53154	05/01/98 - 04/30/99	124,999
Early Childhood Options	53360	08/01/98 - 07/31/99	125,000
Geric Home Health Care	53119	04/01/98 - 03/31/99	99,999
Meadowmark Computer	53296	07/01/98 - 12/31/98	210,456
The Bridge Foundation	53132	05/01/98 - 04/30/99	100,000
The Brentley Institute	53053	05/01/98 - 04/30/99	49,920
PREP Incorporate	53120	04/01/98 - 03/31/99	150,000
Cleveland Works	53074	05/01/98 - 04/30/99	80,512

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<sup>4</sup> Additional results of our review of expenditures to MBM Equipment, Inc. are included in Issue No. 2.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### PROCEDURES

1. We obtained and reviewed the grant agreements for the JTPA and EZ programs to obtain an understanding of the programs' objectives and requirements.
2. We obtained and reviewed the executed contracts for each of the vendors listed and noted such elements as contract period, purpose, amount, and approval of the contract.
3. We scheduled expenditures to respective vendors related to each of the identified contracts and verified that expenditures made were authorized, for a purpose related to the operations of the City, and were supported by underlying documentation.
4. We reviewed any changes in contract terms and amounts for authorization.

### RESULTS

1. Procedures No. 1 and No. 2 were performed for the purpose of gathering documentation and information, the results of which were necessary to perform Procedure No. 3. The results of Procedure No.'s 1, 2, and 3 are stated in Result No. 2. The results of Procedure No. 4 are stated in Result No. 3.
2. In many instances, the City did not have documentation to support whether contractor expenditures were valid. As a result, we sent letters to JTPA and EZ contractors requesting documentation which supported the expenditure amounts submitted to the City for reimbursement. Our review of the expenditures, City documents, and vendor documents noted the following exceptions:

#### JTPA Contracts

- A. The City paid the Cleveland Board of Education \$2,727,970 for services related to JTPA Contract No. 53087 to provide a Summer Youth Program. The City explained that the payments to the Cleveland Board of Education were made in advance of the services being provided due to the urgency of paying the payroll costs of this program by the Cleveland Board of Education. Our review of the Cleveland Board of Education's invoices and related supporting documentation noted that only \$2,610,576 in expenses were supported by documentation. As a result, \$117,394 of the advances were not supported by documentation of subsequent expenses incurred by the Board. We informed James Fadel, City Controller, of those undocumented expenditures on February 3, 2000. In a letter dated March 17, 2000, the City requested payment in the amount of \$117,394 from the Board of Education. On July 27, 2000, the Cleveland Board of Education paid the City \$117,394. We will issue a Finding for Recovery Repaid Under Audit against the Cleveland Board of Education for \$117,394.

**SUPPLEMENT TO THE SPECIAL AUDIT REPORT**

- B. For 11 of the JTPA contracts, neither the City nor the respective contractors were able to provide payroll documentation to support the amount requested and reimbursed by the City for payroll expenses incurred. As a result, we could not determine whether payroll costs, totaling \$327,376, which were reimbursed by the City to the 11 contractors, were for services related to JTPA contracts. We will issue federal questioned costs for unsupported expenditures of the JTPA program for \$327,376. The contractors and their respective amount of unsupported payroll expenses were as follows:

<u>Vendor</u>	<u>Unsupported Payroll</u>
Westside Ecumenical Ministry	\$ 42,568
Youth Opportunities Unlimited	1,061
Cuyahoga Community College	11,011
Towards Employment	44,113
Downtown Development Coordinating	52,096
Cleveland Public Theatre	27,622
Commission Catholic Community	60,464
Merrick House	4,886
Cleveland Initiative for Education	1,192
United Labor Agency	8,371
Geric Training Services	<u>73,992</u>
Total	<u>\$ 327,376</u>

- C. For 3 JTPA contractors, neither the City nor the respective contractors were able to provide documentation to support \$150,588 of City reimbursements for nonpayroll related expenses. We will issue federal questioned costs for unsupported expenditures of the JTPA program for \$150,588. The contractors and their respective amount of unsupported nonpayroll expenses were as follows:

<u>Vendor</u>	<u>Unsupported Expenses</u>
Cuyahoga Community College	\$ 43,275
United Labor Agency	94,757
Geric Training Services	<u>12,556</u>
Total	<u>\$ 150,588</u>

**EZ Contracts**

- A. Section 1.03 of all of the contract agreements between the City and EZ vendors which we reviewed stated the funding for activities to be undertaken pursuant to those contracts was the City's federal EDI Grant. City Ordinance No. 852-97 passed by Council authorized the Directors of Economic Development and Personnel and Human Resources to expend federal EDI Grant funds from Fund 18007<sup>5</sup>. Although the City was authorized by ordinance to pay for those expenditures from Fund 18007 with EDI Grant funds, the City encumbered those expenditures in Fund 13065.<sup>6</sup>

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<sup>5</sup>See footnote No. 2.

<sup>6</sup>See footnote No. 3.

**SUPPLEMENT TO THE SPECIAL AUDIT REPORT**

Of the \$1,716,373<sup>7</sup> of expenditures to the 11 EZ contractors we reviewed, \$916,934<sup>8</sup> were paid from Fund 13065 and \$799,439 were paid from Fund 18007. The City submitted and received federal reimbursement from the EDI Grant for only \$125,314 of the expenditures from Fund 18007. The City did not request federal reimbursement for any of the remaining expenditures reviewed in Fund 18007 or any of the expenditures in Fund 13065.

The City recorded a "Grants Receivable" in Fund 18007 in the amounts of \$2,776,687 and \$1,858,536 as of 12/31/99 and 12/31/00, respectively. We noted numerous instances in this Issue and the other two Issues included in this report where the City did not request reimbursement for EZ related expenses causing questions regarding the completeness and accuracy of the "Grants Receivable" recorded in the City's financial records for Fund 18007.

As a result of not requesting federal reimbursement for all EZ expenditures, the City has incurred large negative cash balances in Funds 13065 and 18007. For both years ended 12/31/99 and 12/31/00, the negative cash balance recorded in Fund 13065 was \$500,825. For Fund 18007, the negative cash balances recorded were \$2,800,860 and \$2,439,532, respectively.

We will recommend that the City utilize federal funding sources when they are available, not record grant receivables in their financial records unless they have actually requested payment from the federal government, and take steps to alleviate the negative cash balances in Funds 13065 and 18007.

- B. Article II, Section 2.01, Scope of Services, of the City's EZ contract with Hu Ani and Associates incorporates the Budget for Services and Budget Narrative. The Budget Section of this contract detailed the employee positions to be reimbursed for EZ services. Hu Ani and Associates requested and received reimbursement for \$9,329 in payroll costs for their Executive Administrator and Chief Executive Officer. However, those employees' positions were not a part of the approved Budget Section in the contract.
- C. For 7 of the EZ contracts, neither the City nor the respective contractors were able to provide payroll documentation to support the amount requested and reimbursed by the City for payroll expenses incurred. As a result, we could not determine whether payroll costs, totaling \$246,468, which were reimbursed by the City to the 7 contractors, were for services related to EZ contracts. The contractors and their respective amount of unsupported payroll expenses were as follows:

<u>Vendor</u>	<u>Unsupported Payroll</u>
Vocational Guidance	\$ 17,161
Towards Employment	107,206
Early Childhood Options	53,526
Geric Home Health Care	14,006
Meadowmark Computer Training	3,614
Bridge Foundation	49,830
PREP Incorporate	<u>1,125</u>
Total	<u>\$246,468</u>

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<sup>7</sup>Includes \$81,019 paid to MBM Equipment, Inc. reviewed in Issue No. 2.

<sup>8</sup>See footnote No. 7.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Of the \$246,468, the City requested and was reimbursed only \$53,420 from the EDI Grant. Subsequent to our exit conference with City officials on December 11, 2001, the City provided payroll documentation supporting \$22,820 of the expenditures which were reimbursed by the EDI Grant. As a result, we will issue federal questioned costs for unsupported expenditures of the EZ program for \$30,600<sup>9</sup>.

- D. Neither the City nor Geric Home Health Care were able to provide documentation to support \$2,871 of City reimbursements to Geric Home Health Care for nonpayroll related expenses. However, the City did not request federal reimbursement from the EDI grant for any of these expenditures.

In addition to the City's overpayments or unsupported payments, we noted the following internal control weaknesses with respect to JTPA and EZ expenditures:

- ▶ In 14 of 221 instances, City Office Vouchers were not approved by the Division Commissioner.
- ▶ In 10 of 221 instances, City Office Vouchers were not approved by the Commissioner of Accounts.
- ▶ In 11 of 221 instances, the same person approved City Office Vouchers as both the Department Director and the Division Commissioner.
- ▶ In 16 of 34 instances, the City's Department of Personnel and Human Resources, which oversees the JTPA and EZ programs, either did not maintain a contract or did not maintain signed contracts for the JTPA and EZ contractors. We were able to obtain copies of all 16 signed agreements from the City's Law Department.
- ▶ All contracts were written to be signed by the Director of Economic Development on behalf of the City. In 5 of 11 instances, EZ contracts were not signed by the Director of Economic Development.
- ▶ The City could not provide documentation to support City reimbursements to 14 JTPA or EZ contractors totaling \$243,298 for nonpayroll related expenditures. However, we were provided with supporting documentation from those vendors.
- ▶ Two line item expenditures to Hu Ani and Associates were for payroll reimbursements for their Executive Administrator and Chief Executive Officer. Those line item descriptions were not reflected in the original budget plan. No modified budgets were approved.
- ▶ The City did not establish a contractor monitoring plan during the audit period as required by State of Ohio Job Training (Power Ohio) Policy Letter No. 4-95.

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<sup>9</sup>The total \$30,600 related to payments to Bridge Foundation.

**SUPPLEMENT TO THE SPECIAL AUDIT REPORT**

- ▶ The City employed contract specialists, whose job was to determine the budgets and instruct JTPA and EZ contractors how to prepare and submit invoices and supporting documents. When JTPA and EZ contractors submitted invoices and supporting documents, they were reviewed by a different set of City employees who were titled invoice verification specialists. Although they submitted supporting documentation as instructed by the City contract specialists, two vendors stated they were required to resubmit supporting documents numerous times because City invoice verification specialists determined the supporting documents submitted were not adequate. Instructions provided by the contract specialists were not documented. It appears there was no communication between the contract specialists and the invoice verification specialists which lead to confusion on the part of the JTPA and EZ contractors as to supporting documents required to be submitted with invoices.
  
- ▶ The following JTPA and EZ contractors did not meet the service efforts identified in their respective contracts.

	Participants		Percent Trained	Percent of Contract Paid
	Per Contract	Participants Trained		
<u>JTPA Contractors</u>				
Downtown Development Coordinating Commission on Catholic Community	20	11	55%	97%
Center for Employment Training	40	33	83%	97%
Phillis Wheatley Association	63	31	49%	71%
Geric Training Services	100	*	*	77%
Hard Hatted Women	187	*	*	63%
	40	14	35%	48%
<u>Empowerment Zone Contractors</u>				
MBM Equipment, Inc.	35	*	*	100%
Towards Employment	2500	429	17%	36%
Hu Ani and Associates	150	*	*	28%
Geric Home Health Care	87	*	*	17%
Meadowmark Computer Training	64	30	47%	72%
Bridge Foundation	40	34	85%	43%
Brentley Institute	128	6	5%	9%
Prep Inc.	80	42	53%	86%

\* - Records were not available to support that participants were trained.

A summary of the service efforts of all JTPA and EZ contractors we reviewed is included as Appendix A to this report.

3. One contract was amended. An amendment to a City EZ contract with Vocational Guidance Services was properly authorized.

**FINDING FOR RECOVERY REPAID UNDER AUDIT**

The City paid the Cleveland Board of Education \$2,727,970 for services related to JTPA Contract No. 53087 to provide a Summer Youth Program. The City explained that the payments to the Cleveland Board of Education were made in advance of the services being provided due to the urgency of paying the payroll costs of this program by the Cleveland Board of Education. Our review of the Cleveland Board of Education's invoices and related supporting documentation noted that only \$2,610,576 in expenses were supported by documentation provided by the Cleveland Board of Education. As a result, \$117,394 of the advances were not supported by documentation of subsequent expenses incurred by the Board.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended was considered against the Cleveland Board of Education in the amount of \$117,394 and in favor of the City's JTPA Fund. We informed James Fadel, City Controller, of those undocumented expenditures on February 3, 2000. In a letter dated March 17, 2000, the City requested payment in the amount of \$117,394 from the Board of Education. On July 27, 2000, the Cleveland Board of Education paid the City \$117,394.

### FEDERAL QUESTIONED COSTS

1. As reflected in the Applicable Authority section of this report, Office of Management and Budget (OMB) Circular A-87, the State of Ohio Job Training Partnership Regulations and the provisions of City contracts with JTPA and EZ contractors required those contractors to provide adequate supporting documentation for payroll expenditures including payrolls, checks, time records, time sheets indicating the hours worked on projects for each pay period, hourly payroll cost for each employee, and a statement indicating the distribution of payroll charges.

For 11 JTPA contractors and 1 EZ contractor, neither the City nor the respective vendors were able to provide documentation of payroll costs reimbursed in the total amount of \$327,376 for the JTPA program and \$30,600 for the EZ program. As a result, we are issuing federal questioned costs in these amounts for the JTPA and EZ programs respectively.

2. As reflected in the Applicable Authority section of this report, Office of Management and Budget (OMB) Circular A-87, the State of Ohio Job Training Partnership Regulations and the provisions of City contracts with JTPA and EZ contractors required those contractors to provide supporting documentation for nonpayroll related expenditures including invoices, checks, contracts, or other documentation evidencing the nature and propriety of the charges.

For 3 JTPA contractors, neither the City nor the respective vendors were able to provide documentation of nonpayroll costs reimbursed in the total amount of \$150,588 for the JTPA program. As a result, we are issuing federal questioned costs in these amounts for the JTPA program. Please see Appendices A of this report for the vendors involved.

**Total federal questioned costs Issue No. 3 - \$508,564**

### CITATIONS

1. Section 1.03 of all of the contract agreements between the City and EZ vendors which we reviewed stated the funding for activities to be undertaken pursuant to those contracts was the City's federal EDI Grant. City Ordinance No. 852-97 passed by Council authorized the Directors of Economic Development and Personnel and Human Resources to expend federal EDI Grant funds from Fund 18007.

Of the \$1,716,373 of expenditures to the 11 EZ contractors we reviewed, \$916,934 were paid from Fund 13065 and \$799,439 were paid from Fund 18007. The City submitted and received federal reimbursement from the EDI Grant for only \$125,314 of the expenditures from Fund 18007. The City did not request federal reimbursement for any of the remaining expenditures we reviewed in Fund 18007 or any of the expenditures in Fund 13065.

We recommend the City follow the provisions of their ordinances and contracts and pay for program expenses as authorized by Council.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

2. As reflected in the Applicable Authority section of this report, provisions of the following authorities required JTPA and EZ contractors to submit supporting documentation for reimbursement of payroll expenditures and detailed the types of documentation required to be provided:

- ▶ Office of Management and Budget (OMB) Circular A-87
- ▶ Job Training Partnership Ohio (Power Ohio), Job Training Partnership Act (Power Ohio) Policy Letter Number 5-95
- ▶ Job Training Partnership Ohio (Power Ohio), Job Training Partnership Act (Power Ohio) Policy Letter Number 6-95
- ▶ City of Cleveland JTPA and EZ Contract Agreements

As noted in the Finding for Recovery Repaid Under Audit and federal Questioned Costs, some of the JTPA and EZ contractors did not submit documentation to support reimbursement requests as required by the noted authorities.

3. As reflected in the Applicable Authority section of this report, Job Training Partnership Ohio (Power Ohio), Job Training Partnership Act (Power Ohio) Policy Letter Number 4-95, required the City to develop a monitoring plan for on-site programmatic, OJT, financial, procurement, and compliance monitoring.

The City did not have a monitoring plan in place during the audit period as required by State of Ohio Job Training (Power Ohio) Policy Letter No. 4-95.

### MANAGEMENT COMMENTS

#### Use of Available Funding Sources

The City paid Empowerment Zone program related expenses from three different funds, Funds 13064, 13065, and 18007. Based on discussions with representatives of the City, the fund names, the City's chart of accounts, and review of the City's financial records which included various receivables between the funds for expenditures incurred, it appears that the City's intent was to request federal reimbursement from the EDI grant for expenses from these three funds.

In each of the Issues of this report, we noted instances where the City did not request federal reimbursement from the EDI grant for expenditures made which appear to be on behalf of the Empowerment Zone program. In total, the City did not request \$1,716,777 from the EDI Grant for expenditures incurred. The City used its own monies to fund activities of the federal Empowerment Zone program even though federal funding sources were available to the City and as a result, incurred an unnecessary financial burden.

In addition, we noted numerous instances where expenditures made to vendors and/or contractors from these three funds were not supported by a level of documentation required by federal requirements and, in the case of contractors, contract provisions. This condition also existed with the JTPA expenditures we reviewed. As a result we issued both federal questioned costs and noncompliance citations.

We recommend that the City utilize federal funding sources when available and not use its own monies to operate federal programs. Reimbursement requests to federal agencies should be made timely so as not to place an unnecessary financial burden on the City. In addition, we recommend that the City monitor its contract provisions related to adequate documentation and require its contractors to provide such documentation when requesting payment from the City. Contractors should not be paid until the City is satisfied that the appropriate level of documentation has been provided.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### Grants Receivable

As of 12/31/99 and 12/31/00, the City recorded a "Grants Receivable" in Fund 18007 in the amounts of \$2,776,687 and \$1,858,536, respectively, for Empowerment Zone program related expenses which were to be reimbursed from the federal EDI Grant. However, for \$1,716,777 of the Empowerment Zone related expenditures we reviewed from Funds 13064, 13065 and 18007, the City had not actually requested reimbursement. This causes significant questions regarding the completeness and accuracy of the "Grants Receivable" recorded in Fund 18007. The City has reflected these transactions in their financial records in this manner for the years 1999 and 2000. As a result of not requesting federal reimbursement for all EZ expenditures, the City has incurred large negative cash balances in Funds 13065 and 18007. For both years ended 12/31/99 and 12/31/00, the negative cash balance recorded in Fund 13065 was \$500,825. For Fund 18007, the negative cash balances recorded were \$2,800,860 and \$2,439,532, respectively.

We recommend that the City review its practice of recording a receivable although no reimbursement request has been submitted and determine whether that practice is in accordance with generally accepted accounting practices as defined by current authoritative literature. We also recommend that the City take the necessary steps to alleviate the negative cash balances in Funds 13065 and 18007.

### Invoice Verification Specialists

OMB Circular A-87 and the City of Cleveland EZ Contract provisions require certain documentation to support expenditures of federal funds. One of the responsibilities of the City's invoice verification specialist was to monitor compliance of contractors with federal, state, and local guidelines and to determine that services were actually provided by contractors. However, as noted in this Issue and in Issue No. 2, the City's Invoice Verification Specialist approved payment of the invoices without the required documentation being submitted.

In Issue 2 the invoices submitted by Patrick J. Murray, President of MBM were paid by the City although no documentation was available to substantiate the number of hours Mr. Murray performed as an instructor or the number of hours of student training provided. Although no supporting documentation was submitted to the City by the MBM other than their invoices, the Invoice Verification Specialist approved, by signature, the City's Cost Reimbursement Invoices to that contractor.

In Issue 3 we identified \$246,468 in EZ expenditures which were not supported by the required documentation. Although the City submitted only \$53,420 of that amount for federal reimbursement, had any of the remaining expenditures been submitted for reimbursement, they would have resulted in a federal questioned cost because of the lack of documentation.<sup>10</sup>

We recommend the City establish procedures to ensure the Invoice Verification Specialist approves invoices for payment only after receiving and reviewing appropriate documentation to support the services provided on vendor invoices.

### Monitoring

We noted the following exceptions related to City payments to JTPA and EZ contractors:

- ▶ The City accepted invoices from contractors without payroll, tax, and benefit documentation and paid those contractors.

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<sup>10</sup> The City did submit supporting documentation for \$22,820 of those expenditures subsequent to our exit conference and well after a year of our original repeated requests.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

- ▶ Neither the City nor contractors were able to provide documentation to support some nonpayroll related expenses resulting in federal questioned costs.
- ▶ In 14 of 221 instances, City Office Vouchers were not approved by the Division Commissioner.
- ▶ In 10 of 221 instances, City Office Vouchers were not approved by the Commissioner of Accounts.
- ▶ In 11 of 221 instances, the same person approved City Office Vouchers as both the Department Director and the Division Commissioner.
- ▶ In 5 of 11 instances, EZ contracts were not signed by the Director of Economic Development.
- ▶ The City did not have documentation to support City reimbursements to 14 JTPA or EZ contractors in the total amount of \$243,298 for non payroll related expenditures; however, we were provided with supporting documentation from those vendors.
- ▶ Two line item expenditures to Hu Ani and Associates were for payroll reimbursements for their Executive Administrator and Chief Executive Officer. Those line item descriptions were not reflected in the original budget plan and thus not authorized. No modified budgets were presented to or approved by the City.

We believe the exceptions occurred due to the following control weaknesses:

- ▶ The City did not properly review the invoices which were submitted by contractors by requiring supporting documentation prior to payments to contractors.
- ▶ The City did not compare reimbursements to approved contract budget line items.
- ▶ City officials failed to detect routine purchasing authorizations were either missing or inadequate.
- ▶ The City did not monitor contractors to assure the validity and propriety of amounts claimed for reimbursement during the audit period as required by State of Ohio Job Training (Power Ohio) Policy Letter No. 4-95.

We recommend the City perform the following:

- ▶ Develop formal, written monitoring policies in order to ensure all WIA<sup>11</sup> and EZ contractors comply with all applicable federal, state and local requirements along with the terms of their agreements.
- ▶ Conduct monitoring reviews of WIA and EZ contractors on a timely basis and document those reviews in report form.
- ▶ Follow existing purchasing procedures so that all required management authorizations of contracts and vouchers occur.

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<sup>11</sup> As reflected on Page 8 of this report, WIA replaced JTPA as the delivery system for providing employment and training services beginning July 1, 2000.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### Signed Contracts

In 16 of 34 instances, the City's Department of Personnel and Human Resources, which oversaw the JTPA and EZ programs, either did not maintain a contract or did not maintain signed contracts. We were able to obtain signed copies of the 16 agreements from the City's Law Department.

We recommend the City's Department of Personnel and Human Resources retain a copy of all signed JTPA and EZ contracts in their files so they can monitor the terms of the agreements.

### Contract Specialists and Invoice Verification Specialists

The City employed contract specialists, whose job was to determine the budgets and instruct JTPA and EZ contractors how to prepare and submit invoices and supporting documents. When those JTPA and EZ contractors submitted invoices and supporting documents, they were reviewed by a different set of City employees who were titled invoice verification specialists. The City's Department of Personnel and Human Resources issued a set of procedures on March 3, 1998 titled, "Invoicing Instructions." This document stated upon reviewing an invoice for approval, if inaccurate or missing documentation is identified by the invoice verification specialist, the remainder of the invoice will be processed, leaving the inaccurate portion to be corrected or resubmitted. Although they submitted supporting documentation as instructed by the City contract specialists, two vendors stated they were required to resubmit supporting documents numerous times because City invoice verification specialists determined the supporting documents submitted were not adequate. Since the instructions provided by the contract specialists are not documented, we cannot determine what they instructed JTPA and EZ contractors to submit. However, it appears there was no communication between the contract specialists and the invoice verification specialists which lead to confusion on the part of the JTPA and EZ contractors as to the type and amount of supporting documents required to be submitted with invoices.

We recommend specialists be assigned to specific contractors so there are no discrepancies as to requirements communicated to contractors by the City.

### Participant Training Goals

Eight EZ contractors and six JTPA contractors did not meet their contractual goals with respect to the number of participants they were to train. As a result, the City may not be meeting the goals for which the funding for those programs was intended, that is, serving the employment needs of City residents.

We recommend the City monitor the contractors' participant training and participant goals to insure that contractors train the number of participants they were required to train. In addition, the City should also develop procedures to monitor the placement process so that program trainees are placed in jobs.

**SUPPLEMENT TO THE SPECIAL AUDIT REPORT**

**APPENDIX A  
SUMMARY OF SERVICE EFFORTS**

	Contract Number	Participants		Total Percent Trained	Total Contract Award	Total Contract Payments	Percent Contract Paid
		Number Per Contract	Participants Trained				
<u>JTPA Contractors</u>							
Westside Ecumenical Ministry	52649	35	35	100%	\$90,000	\$89,718	100%
Youth Opportunities Unlimited	52648	24	24	100%	\$89,000	\$88,118	99%
Cuyahoga Community College	51765	40	40	100%	\$100,000	\$71,828	72%
Polaris Career Center	52964	Not Available	2		\$16,070	\$7,075	44%
Cleve Institute of Dental/Medical	52736	Not Available	1		\$75,000	\$2,675	4%
Towards Employment	52935	20	20	100%	\$118,202	\$93,938	79%
Meadowmark Computers	53129	12	12	100%	\$35,074	\$35,074	100%
Downtown Development Coordinating	53395	20	11	55%	\$60,000	\$58,348	97%
Cleveland Board of Education	53087	Not Available	Youth	Summer Training	\$3,343,986	\$2,727,970	82%
Cleveland Public Theatre	53140	30	30	100%	\$44,757	\$43,379	97%
Commission on Catholic Community	49991	40	33	83%	\$193,600	\$187,280	97%
Center for Employment Training	52363	63	31	49%	\$300,000	\$213,305	71%
Phillis Wheatley Association	53007	100	0	No records	\$95,000	\$73,228	77%
David G. Hill & Associates	50546			Not Applicable	\$125,000	\$112,245	90%
Millisor & Nobil	53575			Not Applicable	\$125,000	\$50,789	41%
Merrick House	53137	47	47	100%	\$49,350	\$42,834	87%
American Red Cross	52933	Not Available	0	No records	\$39,690	\$26,298	66%
Bryant & Stratton	51053	18	18	100%	\$41,116	\$23,351	57%
Cleveland initiative for Education	53086	24	24	100%	\$114,691	\$108,966	95%
United Labor Agency (1)	53399	360	486	135%	\$953,958	\$947,188	99%
Geric Training Services	53434	187	0	No records	\$151,534	\$95,928	63%
Cleveland Industrial Training	52562	NA	12	NA	\$48,000	\$36,000	75%
Hard Hatted Women	50406	40	14	35%	\$97,262	\$46,356	48%
Total JTPA Contractors					<u>\$6,306,290</u>	<u>\$5,181,891</u>	<u>82%</u>
<u>Empowerment Zone Contractors</u>							
Vocational Guidance Services (2) (3)	52725	1050	1476	141%	\$809,939	\$786,210	97%
MBM Equipment, Inc.	52990	35	0	No records	\$81,019	\$81,019	100%
Towards Employment	52991	2500	429	17%	\$895,000	\$325,979	36%
Hu Ani and Associates	53154	150	0	No records	\$124,999	\$35,569	28%
Early Childhood Options	53360	100	100	100%	\$125,000	\$87,554	70%
Geric Home Health Care	53119	87	0	No records	\$99,999	\$16,875	17%
Meadowmark Computer Training	53296	64	30	47%	\$210,456	\$150,581	72%
Bridge Foundation	53132	40	34	85%	\$100,000	\$42,531	43%
Brentley Institute	53053	128	6	5%	\$49,920	\$4,320	9%
Prep Inc.	53120	80	42	53%	\$150,000	\$128,728	86%
Cleveland Works, Inc.	53074	120	125	104%	\$80,512	\$30,000	37%
Total EZ Contractors					<u>\$1,916,905</u>	<u>\$1,689,366</u>	<u>88%</u>
Total JTPA and EZ Contractors					<u>\$8,223,195</u>	<u>\$6,871,257</u>	<u>84%</u>

(1) - 70% placement goal - 382/486 placed or 82%

(2) - 420 placement goal 454/420 placements or 108%

(3) - 1476 are number of participant referrals



STATE OF OHIO  
OFFICE OF THE AUDITOR  

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**CITY OF CLEVELAND ONE STOP CAREER CENTER AND EZ/JTPA CONTRACTS**

**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  
JANUARY 16, 2002**