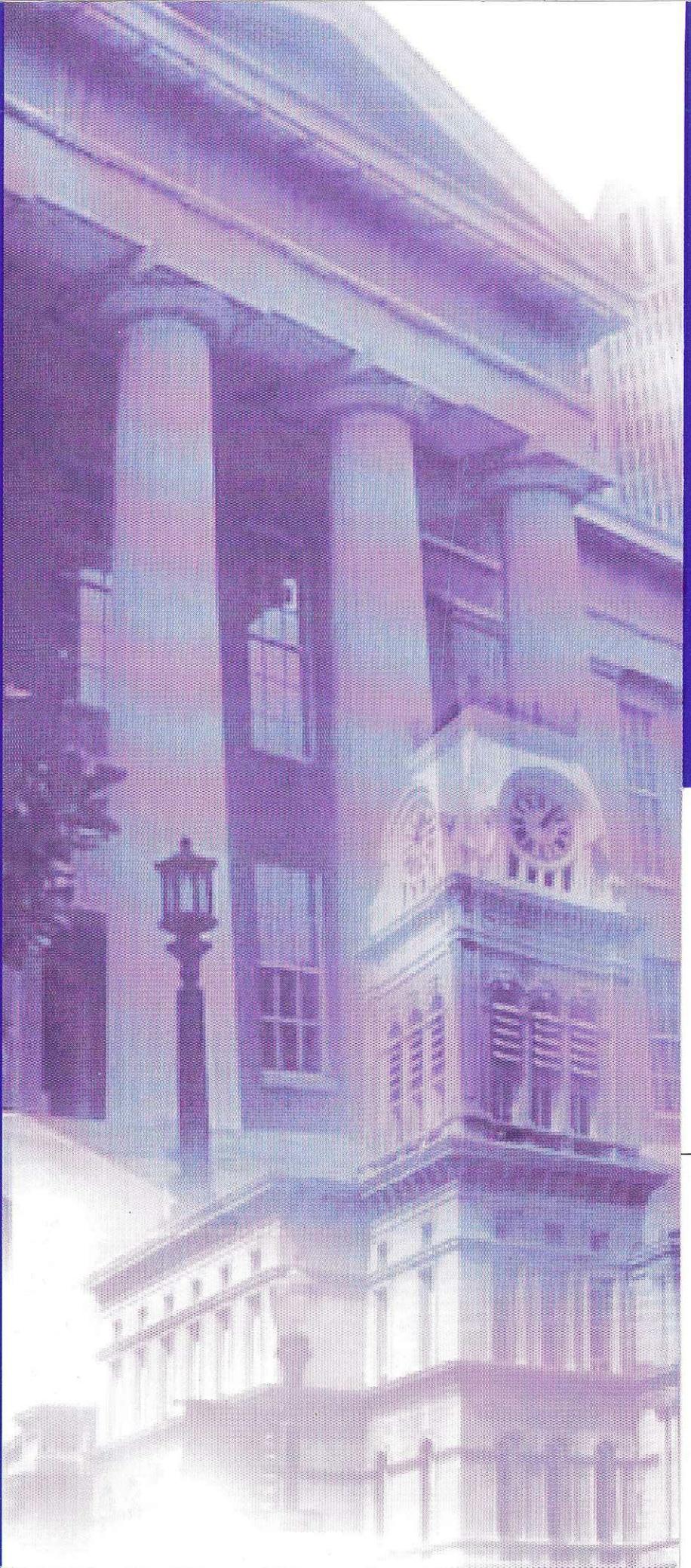




Greg Fischer
Mayor
Louisville Metro Council

The Office of Internal Audit provides independent, objective assurance and consulting services that adds value to and improves Louisville Metro Government.



Office of Internal Audit

Louisville Metro Corrections

Ex-Offender Program

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OFFICE OF INTERNAL AUDIT
LOUISVILLE, KENTUCKY

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Transmittal Letter

May 08, 2013

Steve Rowland
Chief Financial Officer
Louisville Metro Hall
Louisville, KY 40202

Subject: Louisville Metro Corrections – Ex-Offender Program

Introduction

As requested, the Office of Internal Audit performed a review of A New Expression's expenditure activity related to the Ex-Offender Program administered through Metro Corrections. Through the budgetary process, funding for the Ex-Offender Program was appropriated to Metro Corrections to be used for job training for ex-offenders. For purposes of this program, A New Expression (New Expression) is considered a vendor. This vendor served as an instructor for upholstery classes which educated students in the area of sewing and upholstery. The vendor's invoices were submitted to Metro Corrections on a monthly basis for payment. The assistance of the Office of Internal Audit was requested because of issues identified by the Office of Management and Budget during the routine review of invoices prior to payment.

Scope

Financial activity for the upholstery class was reviewed through examination. Financial activity included all of the vendor's expenditures incurred throughout the duration of the upholstery class, which spanned from fiscal years 2007 through 2012 (March 2007 through December 2011). Documentation reviewed included payment documents, invoices, contracts, and other supporting documentation. Examinations were performed to determine whether the program's expenditure activity was complete, accurate, and in compliance with Louisville Metro Purchasing Policies and related contractual agreements. The primary focus of the review was determining if the designated funds were used as intended and in accordance with the related contractual agreements. It should be noted that determining the worthiness or value of the services provided was not an objective of the review.

The Intent to Purchase Services contractual agreements between Louisville Metro Government and the vendor for fiscal years 2008 through 2012 allowed for expenditures not to exceed \$10,000 per fiscal year. As of December 2011, it appeared that \$29,929 had been paid to the vendor for services provided. This included paid invoices from March 2007 through December 2011.

The review was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. While it appears program activity was in compliance with the related contractual agreements, the ability to determine if funds were used as intended was impaired by several issues. The impairments are detailed in the Results section of this report.

Criminal Investigation

On June 8, 2012, the results of the review of the New Expression – Upholstery Class were provided to the Louisville Metro Police Department’s Public Integrity Unit (PIU) in accordance with Louisville Metro Council Ordinance §30.40, the reporting of irregularities. On July 25, 2012, PIU confirmed a criminal investigation related to the program was underway. This report was not released pending completion of the criminal investigation.

On April 29, 2013, PIU provided a report to the Office of Internal Audit from the special prosecutor assigned to the case through the Commonwealth Attorney’s office. The special prosecutor reviewed case files provided by PIU to determine if criminal charges should be brought against Councilwoman Barbara Shanklin. The special prosecutor stated that he found no evidence that the Councilwoman violated state laws on theft, misconduct or abuse of public trust. The special prosecutor concluded that “As I am not convinced that there is evidence of criminal conduct and intent, I am unwilling at this time to submit this matter to a grand jury” and “I believe that absent further evidence, this matter should be closed as a criminal matter.”

- The report was focused only on whether the Councilwoman committed a criminal act with a criminal intent. The special prosecutor stated that he “did not consider the efficacy or correctness of management or administrative procedures employed by Ms. Shanklin, nor did I render any opinion on whether the alleged actions were ethical, honest, or morally sound.”

Summary of Results

While it appears activity for the vendor was in accordance with the related contractual agreements, it could not be determined if funds were used in accordance with the original intent of the appropriation. This was primarily due to the lack of detail in the contractual agreement and insufficient documentation. There were other issues noted, including the following.

- **Contractual Agreement.** The contractual agreement between Louisville Metro Government and the vendor was inadequate. Sufficient detailed information was not included in the contract to effectively manage the activity. Information regarding class size or eligibility requirements was not included in the contractual agreement.

- **Potential Conflict of Interest.** There may be a potential conflict of interest involving the Ex-offender Program's upholstery class and District 2 Councilwoman Barbara Shanklin. Of the 101 sign-in sheets reviewed, 58 sign-in sheets listed either the Councilwoman or a relative of the Councilwoman.
- **Insufficient Documentation.** Monthly payments to the vendor were processed based on the vendor's invoice; however the original supporting documentation was often insufficient. Of the 45 invoices the vendor submitted to Metro Corrections for payment, 29 invoices did not include sign-in sheets as supporting documentation to the invoice.
- **General Administration.** There was one instance where the person signing the payment document did not have signature authority. There was also an instance where there was an error with the payment made to the vendor.

Conclusion

Expenditure activity appears to be in compliance with the contractual agreement; however, it could not be determined if the designated funds were used in accordance with the original intent of the appropriation. The appropriateness of the expenditure activity could not be determined due to the lack of details in the contractual agreement and insufficient supporting documentation. Metro Corrections discontinued the contractual agreement between Louisville Metro Government and the vendor as of November 14, 2011. Recommendations include the following.

Recommendations

Appropriate personnel should review the results and implement corrective action. Specific recommendations include the following.

- ✓ Details and intended guidelines for all Metro funded and/or sponsored programs should be specifically stated within the terms of any related contracts. Contractual agreements should serve as support for the services provided, billing rates, eligibility requirements and any other specifications that may be applicable.
- ✓ A Professional Services Contract (PSC) may have been more appropriate for the relationship with the vendor. In regards to the Intent to Purchase Services contract, Louisville Metro Government's Purchasing Policy states, "In the event that a more detailed contract is necessary, a PSC may be required for the purchase of services not exceeding \$10,000."
- ✓ Sufficient supporting documentation should be provided to allow a reasonable person to independently verify the expenditure agrees to the contractual terms. Documentation should be explicit as to the services / work performed or goods provided.

It is not necessary for you to formally respond to this letter. If you would like to discuss this further, or need additional information, please contact me.

Sincerely,



Ingram L. Quick, CIA, CFE
Chief Audit Executive

cc: 2nd District Councilwoman Barbara Shanklin
Director of Metro Corrections
Mayor's Office Chief of Staff
Louisville Metro Council Government Accountability and Ethics Committee
Louisville Metro External Auditors

Results

The details of the results are categorized into the following.

- #1) Contractual Agreement
- #2) Potential Conflict of Interest
- #3) Insufficient Documentation
- #4) General Administration
- #5) Unrelated Transaction

#1) Contractual Agreement

The lack of detail within the contractual agreement between Louisville Metro Government and the vendor impaired the ability to determine the appropriateness of the expenditure activity. An Intent to Purchase Services (*up to \$10,000*) agreement was used to contract with the vendor to facilitate the upholstery class.

- The Intent to Purchase Services agreements between Louisville Metro Government and the vendor for fiscal years 2008 through 2012 allowed for expenditures not to exceed \$10,000 per fiscal year.
 - Three of the five Intent to Purchase Services agreements stated the scope of services was *“To educate students in the area of sewing and upholstery, some embroidery may apply.”* Two of the five agreements stated the scope of services was for *“Sewing classes and supply.”* The agreements did not include any detail regarding eligibility requirements, anticipated class sizes, or rate of pay per class session.
 - Supplies were purchased for the class the first two years of the program. The supplies included materials, embroidery machine, and a total of three sewing machines. The Office of Internal Audit physically verified and accounted for these supplies and remaining materials which were located at the facility where the classes were held, the Newburg Cop Shop (4809 Unseld Boulevard).
- According to Metro Corrections personnel, other than the Intent to Purchase Services agreement there was no documentation explaining the purpose or requirements for participating in the upholstery class.
- The vendor was not able to provide any documentation in regards to the purpose or requirements for participating in the upholstery class. The vendor stated that she never verified whether or not class participants were ex-offenders.
- Councilwoman Shanklin provided flyers and progress reports which were submitted for a federal grant. Both noted all classes offered at the Newburg Cop Shop (e.g., GED, Upholstery) were free and open to the public.

#2) Potential Conflict of Interest

There may be a potential conflict of interest involving District 2 Councilwoman Barbara Shanklin and the Ex-Offender Program's upholstery class. The Councilwoman and several of her relatives were listed on the sign-in sheets for the upholstery class. Of the 101 sign-in sheets reviewed, 56 sign-in sheets included either the Councilwoman or relatives of the Councilwoman.

- In August 2010, Metro Corrections requested the vendor submit a sign-in sheet in support of any future invoices. The vendor was instructed that anyone in the facility during the time of the class needed to sign this sheet.
- There were 15 instances where Councilwoman Shanklin was listed on the class sign-in sheet.
- There were 43 instances where relatives of Councilwoman Shanklin were listed on the class sign-in sheet. Councilwoman Shanklin acknowledged her son and daughter participated in the class and signed the sign-in sheet when in attendance. There were three signees identified as persons related to Councilwoman Shanklin.

<u>Signee Name</u>	<u>Relationship</u>	<u>Number of Instances on Class Sign-in Sheet</u>
Carla Shanklin	Daughter	9
Craig Shanklin	Son	32
Gary Bohler	Grandson	2

- There was one instance where the Staff Helper for District 2 was listed on the class sign-in sheet.
- Of the 101 sign-in sheets reviewed, 89 sign-in sheets listed only one person's signature.
 - There were 51 instances where Councilwoman Shanklin or relatives of the Councilwoman were the only signature listed on the sign-in sheet.
- According to Councilwoman Shanklin, she initially paid the vendor for facilitating the upholstery classes from the Newburg Area Community Council checking account. The Office of Internal Audit identified a payment document listing a payment for \$1,200 to the vendor. The supporting documentation included copies of three check payments totaling \$1,200 payable to the vendor from the Newburg Area Community Council checking account and signed by Councilwoman Shanklin.
 - Once the vendor received the check from Louisville Metro Government, the Councilwoman stated the funds were reimbursed. Although the vendor acknowledged repaying the Councilwoman, the vendor could not provide documentation for the repayment.
- Councilwoman Shanklin acknowledged purchasing supplies for the upholstery classes using the Newburg Community Council checking account. The Office of Internal Audit identified a payment document listing a payment for \$208 to Newburg Area Community Council (*in care of Barbara Shanklin*). The supporting documentation included a copy of a check from Newburg Community Council made out to Lowes Hardware and signed by Councilwoman Shanklin. The check noted the payment was for supplies for the upholstery class. There was no receipt itemizing the supplies purchased.

- The Metro Corrections personnel who signed the payment documents signifying approval of both of the aforementioned payments was also responsible for signing the invoices signifying receipt of goods/services. This displays a lack of segregation of duties.

#3) Insufficient Documentation

The vendor submitted monthly invoices for classes facilitated during the period. Monthly payments to the vendor were processed based on these invoices. There were a number of instances where documentation submitted for payment was insufficient.

- Of the 45 invoices the vendor submitted to Metro Corrections for payment for classes facilitated, 29 invoices did not include sign-in sheets as supporting documentation to the invoice. The sign-in sheets provide some assurance that a class took place on the date indicated.
 - In August 2010, the vendor began submitting a sign-in sheet as supporting documentation to the invoice at the request of Metro Corrections personnel.
 - The vendor was not able to provide any original documentation in regards to the sign-in sheets. According to the vendor, the original sign-in sheets were given to Councilwoman Shanklin to submit for payment. The vendor did not maintain copies of the sign-in sheets submitted.
 - There was one instance where there was no signature listed on the sign-in sheet; however the class was listed on the invoice and the vendor was ultimately paid for the class.
- There was one instance where the payment document listed a payment for \$1,706 to Newburg Area Community Council (*in care of Barbara Shanklin*). The supporting documentation included an attestation entitled "Receipt of Payment" which stated cash in the amount of \$1,706 was given to the vendor on April 24, 2006 as a reimbursement of supplies purchased for the upholstery classes. Documentation was not provided to show the expenditure was actually incurred by the vendor (i.e., receipt or invoice).
 - The vendor's signature (i.e., Linda Haywood) appeared on the document acknowledging receipt of funds; however, there was no signature acknowledging the person who disbursed the funds.

#4) General Administration

There were some issues noted with the general administration of the vendor's expenditure activity.

- **Payment Documents.** There was one instance where the Metro Corrections personnel signing the payment document signifying approval of payment did not have the appropriate signature authority to authorize the payment.
- **Payment Error.** There was one instance where a payment for a class was made for a date that does not exist (February 30, 2011).

#5) Unrelated Transaction

One payment to the vendor was made utilizing funding from the Petersburg - Newburg Improvement Association Neighborhood Development Fund grant appropriated in fiscal year 2012.

- Expenditure documentation was submitted which included a cancelled check in the amount of \$863 from the Petersburg – Newburg Improvement checking account. The check payment dated December 20, 2011 was made out to the vendor for class and supplies. The cancelled check was attached to a document which read, “The attached cancelled check reflects payment to complete the upholstery class program.”
 - This payment was made after Metro Corrections sent a letter to the vendor dated November 14, 2011 which stated effective immediately invoice processing for the classes would no longer be accepted and the contract with Louisville Metro was terminated.
- The specific requirements for expenditure activities allowed or unallowed for this NDF project are found within the provisions of the grant agreement. The expenditure documentation submitted for the upholstery class was not in accordance with the provisions of the grant agreement.

Office of Internal Audit

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