

Memo:

To: The File

RE: ULCT credit card abuse

From: Jeremy Walker

Date: November 1, 2016

Purpose: To determine the validity of allegations that the Director of Admin Services, Michelle Reilly (CFO) and the Director, Ken Bullock (Director) at the League of Cities and Towns (ULCT) were using ULCT credit cards for personal uses.

Scope: We selected a four year period to test, June 2012 to September 2016. The credit card statements for those months contained transactions from mid-May 2012 through mid-Sept 2016. So our scope is actually May 2012 to Sept 2016.

Test work: We obtained all credit card statements for the audit period which included four American Express Card accounts and 12 Visa accounts, which are all part of a single master account with Zions Bank. In our review of credit card purchases, we classified the nature of each purchase as either; personal, questionable, or business (see criteria below). We also documented whether there was “adequate supporting documentation” for each charge. We used the criteria for record keeping from IRS publication 463 (pg. 25) as a guide, but summarized the criteria needed as: an itemized receipt, a description of the beneficiaries, and an identified business purpose for the expenditure.

Criteria: Each of these classifications were determined based on the following rules for CFO based upon her job duties:

- Personal
 - purchases of less than \$20 at a convenience store
 - all iTunes and amazon purchases (per Director), unless a business purpose was noted
 - all fuel purchases in SLC
 - all dining purchases for less than \$20
 - all dining (not pizza, bakery, or sandwich shops) purchases in SLC for less than \$150
 - We amended this after the Director indicated that part of the former CFO’s duties would allow for her to pay for meals with “vendors” on average of once per week. We revised our initial findings by changing the first dining charge for each week to “business” unless it was clearly a personal charge.
 - all secondary charges for dining at same vendor on same day. (presumed alcohol)
 - all airline travel purchases other than the cost of the flight
 - all entertainment purchases
 - all cell phone charges
 - all purchases that were noted to be reimbursed on ULCT documentation
 - all purchases from vendors of personal goods without documentation of business purpose
- Questionable
 - Even when a receipt and explanation of purpose is included
 - all purchases noted as gifts on ULCT documentation

- all purchases of flowers
 - all pizza, bakery, and sandwich shops for less than \$100
 - all dining and non-dining food purchases where staff are the only beneficiaries
- When a receipt and documentation of business purpose is missing
 - all non-dining food purchases
 - all dining purchases of more than \$150
 - all big box retail store and grocery purchases
 - all purchases where the vendor is not in the conference industry
 - all purchases where the vendor does not provide office supplies or services
 - all fuel purchases outside of SLC
 - all lodging charges
 - all parking tickets
 - all other purchases not in line with policy and reasonable business purpose
- Business
 - Banks fees
 - Any purchase with itemized receipt and documented business purpose

In our review of credit card purchases, we classified the nature of each purchase as either; personal, questionable, or business. Each of these classifications were determined based on the following rules for the Director based upon his job duties:

- Personal
 - all airline travel charges for personal reasons as determined by itemized review with the Director on 1/14/2017.
 - all associated airline fees with each personal trip
 - various charges at personal travel destinations
- Questionable
 - Even when a receipt and explanation of purpose is included
 - all purchases noted as gifts on ULCT documentation
 - all purchases of flowers
 - all pizza, bakery, and sandwich shops for less than \$100
 - all dining and non-dining food purchases where staff are the only beneficiaries
 - When a receipt and documentation of business purpose is missing
 - all non-dining food purchases
 - all dining purchases of more than \$12
 - all big box retail store and grocery purchases
 - all purchases where the vendor is not in the conference industry
 - all purchases where the vendor does not provide office supplies or services
 - all fuel purchases outside of SLC
 - all lodging charges
 - all other purchases not in line with policy and reasonable business purpose
- Business
 - Banks fees
 - Any purchase with itemized receipt and documented business purpose

Memo:

To: The File

RE: Interviews with Board

From: Jeremy Walker

Date: January 13, 2017

On Friday, January 13, 2017 the ULCT Chairman, Mayor Steve Hiatt and Vice-Chair, Councilmember Beth Holbrook, and ULCT legal counsel David Church met with Auditor Dougall and OSA Staff, Jeremy Walker for a pre-exit conference and review a draft of ULCT17SP report. During that review, Mayor Hiatt clarified that in finding #3 "board members did not know about the Directors personal use of a ULCT credit card". Mayor Hiatt recalled that in Oct of 2016, the Director approached him about credit card purchases and explained his pattern of use and repayment. This was only days before an article in the SL Tribune was published regarding this matter.

Also during this discussion, Mr. Church acknowledged his personal culpability for not ensuring that public hearings were held prior to consideration and adoption of annual budgets. He indicated that in hindsight it should have been obvious, but it just didn't cross his mind.

Memo:

To: The File

RE: Interviews with Staff

From: Jeremy Walker

Date: November 15, 2016

Lincoln Shurtz

On 12/14/2016 Van and Jeremy met with Lincoln Shurtz, former employee of ULCT under a request for anonymity. Lincoln was employed by the league for about 14 years. He was a member of senior staff and understood to be Ken's protégé. Lincoln made statements of the following nature:

- Ken was not a details person and left that up to Michelle Reilly, who clearly was not a details person either.
- Michelle frequently failed to make payment on payroll related matter such as retirement accounts. Staff approached Lincoln about how to talk with Ken about Michelle's poor performance.
- Ken made it clear that Michelle was not to be criticized or questioned. He was completely loyal to her and protected her regardless of her failings.
- Ken did not see ULCT as a government entity, he completely ignored OPMA, and financial reporting requirements, and actively denied access to records that would be subject to GRAMA. This was for convenience as well as to keep things from the public eye.
- Ken saw rules as suggestions and not hard and fast.
- In 2012, at the insistence of external auditors, Ken started to require accountability on all credit card purchases.
- Ken arranged for board members who would support his vision by hand picking members of the nominating committee whose recommendations were almost always followed.
- The treasurer position on the ULCT board was never put up for nomination, it just stayed with JoAnn.
- Ken and Michelle, had a close personal relationship with JoAnn and she never asked questions about the finances, she just rubber stamped everything they put in front of her.
- Ken kept the ULCT board in the dark as to the existence of the Co-op, in fact when he would use it to fund projects he would tell members that the source was a private donation.
- Ken hand-picked the board members of the Co-op and the members never changed.
- Lincoln was not aware that there were written policies and procedures, they were never given to him or referred to by anyone.
- Ken rewarded board members and employees with gifts from OC Tanner and the like. Lincoln recognized that these purchases and gifts would be unacceptable if done at any government entity, but that ULCT didn't see itself as a government entity.
- Bonuses were completely arbitrary, and pretty closely followed how well the staff fell in Ken's good graces.
- In 2006 Lincoln took on other clients with Ken's permission. In 2011 the board requested to have any outside work presented to them for approval, Ken rejected that idea.

- Lincoln indicated that credit card charges on his card at Nostrum's were for gift cards with Ken's approval
- The only employees with contracts were Roger Tew and Jodi Hoffman
- Performance reviews were done, but not written.

Cameron Deihl

On December 19, 2016 Jeremy and Van had an in person conversation with Cameron Deihl. Cameron has requested anonymity. Cameron made statements of the following nature:

- Ken had a blow up at the staff in recent weeks, and chastised and threatened the staff about talking to the press about ULCT and Ken's credit card uses.
- Ken uses intimidation to get his way, including yelling and threats, a bully.
- Cameron and others were given verbal direction from Ken to take spouses to nice restaurants and charge it to ULCT.
- ULCT has an "absentee board", nobody questioned Ken.
- Budgets and other board materials were not presented to the board in advance in a deliberate effort by Ken and Michelle to keep them from questioning budget and other items.
- Jill Remington and Lynn Pace were board members who were willing to ask questions and quickly fell out of Ken's good graces. They might be good resources to more details about how the board functioned.
- Nick Jarvis was the liaison for the board, but was regularly unable to respond to board requests due to interference by Ken and Michelle.
- Ken actively ignored GRAMA and OPMA both as a convenience and a way to keep control of info.
- Nomination committee for ULCT was organized by Nick under Ken's direction
- Joann Segini has signed blank checks and given them to Ken while joking about the inappropriateness of it, in a group setting.
- Cameron brought Michelle's credit card purchases for meals with friends to Ken's attention after spring 2016 conference. Ken said that he authorized Michelle to make those purchases on the ULCT card and not to question Michelle's purchases.
- Cameron indicated that several "vendors" that Michelle would often treat to meals on the ULCT credit card were purely social in nature; specifically Beth Holbrook, Greg Ruther, and Jared Page.
- Cameron indicated that Paul Morris, an attorney with MIDA and former West Valley City may know about the start of the Coop.
- The ULCT smart phone app was paid for by the Coop
- There was no written travel policy, whatever Ken allowed was the policy. If a staff member submitted for reimbursement, it would often sit unprocessed on Ken or Michelle's desk. This was often a way that staff knew they were not in good graces with Ken and/or Michelle and may have led to the practice of charging everything travel related on credit cards.
- Payments to terminated employees and benefits providers would often go unpaid for months until a senior staff member would take the issue to Ken before Ken would take the issue up with Michelle and get her to make the payments.
- Cameron never overheard Ken announce that he wanted everyone to remind him to repay personal expenses on the ULCT credit card.

- Ken may have received 1099 or w-2 from organizations that were league or local gov vendors.

Susan Wood

On December 22, 2016 Jeremy held a phone conversation with Susan Wood about ULCT policies and discussions she had with Ken about Michelle. Susan has requested anonymity. Susan made statements of the following nature:

- Susan went to lunches with Michelle, where Michelle invited friends who were associated with ULCT, but no ULCT business was discussed. However, Michelle paid for everyone's meals and alcoholic drinks with the ULCT card. Susan questioned Michelle on this issue and was told that it was "sponsor relations".
 - Regulars at these meals were
 - Beth Holbrook
 - Greg Ruther
 - Jared Page
 - Paul Krauth
- Susan brought these inappropriate credit card uses to Ken's attention on multiple occasions and was told to mind her own business.
- Susan produced a video for ULCT and presented it to the ULCT board. A board member asked how the production was funded and Ken, told the board that it was from a private donor and not ULCT funds. Susan later found out that the private funds that Ken was referring to were the Coop.
- Susan indicated that the Coop was a closely held secret and was referenced from time to time by Ken, but staff were told to mind their business if they asked about the Coop.
- Susan also brought to Ken's attention, concerns about Michelle's drinking and its effects on her work performance and the ULCT reputation being harmed by her drinking.
- Susan indicated that Ken verbally chastised the entire staff about selling him out to the media and the OSA. He forbade them to talk to the media, the board of ULCT, or the state auditor's office or they would be terminated.
- Susan believes that Ken would introduce or arrange for Lincoln and Jodi Hoffman to procure work in their lobby businesses. Ken would then go to Lincoln and Jodi and demand money (\$5,000) once the deal was closed. She indicated that he would not leave the premises until he had a check in hand.
- Susan saw Michelle take cash from the petty cash drawer.
- Susan believes that there are more than one storage unit being paid for by ULCT and that Michelle is using one of them for personal use.

Memo:

To: The File

RE: Office Space ownership and property tax status

From: Jeremy Walker

Date: December 19, 2016

During our audit of ULCT, we noticed that they were receiving rental income for office space in the building that they own. We wanted to verify that if a private entity was renting space from a governmental entity, that they were paying the appropriate property taxes. We contacted the Salt Lake County Treasurer's office to inquire about taxes paid at 50 S 600 E, which is the location of the building that ULCT owns as a member of a condominium environment.

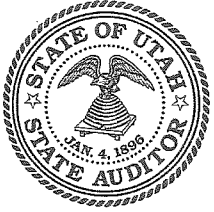
Our research indicated that the Utah Municipal Finance Cooperative is the legal owner of unit #150 and #250. Unit #150 is the suite that houses ULCT and is classified as exempt on the tax role of SL County. Unit #250 which we confirmed via internet search engine and a phone call on December 19, 2016 is occupied by Wilson Financial Advisors. This unit is not classified as exempt and actually has a delinquent 2016 property tax balance as of the same date. All other units on the property are owned by Quajja Property LLC and are not tax exempt.

Conclusion: It appears that property taxes are being paid by the renter of the office space owned by the local government, however, it is unclear if ULCT or UMFA or UMCoop II is the actual owner of this property.

Sources: a woman names Ray at the SL County Treasurer's office. SL County property tax search web site <http://slco.org/apps/treasurer/tax-balance-due.aspx>

Parcels: Unit 150 16-06-232-012-0000

Unit 250 16-06-232-022-0000



OFFICE OF THE
STATE AUDITOR

November 9, 2016

Jason Nielsen
Office of the State Treasurer
350 North State Street, Suite 180
Salt Lake City, Utah 84114

Dear Jason Nielsen:

WHEREAS under *Utah Code Ann.* section 67-3-5, the State Auditor has the authority to examine documents necessary to the performance of his audit responsibilities.

WHEREAS the Office of the State Auditor is conducting an investigation of the Utah League of Cities and Towns for possible improper or illegal use of funds.

NOW, THEREFORE, by virtue of its statutory authority, the State Auditor requests that you provide the following records within 10 days (or contact Jeremy Walker at jeremywalker@utah.gov or 801-538-1040 to request an extension) and deliver to Utah State Capitol Complex, East Office Building, Suite E310, Salt Lake City, UT 84114:

- All bank account numbers associated with the following PTIF accounts:
 - 297
 - 1552
 - 1828

Sincerely,

Van Christensen, CPA
Director, Local Government Division
801-538-1394
vchristensen@utah.gov

SPECIAL PROJECTS	ULCT17SP – Reimbursements of Personal Expenses
ULCT17SP	

PURPOSE: Determine whether League staff reimbursed all personal purchases made using League funds.

TESTWORK:

We reviewed the schedule of reimbursements for personal purchases made by League employees. This schedule was provided by League staff. We then compared the total amount reimbursed per individual for the audit period (June 2012-June 2016) to the total amount deemed personal per our review of the charges.

In four cases, multi-leg flights purchased by Ken Bullock were deemed to be at least partly personal. Due to the multiple legs, these tickets were significantly more expensive than a direct flight would have been. In these cases, the personal amount spent was calculated as the total price paid minus the cost of a direct roundtrip ticket. The cost of a direct roundtrip ticket was calculated using historical airfare data collected by the U.S. Department of Transportation.¹ In cases where historical data was not available, the best airfare available for a direct trip taken this year during the same month was used.

Name	Total of Personal Purchases	Total Reimbursed FY12-16	Difference
Ken Bullock	\$53,922.06	\$45,857.12	\$8,064.94

¹ (<https://www.transportation.gov/policy/aviation-policy/domestic-airline-consumer-airfare-report>, Table 1)

