

IN THE UNITED STATES DISTRICT COURT  
WESTERN DISTRICT OF ARKANSAS  
EL DORADO DIVISION

UNITED STATES OF AMERICA	)	
	)	No. <u>1:18cr10007-001</u>
vs.	)	
	)	18 U.S.C. § 371
JERRY KENNEDY WALSH	)	18 U.S.C. § 666(a)(1)(A)

INFORMATION

THE UNITED STATES CHARGES THAT:

INTRODUCTION

At all times material to this Information, unless otherwise set forth, with all date and times alleged to be “on or about” or “in or about,” and all amounts alleged to be approximately:

1. JERRY KENNEDY WALSH (WALSH) was a resident of the Western District of Arkansas. WALSH was an employee of South Arkansas Youth Services (SAYS), serving as its Executive Director overseeing company operations in the state of Arkansas.

2. SAYS was an Arkansas non-profit corporation headquartered at 128 North Washington in Magnolia, Arkansas, which was a provider of youth services to delinquent and at-risk youth. SAYS contracted with the State of Arkansas to provide a variety of youth services in or around Dermot, Mansfield, Lewisville, and Magnolia, Arkansas, among other locations. Magnolia is located in the El Dorado Division of the Western District of Arkansas.

3. SAYS filed its Articles of Incorporation with the Arkansas Secretary of State on June 3, 1977, and was granted a corporate charter. According to the By-Laws of SAYS (By-Laws), in Article VI, Section 2, “[t]he Board of Directors shall be responsible for the business and property of the corporation. It is the responsibility of the Board to set policy, approve budgets, salaries, and contracts...”

4. As its Executive Director, WALSH was an agent of SAYS as that term is defined in Title 18 U.S.C. § 666(d)(1).

5. For fiscal years 2011 through 2015, each fiscal year beginning July 1 of the indicated year, and ending on June 30 of the following year, SAYS reported total revenue in the amounts indicated below:

<b>Fiscal Year</b>	<b>SAYS Total Revenue</b>
FY2011	\$ 15,238,345
FY2012	\$ 15,468,109
FY2013	\$ 15,841,097
FY2014	\$ 14,582,872
FY2015	\$ 14,505,705
<b>TOTAL</b>	<b>\$ 75,636,128</b>

6. For fiscal years 2012 through 2015, each fiscal year beginning July 1 of the indicated year, and ending on June 30 of the following year, SAYS received annually at least \$10,000 in funds from the United States government in the form of various grants and federal aid, including, but not limited to, United States Department of Agriculture National School Lunch Program Funds, Social Services Block Grants, Foster Care Funds under Title IV-E, and Negligent and Delinquent Children Funds. Though SAYS received federally-funded grants, the organization relied principally upon contracts between SAYS and the State of Arkansas for revenue.

**RELEVANT TAX CODE APPLICABLE TO 501(C)(3) ORGANIZATIONS**

7. SAYS was, and is today, recognized by the Internal Revenue Service (IRS) as a non-profit public charity under Section 501(c)(3) of the Internal Revenue Code (United States Code, Title 26) (Tax Code). As a 501(c)(3) organization, from 2011-2015, SAYS applied for, and was granted, exemptions from having to pay federal income taxes.

8. All organizations, including SAYS, seeking income tax exemptions under Section 501 of the Tax Code are subject to the "No Substantial Part" rule, which provides that no

substantial part of the organization's activities may constitute carrying on propaganda, or otherwise attempting to influence legislation. So that the IRS and general public can monitor a tax-exempt organization's compliance with the "No Substantial Part" Rule, Section 501(c)(3) organizations seeking tax-exempt status are required to disclose any and all political lobbying activity in Part IX (Statement of Functional Expenses) of their annually-filed IRS Forms 990.

9. The IRS Form 990, or the "Return of Organization Exempt from Income Tax," is an IRS form required to be filed each year by a 501(c)(3) organization if an organization had gross receipts greater than or equal to \$200,000, or total assets greater than or equal to \$500,000. The return is signed under the penalty of perjury. The IRS Forms 990 also require each organization seeking tax-exempt status to report on the organization's non-political activities, finances, governance, compliance with certain federal tax filings, and compensation paid to certain employees of the organization.

10. In each IRS Form 990 completed and filed by SAYS for fiscal years 2011 through 2015, SAYS reported that it had no expenses related to lobbying and political activity. Each IRS Form 990 completed and filed by SAYS for fiscal years 2011 through 2014 was signed and certified as true by WALSH as the Executive Director of SAYS.

#### **RELEVANT INDIVIDUALS, ENTITIES, AND PROGRAMS**

11. Milton Russell Cranford (Cranford) was a registered lobbyist in the State of Arkansas and operated multiple lobbying firms. Cranford was also an employee of a Missouri nonprofit corporation, serving as an executive for the company's operations in the state of Arkansas.

12. Lobbying Firm B was an Arkansas C-corporation and lobbying organization registered with the Arkansas Secretary of State. Lobbying Firm B was solely owned and operated

by Cranford, and purported to provide political services, including lobbying, consulting, and advocacy.

13. Lobbying Firm D was a lobbying organization registered with the Arkansas Secretary of State, which listed Cranford as an authorized representatives.

14. Lobbying Firm B and Lobbying Firm D (Lobbying Firms) represented and were paid by, among other clients, youth service provider entities across Arkansas, including SAYS, to advance their interests in the legislature.

15. "Arkansas Senator C" served as a Senator in the Arkansas Senate during the 89th General Assembly. Arkansas Senator C, due to his senior position in the Arkansas Senate, had the power to prevent bills from coming to the floor for a vote, had the power to affect which appropriations bills were funded, and had the authority to vote on state contracts due to his position on the Legislative Council. Arkansas Senator C was also a licensed attorney in the State of Arkansas during the relevant time period and operated a law firm.

16. Person #4 is a relative of Cranford.

17. The Arkansas Department of Human Services (DHS) was an agency of the State of Arkansas that provided various services to individuals in the State of Arkansas to include behavioral health services, which were provided through the Division of Behavioral Health Services (DBHS). DHS also had regular interaction with youth services providers across the State of Arkansas through their Division of Youth Services (DYS) division. DYS was responsible for monitoring youth service providers' adherence to contract requirements and by providing data and recommendations to the Arkansas legislature, impacted whether or not youth service contracts, like the contracts between Arkansas and SAYS, were ultimately renewed.

**COUNT 1**

**CONSPIRACY TO COMMIT OFFENSES AGAINST THE UNITED STATES  
(Violation of 18 U.S.C. § 371)**

18. Paragraphs 1 through 17 are re-alleged and incorporated by reference as though fully set forth herein.

**Object of the Conspiracy**

19. From in or about 2013, until in or about 2016, in the Western District of Arkansas, El Dorado division, and elsewhere, the defendant, JERRY KENNEDY WALSH, together with Cranford, Arkansas Senator C, and others known and unknown to the United States, did knowingly and unlawfully conspire, confederate, and agree together, and with each other, to embezzle, steal, obtain by fraud, intentionally misapply, and otherwise without authority from SAYS's Board of Directors, knowingly convert to the use of Cranford, Person #4, Arkansas Senator C, and others known and unknown to the United States, property that was valued at \$5,000 or more, and was owned by, under the care, custody and control of SAYS, an organization receiving in a one year period from July 1, 2013, through June 30, 2014, benefits in excess of \$10,000 under a Federal program, in violation of Title 18, United States Code, Section 666(a)(1)(A).

**Purposes of the Conspiracy**

20. The purposes of the conspiracy included, but were not limited to, the following:

a. For WALSH, to enrich SAYS by diverting SAYS funds, without authority from the SAYS Board of Directors, to Arkansas Senator C in the form of retainers and legal fees, in exchange for Arkansas Senator C agreeing to take favorable official action to benefit WALSH, SAYS, and others known and unknown to the United States, including influencing Arkansas officials to preserve contracts between SAYS and the State of Arkansas, and to influence DHS and DYS from taking negative action against SAYS;

b. For WALSH, to enrich SAYS by diverting SAYS funds, without authority from the SAYS Board of Directors, to Cranford and his Lobbying Firms; and to Person #4 through payments for a job for which Person #4 was not expected to perform any work; in exchange for Cranford, and others known and unknown to the United States, influencing Arkansas officials to preserve contracts between SAYS and the State of Arkansas, and to influence DHS and DYS from taking negative action against SAYS;

c. For Arkansas Senator C, to enrich himself by accepting funds diverted from SAYS in the form of retainers and legal fees from WALSH and SAYS, and others known and unknown to the United States, in exchange for Arkansas Senator C agreeing to take favorable official action to benefit WALSH, SAYS, and others known and unknown to the United States, including, but not limited to, influencing Arkansas officials to preserve contracts between SAYS and the State of Arkansas, and to influence DHS and DYS from taking negative action against SAYS; and

d. For Cranford, to enrich himself and Person #4, by accepting funds diverted from SAYS to his Lobbying Firms, and facilitating payments to Person #4 for a job for which Person #4 was not expected to perform any work, in exchange for Cranford influencing Arkansas officials to preserve contracts between SAYS and the State of Arkansas, and to influence DHS and DYS from taking negative action against SAYS.

**Manner and Means**

22. The manner and means by which WALSH, the conspirators, and others known and unknown to the United States carried out the conspiracy included, but were not limited to, the following:

a. WALSH used SAYS funds to pay Arkansas Senator C. WALSH, Cranford, and Arkansas Senator C, understood that these payments were paid to Arkansas Senator C in

exchange for Arkansas Senator C using his official capacity to influence officials from DHS and DYS. To conceal the conspiracy and payments, WALSH diverted funds from SAYS, without authority from the SAYS Board of Directors, and made monthly payments to Arkansas Senator C in the form of retainers and legal fees without the expectation that Arkansas Senator C would perform any legal work. In total, WALSH and SAYS paid Arkansas Senator C over \$120,000.

b. WALSH used SAYS funds to pay Cranford and Person #4. WALSH and Cranford understood that these payments were in exchange for Cranford influencing Arkansas officials to preserve contracts between SAYS and the State of Arkansas, and for influencing DHS and DYS from taking negative action against SAYS. To conceal the conspiracy and payments, WALSH diverted funds from SAYS, without authority from the SAYS Board of Directors; made monthly payments to Cranford and his Lobbying Firms; and paid Person #4 for a job for which Person #4 was not expected to perform any work. In total, WALSH paid Cranford and his Lobbying Firms over \$130,000 and paid Person #4 over \$132,000.

c. WALSH concealed the payments to Arkansas Senator C, Cranford and his Lobbying Firms, and Person #4, by not seeking the required approval for the payments from SAYS's Board of Directors. WALSH further concealed the payments to Cranford by falsely certifying that SAYS did not participate in lobbying activity on SAYS IRS Forms 990.

#### **Overt Acts in Furtherance of the Conspiracy**

23. In furtherance of the conspiracy, and to accomplish its purposes, WALSH, Cranford, Arkansas Senator C and others known and unknown to the United States, committed the following acts in the Western District of Arkansas and elsewhere:

#### **SAYS Lobbying Activity**

24. On February 24, 2013, Cranford wrote WALSH an email stating "here is the contract brother." Attached to the email was a "consulting" contract for services between

Lobbying Firm B and SAYS. According to the terms of the contract, SAYS was obligated to pay \$3,334.00 per month for two years to Lobbying Firm B. In exchange, Lobbying Firm B was, among other things, to provide “representation during the non-legislative session months, regular legislative session months, and committee review of the General Assembly...[and consultation] on state legislative review, government relations, passage of legislation, opposing legislation, leveraging funding[.]”

25. Between February 9, 2013 and July 29, 2013, SAYS paid Lobbying Firm B pursuant to this contract in monthly \$3,334.00 increments. WALSH did not request authority from the SAYS Board of Directors to pay Cranford or Lobbying Firm B for lobbying activity, as required by SAYS’s By-Laws.

26. Throughout the 2013 legislative session, WALSH spoke with Cranford by telephone and email regarding several bills that impacted youth service providers. Among other matters, Cranford worked for SAYS as a lobbyist to advance HB2278, commonly called the “Juvenile Justice Board Bill,” and also worked to defeat SB335, commonly known as “the Close to Home Act,” which WALSH believed would negatively impact SAYS.

27. Also during the 2013 legislative session, the Arkansas State Claims Commission was considering whether to reduce an award of damages against DYS resulting from a crime committed by a juvenile in their custody. The initial award against DYS was approximately \$1.6 million. Youth service providers were told by representatives from DHS and DYS that any amount awarded would come out of DYS contracts with youth service providers. That amount was later reduced on appeal during the Claims Commission process.

28. On or about March 12, 2013, WALSH emailed a representative of DHS stating, “I did instruct [Cranford] and [another lobbyist working for Cranford] to work that claim hearing on my nickel. A half million is better then [sic] 1.6 million I think every on [sic] efforts minimize



this award to the lower figure helped.” The DHS representative responded, “I agree and we appreciate the help, Jerry.” This response was forwarded to Cranford.

29. On or about March 22, 2013, another representative of DHS wrote to Cranford, “I regret to inform you that the Joint Budget has approved a claim against DYS for one million dollars... we will immediately inform you of where the budget cuts will take place. I assure you that I will do everything I can and look where I can to soften this reduction in funds for everyone.” Cranford responded, “[w]e have been told by the legislature these funds will not come out of provider contracts.” This response was forwarded from Cranford to WALSH on the same day.

#### **The Hiring of Arkansas Senator C**

30. Near the close of the legislative session in 2013, WALSH became concerned regarding DHS and DYS attempts to award youth service contracts to out-of-state providers and to promulgate new regulations that would negatively impact SAYS. Cranford told WALSH that if WALSH wanted to preserve SAYS’s contracts with the State of Arkansas and to prevent DHS and DYS from taking negative action against SAYS, WALSH needed to hire Arkansas Senator C and Person #4 and pay higher lobbying fees to Cranford.

31. On or about May 13, 2013, WALSH wrote to Cranford and asked “What day and time and location is my appointment as we di[s]cussed last week.” Cranford responded “Wednesday. Noon. [Little Rock]”

32. On or about May 15, 2013, Cranford arranged a meeting between WALSH and Arkansas Senator C at the State Capitol in Little Rock, Arkansas. At the meeting, which WALSH and Arkansas Senator C attended, WALSH discussed with Arkansas Senator C SAYS’s need to stop DHS and DYS from threatening to pull state contracts from SAYS and Arkansas Senator C agreed to help. In exchange, WALSH agreed to pay Arkansas Senator C retainer and legal fees in an amount set by Cranford. WALSH understood that in exchange for the retainer and legal fees,

Arkansas Senator C agreed to take favorable official action to benefit WALSH and SAYS by influencing Arkansas officials to preserve contracts between SAYS and the State of Arkansas, and to influence DHS and DYS from taking negative action against SAYS. WALSH, Arkansas Senator C, and Cranford understood that these payments were made without the expectation that Arkansas Senator C would perform any legal work.

33. On or about May 16, 2013, Arkansas Senator C wrote WALSH, “This email address is my private email address...I look forward to working with you. Feel free to call anytime.” WALSH responded, “Thank you sir I did some additional evaluation and I [ ] think we about covered everything so at your convenience please email a contract. We look forward to work [sic] with you.” This email was later forwarded to Cranford.

34. A contract was later provided by Arkansas Senator C in which, beginning on July 1, 2013 and ending June 30, 2015, SAYS was to pay \$7,500 per month to Arkansas Senator C for “general legal representation.” SAYS records show this agreement was never signed by Arkansas Senator C.

35. The Board of Directors of SAYS did not authorize this contract with Arkansas Senator C. SAYS Board members did not become aware of the contract with Arkansas Senator C until after the contract had ended in November of 2014.

36. Arkansas Senator C never provided any legal services or representation to SAYS. Between July 1, 2013, and November 11, 2014, WALSH directed approximately \$123,750.00 in SAYS funds, without authorization of the SAYS Board of Directors, to Arkansas Senator C.

#### **The Hiring of Person #4**

37. On July 1, 2013, WALSH, at the request of Cranford, and on behalf of SAYS, signed a contract with Person #4 to provide services as a “Coordinator of Government and Agency Relations.” In exchange for providing these services, Person #4 was to be paid \$60,000 per year

in 24 monthly payments of \$5,000 per month. WALSH did not request authority from the SAYS Board of Directors to enter into this contract with Person #4 as required by the By-Laws.

38. According to the terms of the contract, a near identical copy of the contract SAYS entered into with Lobbying Firm B, Person #4 was to, among other things, provide “representation during the non-legislative session months, regular legislative session months, and committee review of the General Assembly...The Coordinator will consult the Client on state legislative review, government relations, leverage[sic] funding...”

39. Between August 8, 2013, and December 16, 2014, WALSH, without the authority of the SAYS Board of Directors, diverted SAYS funds to pay Person #4 \$72,022.70 pursuant to the terms of the July 1, 2013 agreement. These lobbying expenses were omitted from the IRS Form 990's filed and certified by WALSH on behalf of SAYS.

40. Despite Person #4's failure to satisfactorily perform under the initial contract toward the conclusion of the July 1, 2013 agreement between SAYS and Person #4, on or about November 19, 2014, WALSH made Person #4 a full-time employee with the title “Child Care Advocate.”

41. On or about December 4, 2014, WALSH was notified by an employee of SAYS that Person #4 did not pass a background check, which was required to be a Child Care Advocate. Even though Person #4 was not qualified to be a full-time Child Care Advocate because of the failure to pass a background check, Walsh approved his hiring.

42. Person #4 failed to “attend work promptly and regularly” as required by the terms of SAYS employment policies. Throughout Person #4's employment, Person #4 was warned for excessive absenteeism. Person #4 never showed up to his assigned SAYS facility but continued getting paid by SAYS through 2016.

43. Person #4 was paid as a W-2 employee for SAYS beginning in November of 2014 and was paid the following amounts: \$4,307.64 in 2014, \$39,858.96 in 2015, and \$16,192.16 in 2016.

44. During his entire period of employment by WALSH for SAYS, Person #4 was neither expected to, nor required to, perform services for SAYS by WALSH, pursuant to WALSH's agreement with Cranford.

#### **New Contract with Cranford**

45. Pursuant to his agreement with Cranford to increase Cranford's lobbying fees, WALSH agreed to a new contract with Cranford and his Lobbying Firm D in which Cranford's lobbying fees increased from \$3,334.00 per month to \$8,000 per month. WALSH did not request authority from the SAYS Board of Directors to enter into a new contract with Cranford or Lobbying Firm D as required by SAYS's By-Laws.

46. WALSH signed the July contract with Lobbying Firm D which stated the "contract agreement is guarantee[d] by the Board of Directors of [SAYS]" even though the contract had not been authorized by the SAYS Board.

47. Between July 30, 2013, and September 15, 2014, SAYS, without authority of the SAYS Board of Directors, paid Lobbying Firm D approximately \$112,000.

48. In exchange for WALSH making payments to Cranford and his Lobbying Firms, and for WALSH diverting SAYS funds to Person #4, Cranford agreed to engage in lobbying efforts to influence Arkansas officials to preserve contracts between SAYS and the State of Arkansas, and to influence DHS and DYS from taking negative action against SAYS. These unauthorized lobbying expenses were concealed from the IRS and not reported by Walsh on the Form 990s.

All in violation of Title 18, United States Code, Section 371.

DUANE (DAK) KEES  
United States Attorney



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BENJAMIN WULFF  
AR Bar Number 2005190  
Assistant U.S. Attorney  
U.S. Attorney's Office  
500 N. Stateline Avenue  
Texarkana, AR 71854  
Telephone: 501-340-2600  
E-mail: ben.wulff@usdoj.gov

ANNALOU TIROL  
Acting Chief, Public Integrity Section



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MARCO A. PALMIERI  
D.C. Bar No. 981788  
Trial Attorney  
Public Integrity Section, Criminal Division  
U.S. Department of Justice  
1400 New York Ave., N.W., 12th Floor  
Telephone: 202-307-1475  
E-mail: marco.palmieri@usdoj.gov