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	AGENCY NAME & ADDRESS	Department of Public Works 200 N. Holliday Street, Room 600		
	SUBJECT	INVESTIGATION		

DATE: July 16, 2012

TO

David N. McClintock, Inspector General
 Office of the Inspector General
 City Hall-Room 640

The Department of Public Works (DPW) received a report from the Office of the Inspector General (OIG) regarding potential overcharging by one of its vendors (EBA). While the scope of the investigation was limited to two invoices, the report revealed the need to conduct a much more extensive audit of the vendor's invoices as well as an analysis of the current invoice processing procedures.

I. Office of the Inspector General Investigation:

The Office of the Inspector General did invoice reviews on Project 1141E and Project 1099E under an EBA contract. The investigation included analysis of all of the timesheets of EBA employees listed on the subject invoices for the time period of March 1, 2011 to July 31, 2011. The time keeping information was cross-referenced with invoices the City had received during that same time period and interviews of key EBA employees were conducted. The investigation revealed that of the 409.5 labor hours billed to the City, 96.5 hours were properly supported by time sheets. The remaining 313 hours had supporting data indicating that the City was invoiced for work performed for another EBA client. At the conclusion of the investigation the Office of the Inspector General recommended, and Department of Public Works complied, to hold payment on the replacement Invoice 379500-005 which corrected the questionable billing practices.

II. Current Invoice Process:

Current invoice payment process has approximately three check points that verify compliance with contractual elements and rates. While the processes for consultant and construction contracts differ, both have these check points in place. An analysis of this process does reveal that nothing currently exists that would detect deliberate fraud by the vendor. (see Attachment A)

III. Recommendations:

Department of Public Works concurs with all of the recommendations put forth by the Office of the Inspector General report. Specifically:

1. Draft a letter (for legal review) requesting EBA to fund an independent CPA accounting firm to audit all of their invoices from 2006 to present. The Department of Public Works intends to participate in the selection of the firm.
 - a. Should EBA decline then Department of Public Works will re-evaluate all current contracts and future practices with this firm.
2. Department of Public Works is in support of any involvement by the Department of Law in this investigation, and welcomes their guidance on this matter.
3. Department of Public Works is currently holding payment on this invoice pending discussion with the Law Department.
4. Department of Public Works is currently creating an audit unit to review not only the fiscal functions of the agency but the operational functions as well. A review of the standard operating procedures for both content and application will ensure a more efficient and effective agency.

IV. Proposal:

As a result of this investigation the Department of Public Works will create an audit unit to monitor the fiscal and operational functions for the agency. An organization the size of the Department of Public Works requires the creation of such a unit to ensure consistency in both structure and application of processes. The unit will maintain a set of Standard Operating Procedures (SOP) and policies for the agency and prepare system flow charts to obtain a comprehensive understanding of the agency systems including the identification of key control points (both financial and operational). The auditors will then evaluate key controls and test financial records, operational data and management control data. The unit will prepare oral and written presentations and reports to executive management both during and at the conclusion of the examinations, discussing deficiencies and recommending corrective action to improve operations and reduce cost. This unit will be charged with proactively seeking areas of risk or exposure. For external purposes this unit should identify and document improper practices for possible referral to the Office of Inspector General, as well as coordinate internal and external audit efforts, including serving as Department of Public Works' liaison with external auditors.

V. Conclusion:

While the Office of Inspector General report is disturbing it has presented this agency with an opportunity to examine and improve the systems at the Department of Public Works. The invoice processing system that is currently in place is not designed to detect intentional fraudulent activities by vendors and contractors. It is designed to ensure compliance with agency contracts and to "catch" attempts to include minor inappropriate charges on invoices. The level of invoicing issues raised as a result of this investigation can only be detected upon

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more thorough random audits such as those conducted by the newly created audits unit. That type of scrutiny will encourage the Department of Public Works' vendors to ensure that their invoices that are submitted are accurate. While deliberate acts of fraud may be difficult to detect, the installation of this unit will significantly improve this agency's capability.

Invoice Processing Compared

April 9, 2012

Highlight indicates a changes in Consultant invoices procedures March 2012
 Construction Payments

