

**OFFICE OF THE INSPECTOR GENERAL
CITY OF BALTIMORE**



**Isabel Mercedes Cumming
Inspector General**

**Investigative
Report Synopsis**

OIG Case # 19-0005-I

Issued: July 29, 2020



OFFICE OF THE INSPECTOR GENERAL
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City Hall, Suite 635
100 N. Holliday Street
Baltimore, MD 21202



July 29, 2020

Dear Citizens of Baltimore City,

The Office of the Inspector General (OIG) investigated a complaint regarding a contractor (Vendor 1) in the City of Baltimore (City) Department of General Services Fleet Management Division (FMD). The investigation revealed that subsequent to being awarded an FMD contract in 2014, Vendor 1 carried out a years-long method of submitting inflated invoices to the City for payment. As a direct result of the inflated invoices, the City paid Vendor 1 \$160,000 more than it should have. Vendor 1 submitted inflated bills for snow equipment, specialized vehicle testing, and vehicle parts repaired or replaced on those vehicles it performed specialized testing. These goods and services for which Vendor 1 submitted were not part of its City contract.

The OIG investigation found that Vendor 1 did not possess the knowledge or equipment to even perform the specialized vehicle testing for which it was billing the City. To perform the work, Vendor 1 subcontracted the work to a separate, unaffiliated company (Vendor 2), while misrepresenting to the City that it performed the work. A review of Vendor 1's contract found that it provided for a 20% markup on parts Vendor 1 supplied in the course of a contractually allowed service; a markup could not be added to the labor for the service itself. The investigation revealed that Vendor 1 routinely added an unallowable markup to the labor of the specialized vehicle testing. Vendor 1 also inflated the cost it paid to purchase vehicle parts used during service and the cost it paid to buy snow equipment; a markup was then added to the already inflated purchase cost.

Finally, the investigation revealed the appearance of a conflict of interest between Vendor 1 and FMD employees. The OIG found that both an FMD Executive and an FMD Manager admitted to receiving no-cost personal benefits from Vendor 1.

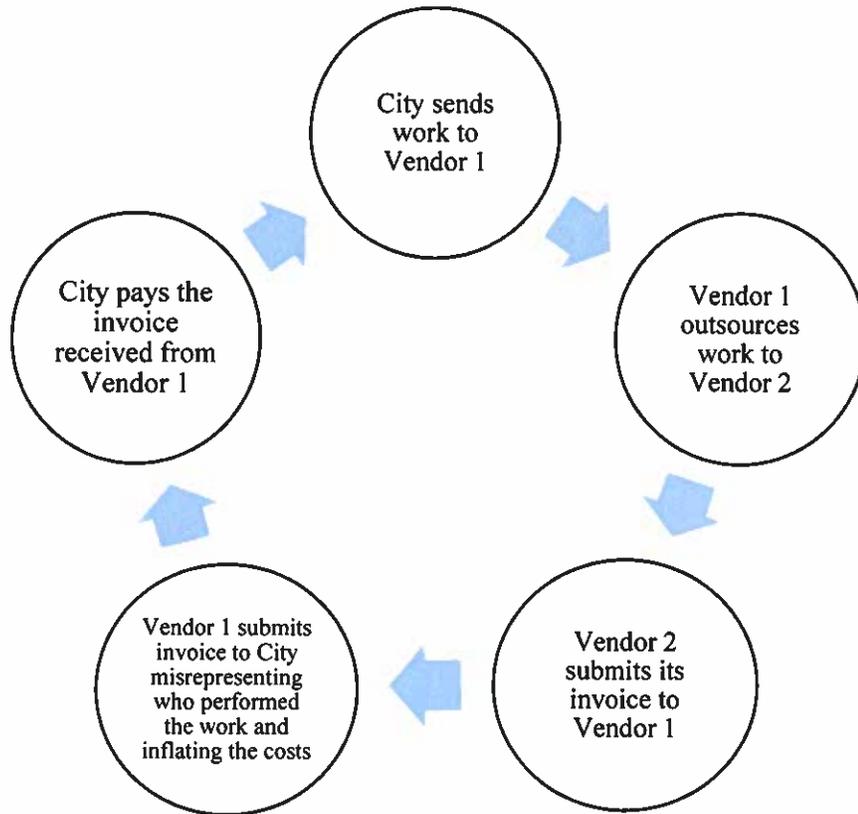
Specialized Vehicle Testing

The OIG examined dozens of invoices from Vendor 1, each of which included a charge for specialized vehicle testing. The investigation found that the equipment sent to Vendor 1 for testing was manufactured by Vendor 2. Since December 2013, Vendor 2 has held a City contract to perform the specialized vehicle tests on the equipment it manufactured and sold to the City. The OIG found that FMD sent a negligible amount of work directly to Vendor 2 under its contract. Instead, a large majority of the testing was sent to Vendor 1, who then subcontracted the work to Vendor 2, which it never disclosed to the City.

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The below diagram shows the method by which Vendor 1 carried out its false billing method:

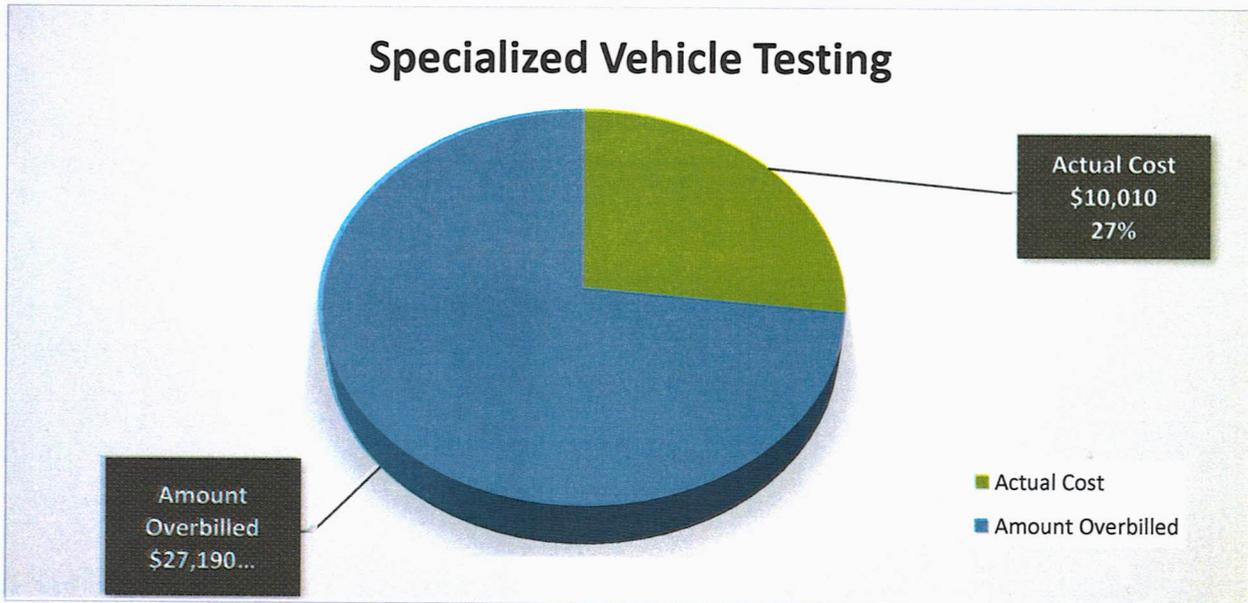


The OIG interviewed representatives of Vendor 2 who said they were asked by Vendor 1 to perform specialized testing and maintenance on City equipment at Vendor 1’s facility. The representatives also said that Vendor 1 specifically requested that Vendor 2 invoice Vendor 1 directly, and refrain from sending any invoices to the City.

The OIG received invoices from Vendor 2 for the work performed on City vehicles on behalf of Vendor 1. The invoices revealed that for each examined invoice from Vendor 1, it was Vendor 2 that performed the work. The OIG determined that Vendor 1 inflated the charges to the City by up to five times the actual cost. Vendor 1 charged the City \$775 for each specialized test while each test cost between \$150 and \$290. The inflated invoices for specialized testing caused the City to pay \$27,190 more than it should have.

The following chart depicts a breakdown of the total amount paid to Vendor 1 for specialized vehicle testing:

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During an interview with officials, Vendor 1 conceded that the specialized testing is classified as a service for which labor should not be invoiced with a markup. The officials from Vendor 1 claimed the \$775 charge to the City included “travel time” that Vendor 2 charged to Vendor 1. However, the OIG found no such “travel time” charges or other surcharges on the Vendor 2’s invoices. The OIG asked Vendor 1 to supply the documentation to support its invoice amounts, however its officials were non- responsive to the request.

The owner of Vendor 1 falsely told the OIG that Vendor 1 had performed specialized testing on City equipment. However, when confronted with Vendor 2’s invoices, the owner conceded the work was sent to Vendor 2 because Vendor 1 did not own the testing machine needed to perform the work. Vendor 1 later provided the OIG with a copy of an invoice for its lease of a testing machine, which showed it did not procure a testing machine until October of 2018, years after it began receiving the specialized testing work from FMD.

Specialized testing was not the only inflated cost contained on the invoices examined. The OIG learned that repairs to the specific type of City equipment in question, should be done with parts manufactured by Vendor 2. The OIG examined each invoice for parts and service between Vendor 2 and Vendor 1 and found that, on its invoices to the City, Vendor 1 inflated the cost of parts manufactured by Vendor 2, thus causing the City to pay \$15,400 more than it should have. In addition, the OIG noted that, on the same inflated invoices, Vendor 1 also billed the City for approximately \$14,000 worth of parts that Vendor 2’s invoices did not show as having been sold to Vendor 1.

REPORT FRAUD, WASTE AND ABUSE

The owner of Vendor 1 confirmed that the company purchases parts directly from Vendor 2, and the owner suggested that Vendor 1's records should clarify the prices charged to the City. However, Vendor 1 was non-responsive to the OIG's request for the company to supply records of its parts purchases.

Snow Equipment Purchases

The OIG reviewed three invoices submitted by Vendor 1 related to the sale of snow equipment and found that Vendor 1 misrepresented the original prices of snow equipment; Vendor 1 inflated the prices, thus causing the City to pay \$31,204 more than it should have. Additionally, the investigation found that all snow equipment purchases were made under the same FMD contract used to overbill for specialized vehicle testing. The OIG found snow equipment purchases to be unrelated to the contract and did not find any language that could be interpreted to allow for the purchase of snow equipment.

The first invoice examined was for the sale of six Henke snow plows in 2014. On its invoice to the City, Vendor 1 stated that it purchased each plow for \$7,957, and then charged the City a 20% markup for a total invoice amount of \$57,290. The OIG's investigation revealed that Vendor 1 purchased the six plows for \$7,248 each and should not have added a markup because snow equipment is not allowed by its contract. The misrepresentation of Vendor 1's purchase price caused the City to pay \$13,802 more than it should have. Had Vendor 1 been allowed by its contract to add a 20% markup on snow equipment, it would still have overbilled the City by \$5,104.

The investigation revealed none of the Henke plows purchased from Vendor 1 had been put into use and instead sat dormant on a back lot of Central Garage, the City's vehicle repair facility. The OIG visited Central Garage several times during 2018 and 2019. Throughout the OIG's visits, the plows did not appear to move from the same spot they were initially found. The OIG photographed the plows to document their lack of use during the snow season (Exhibit 1).

Interviews with FMD personnel revealed that not only had the plows never been used, but they currently do not fit onto City vehicles. The OIG spoke with an FMD Executive who claimed that the plows had been used and did fit onto City vehicles. The employee also claimed that the plows were kept in reserve for emergency snow situations. The investigation refuted the FMD Executive's claims.

The OIG interviewed two FMD Managers about the purchase of Henke plows. Manager 1 told the OIG that the plows were "emergency stock" and told the OIG that one of the plows was currently in use. Manager 2 admitted to purchasing the plows from Vendor 1 for a trial run because the employee had heard Henke plows were durable and long lasting, which he claimed would save the City money long term. The OIG did not find that any of the plows were being used and found that after the OIG began inquiring about the plows, FMD attempted to put a plan in motion to purchase new trucks on which the unused plows could be installed.

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The investigation further revealed Vendor 1 inflated the cost of snow equipment on two other sales. A second invoice examined was submitted in 2014, at which time Vendor 1 sold 10 Valk snow plows to the City for \$81,200. Vendor 1 represented that it purchased the plows for \$7,095 each and added around a 14% markup to the cost. The OIG located the third-party company that Vendor 1 purchased the plows from and obtained the purchase invoice. Vendor 1 bought the plows for \$6,079 each, or \$1,016 less than stated on its invoice to the City. The misrepresentation of costs caused the City to overpay \$20,410 to Vendor 1; this amount was calculated with no markup allowance. Had Vendor 1's contract allowed for the sale of snow equipment and a 20% markup, it would have still overbilled the City by \$8,252.

A third invoice for snow equipment examined was submitted by Vendor 1 in 2014. The invoice was for the sale of 35 Meyer snow plows and 35 Meyer salt spreaders at a total cost of \$410,403. The OIG located the third-party company Vendor 1 purchased the snow equipment from and found that the total bill was \$327,129, including more than \$7,300 in shipping, and the snow equipment was shipped directly to the City. The total amount overbilled to the City is \$83,274, which was calculated without any markup allowance. However, had Vendor 1's contract allowed for the sale of snow equipment and a 20% markup on each item, it would still have overbilled the City \$17,849.

When the OIG confronted officials of Vendor 1 about the overbilling of snow equipment, the owner attributed overbilling to the cost of freight. The OIG requested documentation from Vendor 1 for each snow equipment invoice examined to determine if there were any other costs associated with the prices billed to the City. Vendor 1 did not respond to the request and provided no additional documentation regarding its claim. The OIG confirmed there were no extraneous costs or additional invoices other than what was provided by the vendors who sold the equipment to Vendor 1.

Appearances of a Conflict of Interest

The investigation found that an FMD Executive and the FMD Executive's relative were witnessed at Vendor 1's facility performing work on their personal vehicles. At the time, the FMD Executive's relative was also an FMD employee. Upon leaving City employment, the relative immediately took employment with Vendor 1.

The FMD Executive admitted to using Vendor 1's facility to perform work on a personal vehicle, and claimed it only occurred once, after the Vendor 1's owner extended the offer. The FMD Executive was not charged a fee for using Vendor 1's equipment or facility. The FMD Executive also admitted storing a personal vehicle and maintaining a shipping container for personal automotive parts at Vendor 1's facility. When questioned by the OIG, Vendor 1's owner denied that the FMD Executive had ever worked on a personal vehicle at its facility.

REPORT FRAUD, WASTE AND ABUSE

The OIG's investigation found that an FMD Manager also received a no-cost personal benefit from Vendor 1. The FMD Manager admitted to using Vendor 1's facilities and equipment to perform work on their personal vehicle because the FMD Manager did not possess the necessary equipment at home. The FMD Manager said Vendor 1 supplied them with vehicle parts during the repair to the personal vehicle, and that Vendor 1 charged the FMD Manager for those parts. However, the FMD Manager admitted they were not charged a fee for the use of Vendor 1's facility and equipment. The OIG requested any documentation to substantiate the FMD Manager's claim of paying for vehicle parts supplied by Vendor 1, however, the OIG did not receive any documentation.

Conclusion

The OIG investigation found Vendor 1 routinely submitted inflated invoices under its contract, directly resulting in the City paying \$160,000 more than it should have. Vendor 1 inflated invoices for snow equipment, vehicle parts, and specialized vehicle testing.

Not only did Vendor 1 submit inflated prices, it also misrepresented that the company itself was conducting specialized vehicle testing. Vendor 1 carried out its billing method by using Vendor 2 to perform testing and to supply parts, then proceeded to inflate the cost of those goods and services. Despite the City having a contract directly with Vendor 2 to perform the same services and supply the same parts, the work was instead given to Vendor 1.

The OIG investigation revealed that FMD purchased snow equipment from Vendor 1, which appeared to be outside the scope of services of its City contract. The OIG found multiple issues with the snow equipment purchases, namely that Vendor 1 inflated its cost to buy the equipment, thereby overbilling the City. However, some of the equipment purchased remains unused having sat idle on the Central Garage lot since 2014. The investigation found the Henke plows do not fit onto current City trucks.

Finally, the OIG found an appearance of a conflict of interest in that an FMD Executive and an FMD Manager received benefits from Vendor 1 by receiving free access to Vendor 1's facility to work on their personal vehicles. The Division Chief went as far as to maintain a shipping container of vehicle parts on the premises, and after the FMD Executive's relative left FMD, that relative immediately took a job with Vendor 1. An OIG request to the FMD Manager to produce documentation to support the claim that they paid for the vehicle parts supplied while at Vendor 1's facility went unanswered.

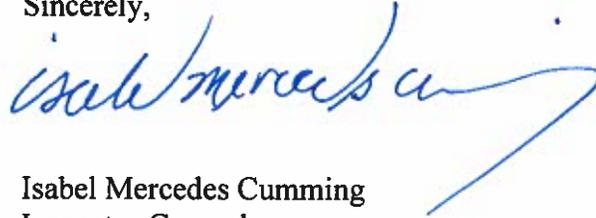
Response from the Department of General Services

Upon becoming informed of the results of the OIG investigation, DGS responded accordingly: the FMD Executive and FMD Manager are no longer with the City, and Vendor 1 is currently suspended from performing City work. The complete response from DGS is attached to this report.

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The OIG continues its commitment to increasing transparency and rooting out corruption, fraud, waste and abuse within Baltimore City government.

Sincerely,



Isabel Mercedes Cumming
Inspector General

Cc: Hon. Bernard C. "Jack" Young, Mayor of Baltimore City
Hon. Brandon M. Scott, City Council President
Hon. Joan M. Pratt, Comptroller of Baltimore City
Honorable Members of the City Council
Dana P. Moore, Acting City Solicitor

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