

David N. McClintock – Inspector General  
Office of Inspector General  
640 City Hall

Synopsis of OIG Final Report #2012-0020 (DOT)

Hon. President and Members of the City Council  
400 City Hall

08/23/2012

Attached please find the Office of the Inspector General's (OIG) Public Synopsis of our Final Report of Investigation relating to a Department of Transportation (hereinafter "DOT") employee concerning allegations of payroll fraud involving unauthorized overtime and compensatory leave accrual.

The OIG investigation began with information provided from DOT management who became aware of suspicious bank account information involving a fellow employee. Investigation involved conducting several interviews and considerable document and policy review. In addition to making findings of fact regarding the employee's conduct and the loss to the City of \$27,604.60 the OIG has made several policy recommendations intended to strengthen policy, increase efficiency and provide better audit trails.

We are very appreciative of the assistance provided by the DOT during the course of the investigation. The OIG remains committed to providing independent investigations that help provide increased transparency of government, a solid foundation for meaningful policy review, and a platform for staff accountability.

Lastly, this matter has also been referred to the Baltimore City States Attorney's Office for review as is customary where the OIG believes criminal conduct may have occurred.

Attachment

DNM/

cc: OIG Admin/Case file

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**OFFICE OF THE INSPECTOR GENERAL  
BALTIMORE CITY**

100 N. Holliday Street, Rm 640  
BALTIMORE, MD 21202



**Public Synopsis**

**Synopsis of OIG Report #IG 2012-0020: Department of Transportation Employee  
Payroll Fraud and System GAPS**

**Issue:** A Department of Transportation (hereinafter “DOT”) employee had fraudulently utilized another DOT employee’s personal bank account to pay personal bills. Further review also determined that the same employee had engaged in an overtime payroll scheme.

**INTRODUCTION/SUMMARY**

On 03/05/2012, the DOT Human Resources (hereinafter “HR”) Chief contacted the Office of Inspector General (hereinafter “OIG”) concerning potential employee fraud. It was further explained that the DOT Traffic Division Chief had brought forward concerns from an employee that his personal bank account had been compromised and stolen from by a fellow DOT employee. The information appeared to indicate that the victim’s M&T account been set-up to auto pay a Sprint Wireless (Verizon was his wireless provider) account belonging to another DOT employee from 06/2011 to 02/2012.

The employee who was benefiting from this transfer was currently serving as the Payroll Clerk for the Traffic Division. Further, DOT HR also indicated that there had recently been some concern over the specific clerk’s overtime pay.

In light of this information, the OIG undertook an investigation to determine the following:

- 1) If there had in fact been a breach of employee personal identification data,
- 2) The extent of any confirmed breach,
- 3) How the victim’s personal bank account was used by a fellow employee to pay for personal expenses, and
- 4) The validity of the Payroll Clerk’s overtime hours (paid and compensatory).

The OIG found that Traffic Division Payroll Clerk had misappropriated a total of **\$27,604.60** (overtime pay and compensatory leave) through the entry of unauthorized overtime hours into the E-Time system. During interviews, the payroll clerk insisted that she worked some overtime hours while also admitting to “padding” her reported time by 5 to 15 hours of overtime per pay period over approximately a two-year period (2010-2012).

At the conclusion of its investigation, the OIG also found that The Payroll Clerk

## IG 2012-0200 Public Synopsis

defrauded her fellow employee by obtaining his direct deposit information (i.e., bank account and routing numbers) and setting up automatic bill pays for her Sprint Wireless and Baltimore Gas and Electric (hereinafter “BGE”) accounts. The victim’s bank account was subsequently debited for a total of **\$1,811.42**. The Payroll Clerk admitted to copying the bank account information from her fellow employee’s “Authorization for Direct Deposit” form and setting up the bill pays for her personal gain.

After the OIG interviewed the Payroll Clerk, DOT HR placed her on suspension pending the outcome of the investigation. The Payroll Clerk subsequently resigned her position effective 06/13/2012 during the course of the OIG’s investigation. Lastly, she advised that her superiors were not aware of her overtime fraud scheme or bank fraud activity.

### **BACKGROUND**

#### E-Time/Human Resources Information System (“HRIS”)

Baltimore City’s computer-based time keeping system is referred to as E-Time. The E-Time system is the system used to record all payroll data, including compensatory leave, overtime, vacation leave, sick leave, regular work hours, etc. The E-Time systems’ primary controls are that it is designed with different tiers of authority and approval capability.

Initial input of time data is completed by agency-level staff commonly referred to as the “preparer.” Next, that information is then approved by a higher level agency staffer referred to as the “approver.” Finally, an administrator is required to be the “sign off” authority on E-Time record entries for a pay period.<sup>1</sup> Once the “sign off” is complete, the E-Time system prohibits any changes to that pay period (which would be disbursed the Friday following the end of the pay period). However, some administrators do have the ability to make historical edits to that pay period and those edits will be applied to the following pay period.

The E-Time system ultimately interfaces with the Human Resources Information System (hereinafter “HRIS”). HRIS then serves as the platform for Finance Department personnel to prepare employees’ bi-weekly payroll information. This information is then forwarded to a third-party vendor, Automatic Data Processing (ADP), to manage payroll and disburse employees’ bi-weekly paychecks.

#### Overtime Accruals

Depending upon an employee’s position and pay classification with the City, employees can receive compensatory leave and/or overtime hour pay for extra hours worked beyond an employee’s regular work day hours. Certain employee classifications, including that of payroll clerk have the option to choose either compensatory leave or overtime pay as compensation for extra hours worked.

Compensation for overtime is earned after a minimum of one hour of overtime work (accrued in six minute increments). Overtime pay is typically paid at a rate of 1.5 times

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<sup>1</sup> The E-Time system requires at least two user levels, “preparer” and “sign off” to process and disburse payroll. However, some agencies’ procedures include another user, the “approver,” to review and approve the “preparer’s” entries prior to submitting them to the “sign off” user.

## **IG 2012-0200 Public Synopsis**

the employee's hourly pay rate. However, if a non-exempt employee works overtime for six consecutive days, the employee will be compensated at two times his/her hourly pay rate on the seventh consecutive day worked.

### **INVESTIGATION**

#### **Document/Report Examination**

In the course of the investigation, the OIG obtained and reviewed the following documents and/or reports pertaining to the Payroll Clerk:

- 1) E-Time – Time Detail Statements from 10/17/2009 through 04/10/2012.
- 2) E-Time – Timecard Audit Trail and E-Time entries/historical edits from 10/17/2009 through 4/10/2012.
- 3) “Overtime Report” Forms – 10/17/2009 through 04/10/2012 (EXHIBIT 1)
- 4) HRIS pay rate information from 10/17/2009 through 04/10/2012
- 5) Email records
- 6) Laptop and desktop hard drives
- 7) City's Administrative Manual (policies and procedures relating to payroll, overtime, compensatory time, etc.)

#### **Unauthorized Overtime Review**

The OIG review of the Payroll Clerk's overtime pay revealed that she had been receiving a significant amount of overtime (approximately 20-30 hours per pay period). The OIG considered it unusual that she would be working this amount of overtime as a Payroll Clerk.

At about the same time the matter was brought to the OIG's attention and shortly after The Traffic Division Chief learned of Payroll Clerk's alleged compromise of a fellow employee's bank account information he requested that the Office Manager conduct a review her overtime for the period of 11/2011 to 03/2012. The review found a significant amount of overtime hours that could not be supported by Overtime Report approvals. The Traffic Division Chief then confronted the Payroll Clerk regarding her overtime, at which time she stated that she had worked the overtime hours but had failed to receive approval.

Notably, approximately one year earlier, in or around 03/2011, a DOT Administrative Clerk, recognized that the Payroll Clerk in question was receiving a significant amount of compensatory time and brought this to the attention of the Traffic Division Chief. During a subsequent review the Traffic Division Chief asked the Payroll Clerk about her excessive hours. During this exchange the Payroll Clerk acknowledged that she had not received approval for some of the overtime she had worked for a few pay periods (roughly amounting to 8 to 10 hours).

The Traffic Division Chief said he advised her at that time that she needed to receive approval for her overtime hours and required her to retroactively complete the Overtime Reports for her unauthorized overtime. The Traffic Division Chief then signed the documents and verbally counseled the Payroll Clerk for her failure to follow overtime

## **IG 2012-0200 Public Synopsis**

approval policies. The OIG noted that the counseling was not documented. The Traffic Division Chief said that he did not monitor or check her overtime hours again until learning of potential role in the compromise of a fellow employee's bank account information.

With respect to the Payroll Clerk's recent overtime hours, The Traffic Division Chief said that 20-30 hours a week of overtime for her was excessive and not reasonable. The Office Manager supervising her also advised that her overtime hours seemed unusually high.

Neither the Traffic Division Chief (as her supervisor prior to 11/2011) nor the Office Manager (her current supervisor since 11/2011) noticed the Payroll Clerks rather significant and excessive amount of overtime. The Traffic Division Chief and the Office Manager both indicated that the routine payroll approval process for E-Time was to ensure employees received the correct amount of pay for regular hours worked, but did not normally include checking employee overtime hours. The Traffic Division Chief stated that he reviewed Central Payroll's Leave Report periodically, but that he focused on higher paid employees with overtime potential.

Based upon a review of the time period for 10/17/2009 to 04/10/2012, the OIG determined that **\$27,604.60** of overtime pay (788:20 hours) was disbursed, and 256.50 hours of compensatory leave was used, for which no documentation, much less properly approved Overtime Report forms, were able to be located.

The subject Payroll Clerk possessed E-Time user privileges as a "preparer" which afforded her the ability to enter overtime hours in E-Time. With this ability she was able to enter overtime that was not supported by "Overtime Report" forms. The process in place requires a minimum of two approvals which were typically the "preparer" and the "sign off" authority. The system is configured to allow an "approver" to review the data; however, that review is not required nor does it serve as a trigger for additional action. Further, the "sign off" authority in this instance resided in the DOT HR section and was not part of the Traffic Section, making recognition of atypical data more difficult. As the "sign off" process did not entail a review of overtime entries or approval forms, the Payroll Clerk's overtime hours were validated and then submitted to Payroll for disbursement (via the HRIS system) without any effective post-entry review.

Ultimately, the Payroll Clerk admitted that she added ("padded") approximately 5 to 15 hours of overtime to each pay period for the past two years (2010 – 2012). Further, she insisted that she did work some of the overtime hours but did not receive supervisory sign-off/approval on Overtime Reports for many of those hours. She also stated that since she was the Payroll Clerk, she was able to enter extra overtime hours she did not work into the E-time system each time she processed payroll for each pay period.

### **Misappropriation of Funds from An Employee's Personal Bank Account**

The OIG also conducted inquiries regarding the Payroll Clerk's actions as they pertained to the victim employee's bank account. The victim indicated that he first noticed that his account was being debited to pay for a Sprint Wireless account when he received a

## IG 2012-0200 Public Synopsis

Notice of Insufficient Funds (hereinafter “NSF”) from M&T Bank for a 02/23/2012 debit transaction. He then contacted M&T Bank to find out more information on the Sprint Wireless account payments being debited from his account. He was advised that the account had been set up from 06/2011 through 02/2012 for routine debits to pay for the Payroll Clerk’s Sprint Wireless account. A report was subsequently filed with M&T Bank’s Fraud Unit to investigate this matter.

The OIG confirmed with M&T Bank Security that the Sprint Wireless account belonged to the Payroll Clerk and was set up online for monthly bill pay starting on 06/06/2011. Starting on 07/05/2011, the bill pay became automatic. After one manual transfer, if the funds are available from the account the following month, the bill pay transaction then becomes automatic. These automatic bill pays continued through 12/2011. From 06/06/2011 to 02/23/2011, the subject bank account was debited for a total amount of \$1,532.38 for payments of The Payroll Clerk’ Sprint Wireless account.

The OIG also conducted a review of the subject bank account to determine if his account was being debited for any other bill payments that were not authorized or set up by him. The OIG identified two debit payments (one of which was declined for NSF) to The Payroll Clerk’ BGE account. Further review indicated that on 06/07/2011 the account was debited for \$279.04 as payment on The Payroll Clerk’ BGE account. On 10/14/2011 the account was debited for \$414.92 as payment on The Payroll Clerk’ BGE account; however, that was rejected due to NSF. These BGE bill payments were set up through BGE’s online bill pay method.

The Payroll Clerk admitted to copying the victim’s M&T Bank account information from his “Authorization for Direct Deposit” form and using the account information to set up bill pays for her Sprint Wireless and BGE accounts. The Payroll Clerk said that sometime last year the Direct Deposit form was submitted and she copied down his account and routing numbers before submitting the documents to Payroll. The Payroll Clerk said that in 06/2011, she set up her Sprint Wireless account to debit her fellow employees bank account, which allowed for automatic debits through 01/2012. In 01/2012, The Payroll Clerk’ Sprint bill was still outstanding due to a NSF transaction on the account, so she manually entered the information a couple weeks later to pay her bill, hoping the account would have the funds to cover it. The Payroll Clerk also acknowledged setting up two online bill payments to pay her BGE bill from the same account.

Between 06/06/2011 and 02/23/2012, The Payroll Clerk set up illicit bill pays (for Sprint Wireless and BGE) that debited a total of **\$1,811.42**.

## FINDINGS AND VIOLATIONS

### Findings

#### Unauthorized Overtime

- 1) The Payroll Clerk improperly entered overtime pay and compensatory leave resulting in her receipt of **\$27,604.60** in pay.
  - a. Between 10/17/2009 and 04/10/2012, The Payroll Clerk fraudulently used 256:50 hours of compensatory leave that was improperly entered. This

## IG 2012-0200 Public Synopsis

resulted in **\$6,312.82** of compensatory leave pay which is not supported.

- b. Between 10/17/2009 and 04/10/2012, The Payroll Clerk was paid for 788:20 hours of fraudulent overtime hours that she improperly entered. This resulted in **\$21,291.77** of overtime pay which was not supported.
- 2) The Payroll Clerk acknowledged she improperly entered overtime hours as a means to receive additional overtime hours she did not work.

### Misappropriation of Funds from Personal Bank Account

- 1) The Payroll Clerk copied down a fellow employee's M&T Bank account information (ABA routing number and account number) from his Authorization for Direct Deposit form.
- 2) Between 06/06/2011 and 02/23/2012, The Payroll Clerk set up bill pays (for Sprint Wireless and BGE) that illicitly debited a total of **\$1,811.42**.
  - a. From 06/06/2011 to 02/23/2011, the subject bank account was debited for a total amount of \$1,532.38 for payments to The Payroll Clerk's Sprint Wireless account.
  - b. On 06/07/2011, the subject bank account was debited for \$279.04 as payment on The Payroll Clerk's BGE account. On 10/14/2011 the subject bank account was debited for \$414.92 as payment on The Payroll Clerk's BGE account, but was rejected due to NSF.

### Violations

The OIG found the following violations of the Civil Service Commission/Department of Human Resources ("CSC/DHR") rules and Baltimore City Administrative Manual Policy stemming from its investigation:

#### The Payroll Clerk

- 1) CSC/DHR Rule 56, Section (2), Subsection (I): *"That the employee has engaged in fraud, theft, misrepresentation of work performance, misappropriation of funds, unauthorized use of City property, obstruction of an official investigation, or any other act of dishonesty."*

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The Payroll Clerk violated this rule through her actions between 10/17/2009 and 04/10/2012, by engaging in the unauthorized entry of overtime and/or compensatory leave hours into the E-Time system. Further, that said unauthorized E-Time entries resulted in disbursement totaling **\$27,604.60**.

- 2) CSC/DHR Rule 56, Section (2), Subsection (I): *"That the employee has engaged in fraud, theft, misrepresentation of work performance, misappropriation of funds, unauthorized use of City property, obstruction of an official investigation, or any other act of dishonesty."*

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The Payroll Clerk misappropriated a City employee's bank account information and effected debit transfers totaling **\$1,811.42** from the employee's account to pay for her personal expenses. Although this is not directly a fraud against the City, The Payroll Clerk committed a criminal act against another individual and "engaged in fraud" in her capacity as a payroll administrator. The aforementioned actions amount to fraud, and/or theft, and/or misrepresentation of work performance, and/or misappropriation

## IG 2012-0200 Public Synopsis

of funds, and/or or any other act of dishonesty.

- 3) CSC/DHR Rule 40, Part L: *“Employees shall conduct themselves at all times in a manner becoming a City employee and shall not bring scandal, expense, or annoyance upon the City through crime, conflict of interest, failure to pay, or other improper or notorious behavior.”*
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The Payroll Clerk violated this rule through her actions between 10/17/2009 and 04/10/2012 by engaging in the unauthorized entry of overtime and/or compensatory leave hours into the E-Time system. Further, that said unauthorized E-Time entries resulted in disbursement totaling **\$27,604.60**.

- 4) CSC/DHR Rule 40, Part L: *“Employees shall conduct themselves at all times in a manner becoming a City employee and shall not bring scandal, expense, or annoyance upon the City through crime, conflict of interest, failure to pay, or other improper or notorious behavior.”*
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The Payroll Clerk violated this rule in her criminal act of defrauding another City employee through her initiating debit transfers from the employee’s bank account to pay for personal expenses. The aforementioned actions brought scandal, and/or expense, and/or annoyance upon the City through crime or other improper or notorious behavior.

- 5) CSC/DHR Rule 56, Section (2), Subsection (h): *“That the employee has committed acts while on or off duty which amount to conduct unbecoming to an employee of the City.”*
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The Payroll Clerk violated this rule through her actions between 10/17/2009 and 04/10/2012 by engaging in the unauthorized entry of overtime and/or compensatory leave hours into the E-Time system. Further, that said unauthorized E-Time entries resulted in disbursement totaling **\$27,604.60**.

- 6) AM 205-2 (page 3): *“Overtime work results when an employee’s immediate supervisor has approved work beyond the normal work day as determined by the representation status of the class; or, approved work performed by the employee on an unscheduled work day.”*
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The Payroll Clerk violated this rule through her actions between 10/17/2009 and 04/10/2012 by engaging in the unauthorized entry of overtime hours and compensatory leave into the E-Time system. Further, The Payroll Clerk did not actually work the hours to support these entries and/or failed to seek approval/authorization for the requested overtime as required. The aforementioned actions violated this policy.

**The DOT Traffic Division Chief – Division Chief**

- 7) AM 205-10: *“Payroll Abuse – There are a number of schemes . . . including credit for hours not worked, increasing pay entitlement, or creating ‘ghost’ employees. Supervisors need to be alert for indications of such situations.”* [Further,] *“Supervisors are responsible for assuring the accuracy of time and attendance information of individuals under their immediate supervision and should perform these duties diligently.”*
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AM 205-10 places supervisors on notice of various payroll schemes and also requires them to be on alert for indications of abuse. The OIG found that the Division Chief did not take sufficient actions to merit compliance with the requirements. This is reflected by his failure to review the Overtime Leave Report which clearly demonstrated the Payroll Clerk’s rather significant percentage of unauthorized overtime entries in E-Time. Further, and perhaps most significant of all, is the Division Chief’s decision to permit The Payroll Clerk to remain in the critical payroll position after she had been identified as having entered unsupported time in or about 04/2011.

**DOT Traffic Division Office Manager**

- 8) AM 205-10 (pgs.1-2): *“Payroll Abuse – There are a number of schemes . . . including credit for hours not worked, increasing pay entitlement, or creating ‘ghost’ employees. Supervisors need to be alert for indications of such situations.”* [Further,] *“Supervisors are responsible for assuring the accuracy of time and attendance information of individuals under their immediate supervision and should perform these duties diligently.”*
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AM 205-10 places supervisors on notice of various payroll schemes and also requires them to be on alert for indications of abuse. The OIG found that the Office Manager, albeit only in her position since 11/2011, did not take sufficient actions to merit compliance with the requirements. This is reflected by her failure to review the Overtime Leave Report, which clearly demonstrated the Payroll Clerk’s rather significant percentage of unauthorized overtime entries in E-Time.

**Department Of Transportation**

- 9) AM 205-10: *“Establishing internal controls in administering City payroll systems is a requirement of each agency/bureau head. Important control features for City agencies . . . include: Using a positive, documented system to determine presence or absence of employees; Assigning competent and trained staff as well as alternates to payroll record-keeping and reporting duties; Segregating Duties; Conducting at random intervals unannounced changes in duties of individuals assigned payroll functions; and Establishing oversight and authorization responsibilities at appropriate levels.”*
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The OIG was unable to locate a department-wide payroll oversight program within the DOT. Further, the OIG was not able to document any regular effort by management to verify employee Overtime Reports against overtime hours/compensatory leave entered in E-Time.

## IG 2012-0200 Public Synopsis

While the absence of an agency-wide protocol for internal controls for payroll does not abdicate each manager's responsibility to ensure accurate time-keeping concerning their staff, it would, if implemented effectively, provide a consistent framework for each manager's use. Further, the application of consistent oversight procedures would greatly enhance the ability of DOT central administration to review payroll accuracy via the verification efforts conducted by the managers in the field. This element is significant as those managers are in the best position to recognize payroll submissions that are not consistent with their approval and observations.

### **RECOMMENDATION**

*The OIG recommends that the DOT Director implement a proactive control process to monitor employees' overtime hours and leave.*

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Payroll fraud will occur in any large organization. However, a systematic system of verification and accountability will result in more frequent discovery of fraud and, on average, shorter periods of duration. DOT management should design control measures that will monitor employees' overtime, compensation time, and leave use to identify irregular and inappropriate usage.

Any system implemented must include multiple levels of review and documentation of those verification efforts. Simply requiring the field managers to sign that they have reviewed and verified the data reflected in the monthly Overtime Leave Reports would provide enhanced assurances of accuracy and provide a more direct nexus by which managers may be held accountable. In addition, the review of these "field-verified" reports by DOT central payroll staff, combined with the monthly verification of supporting documentation identified randomly, could serve as a foundation for the required protocols.