

OFFICE OF THE INSPECTOR GENERAL

CITY OF BALTIMORE



Isabel Mercedes Cumming
Inspector General

Investigative Report Synopsis

OIG Case # 22-0009-I

Issued: February 15, 2022



OFFICE OF THE INSPECTOR GENERAL
Isabel Mercedes Cumming, Inspector General
City Hall, Suite 635
100 N. Holliday Street
Baltimore, MD 21202



February 15, 2022

Dear Citizens of Baltimore City,

The Mission of the Office of the Inspector General (OIG) is to promote accountability, efficiency, and integrity in City government, as well as to investigate complaints of fraud, financial waste, and abuse.

On October 6, 2021, the OIG received information from the City of Baltimore's (City) Bureau of Accounting and Payroll Services (BAPS) regarding an alleged fraudulent Electronic Funds Transfer (EFT) to an account associated with a City vendor (Vendor). The EFT payment funds were being provided to the Vendor from the Mayor's Office of Children and Family Success (MOCFS).

On December 22, 2020 and January 7, 2021, BAPS and MOCFS were contacted by email from an email account associated with an employee from the Vendor company (Vendor Employee), requesting a change to its EFT remittance information. The email associated with the Vendor Employee provided BAPS with a Vendor Payment & Electronic Funds Transfer Form (EFT form) on December 16, 2020. The OIG later determined that the email account associated with the Vendor Employee was compromised by a malicious actor, who established rules within the Vendor Employee's email account as a result of a phishing attack. Therefore, the malicious actor was able to correspond directly with City employees without the Vendor's knowledge.

The OIG confirmed that on December 21, 2020, BAPS changed the Vendor's banking remittance information from its financial institution (Bank 1) to another financial institution (Bank 2). The OIG found that on December 22, 2020, BAPS initiated an EFT payment to the Bank 2 account. Bank 2 flagged the incoming credit as fraudulent and returned the funds to the City's banking institution. On January 5, 2021, the account associated with the Vendor Employee again contacted MOCFS and BAPS to change the EFT information from Bank 2 to a third financial institution (Bank 3). BAPS received a copy of a voided Bank 3 check in the Vendor's name from the requestor and processed the EFT change to match the Bank 3 account information provided. The OIG found that on January 7, 2021, BAPS initiated and completed a second EFT payment intended for the Vendor in the amount of \$376,213.10 to the Bank 3 account.

The OIG investigation confirmed the Vendor's bank remittance changes performed by BAPS occurred while a malicious actor was operating within the Vendor's email account. The OIG determined that the bank letter and voided check submitted for the Bank 2 and Bank 3 accounts were fraudulent. The Bank 2 and Bank 3 accounts were found to not be associated with the Vendor.

The OIG found that BAPS employees do not have access to a list of authorized signatories for vendors and rely on information provided by City agency representatives. Additionally, instead of BAPS independently authenticating information and requests, BAPS relied on MOCFS to facilitate the request and accepted an incoming phone call from an individual claiming to be the Vendor's Chief Financial Officer. The OIG determined that the internal controls established as a result of former OIG investigation #20-0015-I were insufficient to prevent future fraudulent requests as there was a lack of authentication. This left opportunity for the City to be targeted again.

REPORT FRAUD, WASTE AND ABUSE

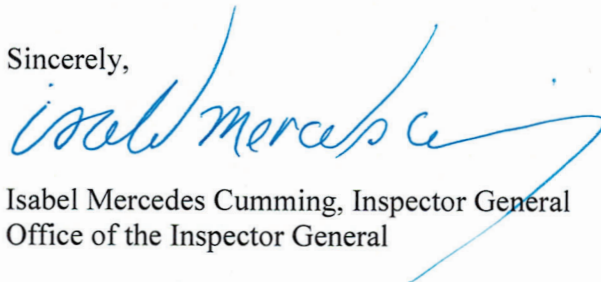
HOTLINE: 443-984-3476/800-417-0430 EMAIL: OIG@BALTIMORECITY.GOV WEBSITE: OIG.BALTIMORECITY.GOV

This public synopsis is only a summary of a more comprehensive report of investigation submitted to the appropriate City management official

Director Henry Raymond's response to this report informed the OIG that new policies have been instituted requiring Department of Finance (DOF) employees to independently verify bank changes with an executive-level employee from the requesting vendor. DOF has also established practices to remove City agencies from the accounting procedures involving vendors. These policies will be the foundation for creating formal procedures to limit the risk posed to the City and ensure that bad actors cannot take advantage of unsecure financial practices.

At the time of this report, the Vendor has not been paid in full by the City, but has received \$50,000 from its insurance carrier under a Phishing Loss claim. The OIG confirmed with Bank 3 that the remaining funds totaling \$38,730.15 were frozen and sent to a secure, internal account. The OIG assisted DOF with recovering the \$38,730.15 through a Hold Harmless and Indemnity Agreement submitted on behalf of the City by the City's banking institution.

Sincerely,



Isabel Mercedes Cumming, Inspector General
Office of the Inspector General

Cc: Hon. Brandon M. Scott, Mayor of Baltimore City
Hon. Nick Mosby, President, City Council
Hon. Bill Henry, Baltimore City Comptroller
Honorable Members of the Baltimore City Council
Hon. Jim Shea, City Solicitor

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