

OFFICE OF THE INSPECTOR GENERAL
CITY OF BALTIMORE



Isabel Mercedes Cumming
Inspector General

Investigative
Report Synopsis

OIG Case # 22-0026-I

Issued: June 21, 2022



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



June 21, 2022

Dear Citizens of Baltimore City,

The mission of the Office of the Inspector General (OIG) is to promote accountability, efficiency, and integrity in the City of Baltimore (City) government, as well as to investigate complaints of fraud, financial waste, and abuse. The OIG began an investigation in January 2022 after receiving information from the Department of Finance (DOF) reporting that numerous, potentially fraudulent payments were originating from a bank account for the Law Department's (Law) workers' compensation (WC) program.

Law currently has a contract with a third-party vendor (Vendor) to provide WC claims administration services for the City and has designated a Law employee (Employee) to oversee the contract. The Employee facilitates a daily transfer of funds to Law's WC bank accounts to offset the Vendor's WC payments from the previous day. This daily transfer of funds to the WC accounts results in a zero-dollar account balance at the end of every business day. The Vendor requested assistance from DOF on January 19, 2022, when it could not reconcile multiple WC account transactions. DOF then learned from the City's banking institution (Bank) about many possible fraudulent payments that occurred from November 2020 to January 2022.

The OIG determined the potentially fraudulent payments were associated with 22 external account holders and referred the matter to law enforcement for potential criminal investigation. The OIG also assisted the DOF in determining that the total unauthorized payments amounted to \$317,241.71. DOF then coordinated with the Bank to submit Written Statements of Unauthorized Debits (WSUD) forms to dispute the transactions. As of May 23, 2022, the City has received \$290,971.97 in credits due to the submittal of the WSUD forms. Due to certain transactions falling outside the 60-day reporting window, the City did not receive credits for \$26,269.74.

The investigation revealed that oversight mechanisms were not in place to identify and stop the fraudulent charges on the accounts quickly. By mail, the Bank did provide the Employee with monthly Account Analysis (AA) statements outlining the service fee charges associated with each WC account transaction. However, the Employee did not receive the more detailed Demand Deposit Account (DDA) statements from the Bank. These DDA statements displayed the daily WC account transactions, including the unauthorized debits. The Employee acknowledged to the OIG that they would have identified the fraudulent transactions sooner if they had received the DDA statements.

Furthermore, the OIG identified that the City paid the Bank for various service charges related to using the WC accounts. From June 2019 through February 2022, the City paid the Bank \$34,893.39 in service fees for an average monthly payment of \$1,057.38. The Vendor offered the City a bank account in its bid solicitation that it would manage at no additional cost. The City did not select the Vendor-managed bank account option. Vendor personnel confirmed this option would include fraud and loss protection but would only provide the City with read-only account access.

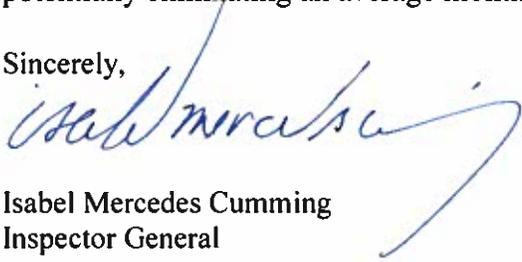
REPORT FRAUD, WASTE AND ABUSE

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

The OIG recommends that the DOF contact the Bank to ensure Law receives the monthly AA and DDA statements for the WC accounts in a timely manner. Further, the OIG found that the City may be able to elect an account managed by the Vendor for the facilitation of the WC program at no additional cost, potentially eliminating an average monthly expense of \$1,057.38 in service fees.

Sincerely,



Isabel Mercedes Cumming
Inspector General

cc: Jim Shea, City Solicitor
Michael Huber, Mayor's Chief of Staff
Christopher Shorter, City Administrator
Henry Raymond, Director of Finance

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City Solicitor Response

Case #22-0026-I

CITY OF BALTIMORE

BRANDON M. SCOTT
Mayor



DEPARTMENT OF LAW
JAMES L. SHEA, CITY SOLICITOR
100 N. HOLLIDAY STREET
SUITE 101, CITY HALL
BALTIMORE, MD 21202

June 15, 2022

Isabel Mercedes Cumming, Inspector General
Office of the Inspector General for Baltimore City
City Hall, Suite 635
100 N. Holliday Street
Baltimore, MD 21202

Re: Response to Report of the Office of Inspector General in Case #22-0026-I

Dear Inspector General Cumming:

The City Solicitor is responding to the Case #22-026-I.

The Finance Department, after consultation with the Law Department, alerted your office that it noticed questionable ACH (Automated Clearing House) withdrawals for electronic fund transfers from the City's Workers' Compensation Claims Corporate Checking Account (the "Account") between December of 2020 and January of 2022. Your investigation ensued. We are pleased to receive the anticipated investigatory report.

Your office discovered that the ACH fund transfers were fraudulent and worked with law enforcement. Your office also worked with the Finance Department to alert the City's bank to these issues and recover a large portion of the fraudulent ACH fund transfers.

You determined the Account, although funded by the City, is utilized solely by the City's Third-Party Workers Compensation Administrator ("Third-Party Administrator") to pay claims and other fees on the City's behalf. While the bank gave statements to the City concerning the fees charged to operate the Account, neither the Law Department nor the Third-Party Administrator received any detailed statements for Account transactions. Thus, the fraudulent ACH fund transfers out of the Account went undetected.

Your office concluded, and the Law Department agrees, that it would be best if the Law Department worked with the Finance Department to close the Account. The City's Third-Party Administrator should take over the payment functions done through this Account by opening its own account and billing the City for the money needed for those transactions. This will allow the Third-Party Administrator to closely monitor the account by reviewing detailed statements from its own bank. Eliminating the Account will also obviate the need for the City to pay Account fees.

Since the City's Third-Party Administrator already offered to manage these payments through its own bank account – fee-free – as part of its current contract with the City, shifting to this model should be expedient. It will also allow the Workers Compensation Contract Administrator to focus

on other aspects of her job and not task her with monitoring an Account for which the City does not initiate the transactions. (Although it should be noted that after learning of these fraudulent transfers, the Law Department promptly began requesting and reviewing the detailed Account statements).

The Law Department will work with the Finance Department to put in place any other necessary procedures to guard against fraudulent payments, including continuing to ensure that the City receives and the Law Department reviews, all detailed Account statements until the Account can be closed and that function transferred to the Third-Party Administrator.

Thank you for the invaluable work you do for the City and the opportunity to respond to your report in Case # 22-0026-I. If you have any questions, please reach out to me or to Hilary Ruley.

Very truly yours,

A handwritten signature in blue ink that reads "James L. Shea". The signature is written in a cursive style with a large initial "J" and "S".

Jim Shea
City Solicitor