

OFFICE OF THE INSPECTOR GENERAL CITY OF BALTIMORE



Isabel Mercedes Cumming
Inspector General

Investigative Report Synopsis

OIG Case # 20-0019-I

Issued: December 10, 2020



OFFICE OF THE INSPECTOR GENERAL
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December 10, 2020

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. At times the lack of transparency and effective communication in the Baltimore City government could lead to the perception of fraud, financial waste and abuse.

EXECUTIVE SUMMARY

On November 18, 2019, the Office of the Inspector General (OIG) received a complaint alleging irregular billing practices by the Department of Communication Services, Municipal Telephone Exchange (MTE). It was alleged the Director of Communication Services, directed MTE to bill City of Baltimore (City) agencies for Voice Over Internet Protocol¹ (VOIP) lines that were never installed. Additionally, after a new Verizon contract went into effect in 2018 which lowered monthly service rates, MTE allegedly continued to bill City agencies at the higher monthly rates based on the prior contract. Lastly, it was reported that MTE charged the Department of Human Resources (DHR) for Automatic Call Distribution² (ACD) lines without a request for service or authorization from DHR.

The OIG investigation found that between September 2017 and February 2020, MTE charged 21 different City agencies a combined total of \$108,451.80 for 204 installed but inactive VOIP lines. The findings from this preliminary review were outlined in an OIG Management Alert released on March 11, 2020.

Furthermore, the OIG confirmed that on August 18, 2018, the Director of Communication Services did instruct MTE staff not to update MTE's billing system with the reduced rates outlined in the new Maryland Department of Information Technology Master Verizon contract. The Director of Communications told the OIG that MTE continued to charge the higher, outdated rates so MTE could apply the surplus revenue to the City's VOIP loan in order to pay the loan off quicker. The MTE is an Internal Service Fund,³ but the directive to charge City agencies higher monthly rates caused agency phone budgets to deplete more quickly. The MTE's decision not to bill the reduced monthly rates resulted in City agencies overpaying MTE \$233,694.27 for phone services. However, the OIG was able to confirm that 2 million dollars from MTE was paid to reduce the interest on the loan, in accordance with what the Director of Communication Services stated. Additionally, the OIG was able to confirm Executive level staff within the Department of Finance was aware of the higher rates being charged and the intended purpose for the surplus funds.

Finally, the OIG found that in March 2019, MTE started billing DHR, without notification, for a line service it did not request. From March 2019 to December 2019, MTE charged DHR \$45,200 for the unauthorized

¹ [Voice Over Internet Protocol \(VOIP\)](#), is a technology that allows you to make [voice](#) calls using a broadband [Internet](#) connection instead of a regular (or analog) phone line.

² ACD system, commonly known as automatic call distributor, is a telephone device that answers and distributes incoming calls to a specific group of terminals or agents within an organization.

³ An internal service fund is a fund used in governmental accounting to track good or services shifted between departments on a cost reimbursement basis.

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lines. Once DHR noticed the extra charges, MTE initially refunded only \$8,400 for charges incurred in the fiscal year DHR noticed the charges, Fiscal Year 2020. After speaking to the OIG, researching and evaluating the overpayment and initial refund, the Director of Communication Services authorized an additional refund of \$20,300 to DHR. The Director of Communication Services confirmed the other charges were valid. Since the release of the March OIG Management Alert the MTE and the OTC has diligently work on improving agency communications and overall transparency.

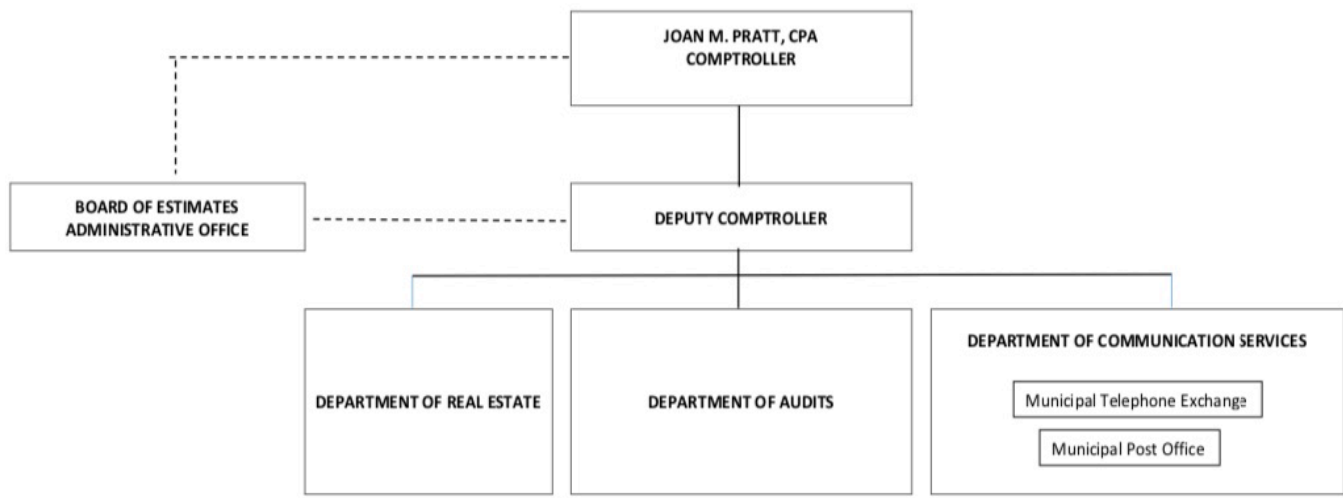
BACKGROUND

Municipal Telephone Exchange (MTE)

MTE is part of the Department of Communication Services. The mission of the Department of Communication Services is to use technology to assist and enable City government to respond to constituents and others effectively. The MTE is responsible for maintaining the telecommunications system through which voice, data, wireless and coordinated homeland security services are provided for various City agencies.

The MTE is one of the two divisions within the Department of Communication Services. The Department of Communications Services under the Comptroller’s Office as shown in Figure 1.

Figure 1: Most recent Office of the Comptroller Organizational Chart under the former Administration



OIG INVESTIGATION

The OIG received a complaint alleging irregular billing practices under the direction of the MTE Director of Communication Services. It was alleged City agencies were billed for VOIP lines that were never actually installed by MTE. Additionally, the complaint alleged that MTE intentionally charged City agencies higher Centrex⁴ phone line rates based on an outdated Verizon contract. Lastly, it was reported that MTE billed DHR for ACD lines without receiving a request from the agency which resulted in unauthorized charges.

⁴ A “Centrex” or “Central Exchange system” is a central office-based telecommunications system owned by an outside service provider. Centrex system allows incoming calls to be dialed direct without the assistance of an operator. Centrex equipment is located at the local telephone company's central office premises and every telephone served by the Centrex system is directly connected to the telephone company switching center (see <https://www2.illinois.gov/sites/doit/services/catalog/telecom/Pages/centrex-service.aspx>).

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Voice Over Internet Protocol (VOIP)

Voice Over Internet Protocol (VOIP) allows the transmission of voice telephone calls across the Baltimore City data network. The City’s VOIP solution was implemented in November 2016 and the transition is still on-going. On March 2, 2020, the OIG discovered a spreadsheet listing VOIP lines that were believed to be inactive yet were still being billed to various City agencies. The OIG released a Public Synopsis for Management Alert 20-0019-I on May 13, 2020 revealing the issues with inactivity on VOIP lines and the response from MTE and the OIG.

Verizon Centrex Charges / WinBill

The City Department of Communication Services has a service agreement with Verizon Business Network Services Inc. on behalf of Verizon Maryland LLC.⁵ The MTE uses WinBill telecom⁶ expense management system to bill City agencies based on the Maryland State Contract. The Service and Quantity Commitments are listed in Table 1.

Table 1: Maryland State Contract Service Quantity and Commitments

<u>Initial Quantity</u>	<u>80% Monthly Minimum Quantity</u>	<u>Service Item</u>	<u>Monthly Unit Rate</u>	<u>Monthly Minimum Commit</u>	<u>Non-recurring Charge / Unit</u>	<u>Unit</u>
1834	1467	Business Exchange Access Line (POTS incl. Hunting)	\$16.34	\$23,970.78	Per tariff	per line
17	14	ISDN PRI (23B+D & 24B) (includes access, port, caller id number and DID trunk package)	\$308.00	\$4,312.00	N/A	per PRI
17	14	Calling Line Identification with Name (optional)	\$36.00	N/A	N/A	per PRI
		Analog Centrex Line* (incl Intercom, exchange access)(includes all applicable standard features in tariff)				
3867	3093	Lata 238	\$12.10	\$37,425.30	Per Tariff	Pcr Line

On August 16, 2018, the Director of Communication Services emailed MTE billing personnel directing them not to update the monthly rates in WinBill in accordance with the new Verizon contract. The OIG investigation revealed from September 2018 to June 2020, MTE continued to bill City agencies \$25.13 for Plain Old Telephone (POT) lines after Verizon lowered its monthly POTs charges to \$16.34 per line in the new contract. Additionally, MTE continued to charge City agencies \$13.72 for Centrex phone lines after the new Verizon contract lowered monthly charges to \$12.10.

⁵ The Baltimore City Board of Estimates (BOE) authorized the procurement of Verizon telecommunications services through Maryland State Contract
⁶ WinBill is an on-premise and cloud-based telecom expense management solution that helps users analyze, control and monitor telecom expenses across an organization.

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Table 2 below is an example of the what the contracted rate spreadsheet looks like in the Winbill system.

Table 2: Sample of the original Verizon download file used to bill City agencies.

Row Labels	Federal Access Recovery Charge	Federal Subscriber Line Charge	Monthly Charge	Subtotal	%	City/Local Tax	Gross Receipt Tax	911 Surcharge	FSUF	Verizon Total
4013278261	3	5.79	16.34	25.13	0.02%	\$3.65	\$0.60	\$0.39	\$1.07	\$30.83
4102250266	3	5.79	16.34	25.13	0.02%	\$3.65	\$0.60	\$0.39	\$1.07	\$30.83
4102251042	3	5.79	16.34	25.13	0.02%	\$3.65	\$0.60	\$0.39	\$1.07	\$30.83
4102252693	3	5.79	16.34	25.13	0.02%	\$3.65	\$0.60	\$0.39	\$1.07	\$30.83
4102253001	3	5.79	16.34	25.13	0.02%	\$3.65	\$0.60	\$0.39	\$1.07	\$30.83

Table 3 displays the increased rates the City agencies would see in the Winbill system. Additionally, the MTE charges City agencies a \$19.00 overhead charge, which is done to supplement MTE's operating budget.

Table 3: Sample of altered Verizon download file after MTE inflates monthly charge and adds overhead service charge.

Row Labels	Federal Access Recovery Charge	Federal Subscriber Line Charge	Monthly Charge	Subtotal	%	City/Local Tax	Gross Receipt Tax	911 Surcharge	FSUF	Verizon Total	Overhead Charges
4103278261	3	5.79	25.13	33.92	0.03%	\$4.92	\$0.80	\$0.53	\$1.44	\$41.61	\$19.00
4102250266	3	5.79	25.13	33.92	0.03%	\$4.92	\$0.80	\$0.53	\$1.44	\$41.61	\$19.00
4102251042	3	5.79	25.13	33.92	0.03%	\$4.92	\$0.80	\$0.53	\$1.44	\$41.61	\$19.00
4102252693	3	5.79	25.13	33.92	0.03%	\$4.92	\$0.80	\$0.53	\$1.44	\$41.61	\$19.00
4102253001	3	5.79	25.13	33.92	0.03%	\$4.92	\$0.80	\$0.53	\$1.44	\$41.61	\$19.00

After an analysis of billing documents, rates and a review of the Verizon contract, the OIG determined, from September 2018 to June 2020, MTE collected \$233,694.27 from City agencies by up-charging for POT and Centrex lines. The charges by MTE resulted in agencies phone budgets depleting more rapidly than necessary.

A summary of the overcharged lines is shown in Table 4.

Table 4: Summary of MTE overbilling agencies charging old Verizon rates.

YEAR	MONTHS	TOTAL LINES	CHARGES
2018	September - December	3,404	51,807.60
2019	January - December	3,203	132,002.61
2020	January - June	2,353	49,884.06
TOTALS		8,960	\$233,694.27

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When asked about the rate structures for VOIP, Centrex, and POT lines, the Director of Communication Services said the rate tables were based on the Maryland Department of Information Technology Master Contract. The Director of Communication Services confirmed that rate adjustments are completed manually in the WinBill system. When questioned why MTE has not lowered the WinBill rates to match the current State Master Contract, the Director of Communication Services stated that the rates were not lowered to pay the City's VOIP loan off quicker.

The Director of Communication Services went on to say that on December 18, 2018, MTE was part of a VOIP financial review which included the former Comptroller and Director of Finance. During the meeting, the Director of Communication Services said it was agreed that all future revenue surpluses, including revenue from monthly phone bills, would be applied towards the VOIP debt. The Director of Communication Services also told the OIG that former Deputy Comptroller signed off on not lowering the rates in WinBill to match the State contract.⁷ The Director of Finance recalled conversation about the MTE's surplus and stated that he inferred that the MTE had to be charging higher rates in order to generate a surplus. However, he was not able to speak to any particulars that were discussed in the meeting referenced by the Director of Communication Services. The Director of Finance told OIG it was decided to retire the VOIP debt early based on the surplus rather than returning the money back to the agencies. Paying the debit off early would save the City money on interest and the billing rates could be lowered/adjusted to prevent future surpluses. The Director of Communication Services informed the OIG that the rates are projected to be lowered in the summer of 2021. The Director of Finance stated that the Department of Finance (DOF) was unaware and did not sign off on MTE not lowering the billing rates to match the Maryland Department of Information Technology Contract.

Even though the MTE is under the direction of the Director of Communication Services, the department falls under the OTC. The former Comptroller was interviewed by the OIG and stated the City's telephone system was antiquated and costing more than \$300,000 per month. The former Comptroller said MTE felt it could lower that cost by implementing VOIP. The former Comptroller added that since the VOIP system was being financed, it was decided to apply any MTE surpluses to the VOIP loan. The former Comptroller added by paying off the debt early, the City would save on financing charges. The former Comptroller provided the OIG with a written response to a few questions posed to her during an OIG interview as she requested time to do research on.

Based on a 10-year amortization schedule provided by the Treasury Department, the City's VOIP loan payments are scheduled between FY2019 through FY2027 for a total of 18 semi-annual payments. Following this schedule, MTE makes semi-annual principal payments of \$309,490.16. This amount is drawn from the MTE's annual budget and charged back to City agencies. After negotiations with Treasury to restructure the 10-year loan to five years, the projected City's interest savings amounted to \$415,651.21. MTE's annual budget fund balance in FY2020 was \$2,034,494.00 and \$2 million is projected in FY2021. According to MTE, the fund balance enables them to pay off the VOIP debt from its annual budget. Once the debt is paid off, MTE plans to develop new rates for City agencies starting in July 2021.

On November 4, 2020, the OIG contacted Deputy Treasury Manager to confirm the MTE prepayment had been processed. The Deputy Treasury Manager verbally confirmed MTE made a pre-payment in the amount of \$2 million on November 2, 2020. On November 9, 2020, the Deputy Treasury Manager forwarded the MTE journal entry and City M&T Bank ACH records to the OIG, confirming the prepayment was processed successfully on November 2, 2020.

⁷ The former Deputy Comptroller was not interviewed for the report as she is a retired City employee and was not contacted by the OIG

Automated Call Distribution (ACD) / Department of Human Resources (DHR)

The Automated Call Distribution (ACD) system, commonly known as automatic call distributor, is a telephone device that answers and distributes incoming calls to a specific group of terminals or agents within an organization. MTE bills agencies \$100 per month for VOIP lines equipped with ACD capabilities.

The OIG interviewed DHR's acting telephone coordinator⁸ and Agency IT Specialist (IT Specialist). The IT Specialist told the OIG that DHR was one of the first agencies to adopt the VOIP system. According to DHR, it initially paid \$75 per line for ACD, but the cost then increased to \$100 per line in February 2019. According to DHR, no additional services were added justifying the increase. DHR explained the bills the agencies see in Winbill do not include a pricing structure or itemization. DHR expressed concerns to MTE about not knowing the pricing structure and the reason for billing increases.

The OIG also interviewed a DHR Administrative Officer. The DHR Administrative Officer corroborated the IT Specialists' concerns and contacted the MTE Billing Supervisor about the charges. On October 23, 2019, the MTE Billing Supervisor emailed the DHR Administrative Officer and IT Specialist to inform them she reviewed DHR's account and applied a credit for 29 ACD lines. The DHR Administrative Officer told the OIG that the MTE Billing Supervisor claimed she could only credit DHR for the ACD charges that occurred in the current fiscal year (Fiscal Year 2020).

When the Director of Communication Services was asked about the DHR's concerns about the charges amounting to approximately \$40,000.00 for unauthorized ACD lines, he stated he was unaware of the issue. The Director of Communication Services also said he had no knowledge of any refund issued to DHR in October 2019. The Director of Communication Services informed the OIG that he would research the issue and report back to the OIG. When asked about the formal process for agencies to add and remove lines, the Director of Communication Services said agencies must complete a Telephone Service Request (TSR) form. The Director of Communication Services added the current process uses paper TSR forms, but in August 2020, MTE would implement a new online ticketing system called Tigerpaw.⁹ The Director of Communication Services said Tigerpaw provides capabilities for intelligent dispatching, personnel management and improved reporting.

According to MTE, each month the MTE technical team provides the billing supervisor a list of lines that have either been disconnected, installed or converted from Centrex to VOIP for billing.

After his OIG interview, the Director of Communication Services emailed the DHR Administrative Officer indicating that he was unaware of the ACD issues until his OIG interview. The Director of Communication Services informed the DHR Administrative Officer that DHR was due an additional \$20,300 refund for the unauthorized ACD lines and included a breakdown of the refund in his response to the OIG. On August 27, 2020, the Director of Communication Services forwarded the email chain to the OIG, confirming that the DHR's refund issue had been resolved and both agencies are in agreement with the resolution.

CONCLUSION

From September 2018 to June 2020, MTE applied outdated Verizon rates to 8,960 lines overcharging City agencies approximately \$233,694.27. The MTE justified the higher rate charges by using the surplus to assist in defraying the costs of the VOIP conversion for the City. The VOIP conversion was funded by a 10-year

⁸ Telephone Coordinators can review their departmental monthly bills in the City's online billing platform WinBill.

⁹ Tigerpaw is a professional service automation and inventory management software that streamlines how you deliver IT and technology services.

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loan. During VOIP financial meetings it was decided all future MTE surpluses would go to the City's VOIP debt. According to Treasury projections restructuring the City's 10-year loan to five years, will result in interest savings of \$415,651.21. On November 2, 2020, MTE made a \$2 million prepayment of principal to the VOIP debt.

Furthermore, the investigation revealed that MTE charged DHR \$45,200 for 62 ACD lines unknown and unauthorized by the agency. MTE applied an \$8,400 refund in October 2019, but DHR was informed the balance of the ACD charges were incurred in the previous fiscal year and were not able to be refunded. The OIG brought the overpayment to the Director of Communication Services' attention during an interview on August 13, 2020. After researching and evaluating the overpayment and initial refund, the Director of Communication Services authorized an additional refund of \$20,300. DHR agreed with the Director of Communication Services' explanation and the refund amount.

The OIG recognizes the justification behind the higher rate charges to City agencies to achieve Citywide savings. However, the lack of transparency and communication to the agencies resulted in concerns that fraud, waste or abuse was occurring. The OIG cannot substantiate any claims of fraud or waste by the MTE to charging higher rates for phones services. The OIG was encouraged by the \$2 million payment made by the MTE and the additional corrective actions since the release of the OIG Management Alert. Furthermore, the OIG recommends additional communications by the MTE to further the mission of transparency to the various City agencies. This will ensure accountability by the MTE management going forward.

Sincerely,



Isabel Mercedes Cumming, Inspector General
Office of the Inspector General

Cc: Hon. Brandon 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. Dana P. Moore, Acting City Solicitor

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