



**JIM STRICKLAND
MAYOR**

EXECUTIVE DIVISION

April 7, 2016

Robert Knecht, Director
Public Works Division
125 N. Main Street, Suite 608
Memphis, Tennessee 38103

Director Knecht:

We have completed our special investigation regarding the submission of a questionable invoice that was submitted to your Street Maintenance Manager for payment; however, the invoice was not paid due to your internal control process. The invoice was questionable because taxes were included in the total purchase price and the parts were for a BMW automobile. Moreover, the invoice was highly suspicious because according to management, the City employee, also a manager is known to do automobile repair work, particularly for BMWs.

The primary objectives of this special investigation were to determine if this was an isolated incident or the result of fraud and determine whether there were additional invoices with questionable parts submitted for payment by that employee or others within Street Maintenance. A secondary objective was to identify any control deficiencies that may have contributed to the submission of a questionable invoice. The scope was limited to check requests and supporting documentation submitted for payment during March 18, 2013 to January 16, 2016.

To accomplish our objectives, we interviewed pertinent personnel to obtain an understanding of the check request process and the details pertaining to the submission of the questionable invoice. We also reviewed relevant policies and procedures to identify any internal control weaknesses. In addition, we conducted select transactional testing.

Based on our review, the submission of the questionable invoice for payment was an isolated incident. However, we do believe the submission of the questionable invoice was an attempt to defraud the City because the employee signed the invoice indicating that he received a BMW part that was charged to the City. We did not find any other additional questionable invoices that were submitted for payment by this employee or others within Street Maintenance. Our special

investigation did not reveal any control deficiencies that we believe materially contributed to the questionable invoice being submitted for payment. However, we identified additional control measures that may enhance the overall control environment for submitting check requests for payment.

During the investigation we were informed that this same City employee used a City vehicle for personal use after his scheduled work hours. Due to the additional incident regarding the City employee, the scope of the original investigation was expanded to include testing pertaining to other areas this employee has access to or managed. Since the recent incident constituted official misconduct, we requested an administrative and/or criminal investigation by our Police Inspectional Service Bureau (ISB).

Summary of Investigation

We obtained and reviewed check requests and support documentation for Street Maintenance's top two suppliers for parts and supplies from March 18, 2013 to January 16, 2016. We compared a sample of the parts listed on the invoices to parts listed on suppliers website to ensure the parts were for the make and model of vehicles used in Street Maintenance. We also compared the vehicles listed on the invoices to the listing of vehicles obtained from Street Maintenance management to ensure the parts ordered were for vehicles maintained by Street Maintenance. We noted the following:

- Several invoices did not contain a vehicle number and/or the entire vehicle number which made it difficult to ascertain if the vehicle listed on the invoice was a vehicle maintained by Street Maintenance.
 - For some, service center number and/or parts were listed as the vehicle number on the invoices instead of a vehicle number which also indicates an opportunity for improvement to ensure invoices contain accurate and valid information.
- Vehicle numbers listed on invoices were not always included on the vehicle listings provided by Street Maintenance management. Street Maintenance management provided three vehicle listings, which made the comparison of the vehicle number listed on the invoices to the vehicle listings very time consuming.
- We noted two invoices submitted for payment by one of the suppliers where the City was not the customer. We researched in Oracle to determine if the invoices were actually paid. The two paid invoices totaled \$50.98.

We contacted the manager of the supplier where the parts for the questionable invoice were purchased to inquire if the City employee had a personal account. The manager stated that the employee did not have a personal account. We were informed by the supplier that the invoice submitted to the City for payment which included sales tax was initially voided by the supplier. Subsequently, the BMW parts were rang up again by the supplier so that the purchase could exclude tax. Therefore, this City employee received a BMW part that was charged to the City for payment. However, the original invoice, which included sales tax, was submitted for payment by the employee instead of the one that excludes taxes. We obtained a copy of both invoices. Based upon the aforementioned transactions, auditors believe the presence of these factors when considered together provided reasonable suspicion that this employee attempted to defraud the City.

As a part of our expanded testing, since the employee is a member of management, we wanted to ensure that there were no questionable invoices similar to the one noted by management submitted for payment in the Sewer and Storm Water funds. We obtained and reviewed the Transaction Listing Report from Oracle and reviewed a sample of check requests for other suppliers for the Sewer Treatment and Collection and the Storm Water Funds. Based on our sample review, we did not note any questionable invoices submitted for payment.

Due to Public Works management's high suspicion of the employee working on BMWs outside of his City job responsibilities, we requested documentation from Human Resources for a Secondary Employment Form. We found no evidence that the employee had completed a Secondary Employment Form as required by City policy.

Recommendations

- We recommend that management continue the supervisory review, approval, and monitoring process for purchases prior to submission for payment.
- We recommend that training is conducted for all personnel that make purchases to ensure that invoices contain all the appropriate information needed to process invoices for payment.
- We recommend that management consolidate the vehicle listings to make it more user friendly and only include the vehicles that are currently being used.
- We recommend that management obtain a credit from the supplier for the two invoices that were paid in error.
- We recommend that management require, when applicable, employees complete a Secondary Employment Form and review annually.

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The work performed in this investigation does not constitute an audit under Government Auditing Standards. We appreciate the cooperation and understanding of the management and staff of Public Works during this entire investigation. Please do not hesitate to contact us if you need additional assistance. We also appreciate the partnership and spirit of teamwork from our Police Services Division to fully investigate any suspected fraudulent activity. Please feel free to give me a call if you have questions or concerns.

Sincerely,



Catrina McCollum, CFE, CICA, CMFO
Supervising Auditor

APPROVED:



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