

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

SPECIAL INVESTIGATION REPORT
OF

INFORMATION TECHNOLOGY DEPARTMENT
CITY OF GARY
LAKE COUNTY, INDIANA

January 1, 2012 to May 12, 2015



FILED
10/21/2015

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CITY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
City Controller	M. Celita Green	01-01-12 to 12-31-15
Director of Information Technology	Jamal Washington Michael Berry Sarita Titus (Interim)	01-01-12 to 01-31-12 02-01-12 to 06-30-15 07-01-15 to 12-31-15
Mayor	Karen Freeman-Wilson	01-01-12 to 12-31-15
President of the Common Council	Kyle W. Allen, Sr.	01-01-12 to 12-31-15
President of the Board of Public Works	Delvert Cole Niquelle A. Winfrey	01-01-12 to 02-26-13 02-27-13 to 12-31-15



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF GARY

We have conducted a special investigation of the records of the City of Gary relating to the expenditures for electronic equipment for the period January 1, 2012 to May 12, 2015. Our investigation was limited to the following records: Accounts Payable Vouchers (APVs) and invoices supporting payments made to vendors known to supply electronic equipment (computers, monitors, printers, tablets, etc.) to the City, detailed inventories of electronic equipment taken by City personnel, vendor invoices for electronic equipment that remain unpaid by the City at the date of this report, and APVs and invoices for wireless cell phones. The purpose of our investigation was to determine if the accountability for cash and other assets are satisfactory and that the transactions related thereto are in compliance with the laws and regulations of the State of Indiana. The results of our investigation are fully described in the Special Investigation Results and Comments as listed in the Table of Contents.

This report was forwarded to the Office of the Indiana Attorney General and the United States Attorney's Office for the Northern District of Indiana.

Any Official Response included herein this report has not been examined or verified for its accuracy.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

July 16, 2015

INFORMATION TECHNOLOGY DEPARTMENT
CITY OF GARY
SPECIAL INVESTIGATION RESULTS AND COMMENTS

DUPLICATE INVOICES SUBMITTED AND PAID

Accounts Payable Vouchers (APVs) are completed by department heads or their designees. APVs include the following information: name of the vendor, a list of the invoice numbers and the dollar amounts of each of the invoices being included for payment, as well as the total of the invoices. To support the information on the APV, the itemized vendor invoices are included with the APV. Each APV requires the signature of the department head or their designee with the following statement, "I hereby certify that the attached invoice(s), or bill(s) is (are) true and correct and that the materials or services itemized thereon for which charge is made were ordered and received except . . . "

We reviewed all APVs prepared by the Information Technology (IT) Department for the purchases of electronic equipment from a large supplier of information technology equipment ("supplier"). We found multiple instances where the invoices attached to the APVs did not agree to the invoice numbers and amounts listed on the APV for the APVs that were prepared by Monique Bowling-Boyd, IT Department employee. Multiple invoices were found to have been previously paid by the City (duplicate invoices) and included on previously submitted APVs. For the period January 1, 2012 through May 12, 2015, we determined the total of the payments made to the supplier for duplicate invoices was \$354,547.81.

Upon contacting the supplier about the duplicate payments, the supplier indicated the City had not overpaid them, but that the City was indebted to them for unpaid invoices after credits for returned items, in the amount of \$983,659.07.

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or nonfeasance in office of any officer or employee may be the personal obligation of the responsible officer or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

We requested that Monique Bowling-Boyd, IT Department employee, reimburse the City of Gary \$354,547.81 for payments made to a vendor based on falsified/duplicate invoices submitted with APVs. (See Summary of Charges, page 13)

BALANCES DUE FOR ELECTRONIC EQUIPMENT AND EQUIPMENT NOT IN INVENTORY

The City of Gary (City) requested and received copies of paid and unpaid invoices from the supplier for the period of January 1, 2013 through May 12, 2015. A majority of the invoices provided by the supplier, designated as unpaid, were for the purchase of Apple branded electronic equipment.

City officials stated that the City does not routinely purchase or use Apple branded equipment other than a few cell phones and possibly a few computers and tablets.

Monique Bowling-Boyd and other department heads were able to make purchases from various accounts with the supplier, with the following designations: City of Gary, Gary Sanitary District, City of Gary Police Department, City of Gary Department of Community Development, City of Gary Planning Department, and City of Gary Housing Authority. When the supplier stopped allowing charges to the City of Gary account due to non-payment of a balance due in excess of \$533,000, Monique Bowling-Boyd and others were allowed to purchase items on any one of the five remaining accounts. Per the supplier, Monique Bowling-Boyd gave assurance that the City of Gary was responsible for payment on all of these accounts.

INFORMATION TECHNOLOGY DEPARTMENT
CITY OF GARY
SPECIAL INVESTIGATION RESULTS AND COMMENTS
(Continued)

Information provided by the supplier included account statements of the unpaid invoices and balances due for each of the six accounts.

The supplier applied some of the overpayments and returns to amounts owed on each of the six accounts. We excluded those overpayments and returns to document the following based upon the unpaid invoices:

Description	City of Gary	Gary Sanitary District	Police Department	Community Development	Planning Department	Housing Authority	Totals
Number of Unpaid Invoices	72	35	25	7	1	36	176
Total of Unpaid Invoices	<u>\$ 538,525.28</u>	<u>\$ 130,397.24</u>	<u>\$ 180,545.19</u>	<u>\$ 30,699.64</u>	<u>\$ 1,585.69</u>	<u>\$ 99,629.43</u>	<u>\$ 981,382.47</u>
Number of Unpaid Invoices for Apple Products	71	15	24	4	-	13	127
Total Unpaid Invoices for Apple Products	<u>\$ 536,530.29</u>	<u>\$ 122,926.99</u>	<u>\$ 179,828.20</u>	<u>\$ 23,519.97</u>	<u>\$ -</u>	<u>\$ 74,182.52</u>	<u>\$ 936,987.97</u>
Number of IPAD Air	561	15	202	20	-	80	878
Number of MacBooks	24	-	1	5	-	4	34
Number of AppleCare	-	-	-	1	-	1	2
Number of Smart Cases for IPAD Air	-	-	-	-	-	10	10

We requested that a physical inventory of electronic equipment be performed of all City departments. The inventory was performed by City police officers and Department of Finance personnel in conjunction with this investigation. Excluding cell phones, only a few Apple branded electronic equipment items were located and included on the inventories.

We compared the Apple branded products detailed on the unpaid invoices to the inventories prepared by City police officers and Finance Department personnel. We have concluded that the City is not in possession of any of the Apple products listed on the unpaid invoices. The total of unpaid invoices for Apple products is \$936,987.97.

Furthermore, a comparison was also made of the City's physical inventory of electronic equipment to the paid invoices from the supplier.

The total of the Apple branded electronics and accessories paid by the City, but not included in the inventory performed by City personnel was \$28,932.42. All of these invoices indicated that the items were shipped to Monique Bowling-Boyd, IT Department employee, at a City location.

A governmental unit may not incur indebtedness unless specifically allowed by statute. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or nonfeasance in office of any officer or employee may be the personal obligation of the responsible officer or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

We requested that Monique Bowling-Boyd, IT Department employee, reimburse the City of Gary \$936,987.97 for the unpaid invoices for Apple products that are not in inventory at the City of Gary. (See Summary of Charges, page 13)

We also requested that Monique Bowling-Boyd, IT Department employee, reimburse the City of Gary \$28,932.42 for Apple branded equipment paid for by the City but not in the City's possession. (See Summary of Charges, page 13)

INFORMATION TECHNOLOGY DEPARTMENT
CITY OF GARY
SPECIAL INVESTIGATION RESULTS AND COMMENTS
(Continued)

OTHER NON-APPLE BRANDED PORTABLE EQUIPMENT PURCHASED

Non-Apple branded portable electronic equipment was paid for by the City from January 1, 2012 to May 12, 2015. This portable equipment totaled \$25,817.94 and was not included in the inventories completed by City of Gary police officers and Finance Department personnel.

All of the APVs were signed by the department heads, except for the APVs for the IT Department. All but one of the APVs for the IT Department were signed by Monique Bowling-Boyd.

We requested that Monique Bowling-Boyd, IT Department employee, reimburse the City of Gary \$25,817.94 for the purchase of non-Apple branded equipment not located in inventory at the City. (See Summary of Charges, page 13)

APPLE BRANDED EQUIPMENT FROM OTHER SUPPLIERS NOT IN INVENTORY

Additional Apple branded equipment was shipped from a second vendor to Monique Bowling-Boyd at a City address which was not included in the inventories. The total cost of this equipment was \$21,454.15.

We requested Monique Bowling-Boyd, IT Department employee, reimburse the City of Gary \$21,454.15 for Apple branded equipment purchased from other suppliers, but not in the City's possession. (See Summary of Charges, page 13)

ADDITIONAL AUDIT COSTS

The State of Indiana incurred cost in the investigation of the duplicate invoices submitted and paid for electronic equipment totaling \$29,818.90.

Audit costs incurred because of theft and shortage may be the personal obligation of the responsible official or employee.

Audit costs or other costs incurred because of poor records, nonexistent records or other inadequate bookkeeping practices may be the personal obligation of the responsible official or employee of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

OFFICIALS' BONDS

The City of Gary has Public Employees Blanket Bonds with Western Surety Company. The terms of the bonds are November 18, 2011 to November 18, 2012; November 18, 2012 to November 18, 2013; November 18, 2013 to November 18, 2014; and November 18, 2014 to November 18, 2015 providing coverage of \$15,000 for faithful performance. The Obligee on the Bond is the State of Indiana.

WIRELESS PHONE SERVICES

A cursory review of APVs for wireless service vendors indicated the invoices attached to the APV were incomplete. Generally, only the summaries of charges were included with the APVs. The invoices detailing the phone numbers, names associated with the phone numbers, and charges for each phone

INFORMATION TECHNOLOGY DEPARTMENT
CITY OF GARY
SPECIAL INVESTIGATION RESULTS AND COMMENTS
(Continued)

number were omitted. It should be noted that the IT Department personnel were responsible for the purchase and set up of cell phones and wireless services for City personnel.

The City Controller is in the process of reviewing the detailed billing statements from the wireless carriers to determine those numbers that belong to City issued cell phones and wireless cards.

Indiana Code 5-11-10-1.6(c) states in part:

"The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim."

INTERNAL CONTROL DEFICIENCIES

Processing or Auditing APVs

Part of the process used by the City Controller to audit a claim or APV included verifying the date of the invoice and invoice number listed on the APV to the invoice attached to the APV.

We found there to be multiple instances where the invoices attached to the APVs did not agree to the invoice dates, invoice numbers and amounts listed on the APV for the APVs that were prepared by Monique Bowling-Boyd, IT Department employee. Thus, the APVs or claims were not being audited in accordance with the controls established by the City Controller.

Indiana Code 5-11-10-1.6(c) states in part:

"The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless: . . .

- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and . . ."

Purchasing

Departments requisitioning goods or services were responsible for requesting quotes, submitting quotes to the Finance Department for the issuance of a purchase order, receiving the goods, receiving the vendor invoice for the goods billed, preparing the APV, attaching the invoices to the APV, and submitting the information to the Finance Department for processing. Each department requisitioning goods or services was also responsible for monitoring when a purchase order was complete, and attaching the completed purchase order to the APV.

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(Continued)

The City frequently issued "Open" purchase orders. Open purchase orders were issued to vendors with whom the City expected to make several purchases. Examples of when open purchase orders were used included but were not limited to utility and phone bills. They were also used for electronic purchases. Once the final purchase was made on an open purchase order, a copy of that purchase order was to be attached to the APV by the department to let the Finance Department know they can "close" the purchase order.

Because requisitioning departments were responsible for so many related activities, the IT employee was able to prevent certain invoices from being paid, attach invoices previously paid to falsified APVs, and submit incomplete documentation.

The use of "Open" purchase orders also allowed for extensive purchasing of items not in the possession of the City, and without detection by City officials.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guideline Manual for Cities and Towns, Chapter 7)

Inventories and Capital Assets

Based upon inquiries of City officials and employees, most electronic equipment purchased by the City was purchased by and through the IT Department. The equipment would be delivered to the IT Department, configured for use by the IT Department, and subsequently picked up by the department requesting the equipment. Prior to the equipment being distributed to a department, the IT Department was responsible placing a serial numbered tag on the equipment. Then, they were responsible for including a description of the equipment, the serial number, and tag number on an inventory sheet.

The City also employed an Internal Auditor whose job involved maintaining records on Capital Assets. However, since the dollar threshold of equipment to be inventoried was established at \$5,000, most of the electronic equipment was excluded from the inventories as it fell below the dollar threshold.

As City police officers and Finance Department personnel completed inventories of electronic equipment, they tagged the equipment, because most did not have City tags identifying the equipment as belonging to the City of Gary.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

INFORMATION TECHNOLOGY DEPARTMENT
CITY OF GARY
SPECIAL INVESTIGATION RESULTS AND COMMENTS
(Continued)

INVESTIGATION BY LAW ENFORCEMENT AGENCIES

An ongoing investigation is being conducted by the Indiana State Police, Federal Bureau of Investigations, Internal Revenue Service, and the United States Attorney's Office concerning the purchases of electronic equipment not in the possession of the City of Gary.

INFORMATION TECHNOLOGY DEPARTMENT
CITY OF GARY
EXIT CONFERENCE

The contents of this report were discussed on August 11, 2015, with Sarita Titus, Interim Director of Information Technology; M. Celita Green, City Controller; Niquelle A. Winfrey, Corporation Counsel and President of the Board of Public Works; Mary Brown, Common Council member; Michele Roby, Deputy Controller; and Karen Freeman-Wilson, Mayor.

The contents of this report were sent by certified mail to Monique Bowling-Boyd, Information Technology Department employee.



City Of Gary

Department of Finance

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KAREN M. FREEMAN-WILSON

Mayor

M. CELITA GREEN

Director of Finance

MICHELE ROBY

Chief Accountant

Mr. Paul D. Joyce, CPA
State Examiner
State Board of Accounts
Indianapolis, Indiana

Dear Mr. Joyce:

The City of Gary is responding to Control Deficiencies from the recent fraud audit.

CONTROL DEFICIENCIES

The City immediately began implementing Internal Controls to address deficiencies identified by State Board of Accounts.

Due to reduced staffing over the past 10 years, Accounts Payable is one of the divisions that was reduced from 3 employees to one, which is common throughout the Controller's Office, and possibly contributed to inefficient internal controls. However, the Accounts Payable Staff Accountant has been informed of deficiencies in processing claims and has been retrained. Currently, the Controller and Deputy Controller are alternately reviewing processed claims, until a person can be hired to review processed claims on a permanent basis.

All Departments have been informed that Open Purchase orders will no longer be issued. All purchases orders must itemize specific services for orders to be made. It is my understanding that the majority of the unauthorized purchases were made through no purchase orders, or unauthorized purchase orders as they were not issued through the Controller's Office, and for some entities that were not City of Gary departments or did not fall under the auspices of purchase orders issued by the Controller's Office.

As a result of the identified deficiencies, the City has establish an Internal Controls Team that will review current procedures throughout the departments of the Civil City of Gary to identify any deficiencies, create policies to address deficiencies, implement procedures to resolve deficiencies, and periodically audit procedures for compliance.

This team will also assist in the implementation of a Centralized Inventory System. Orders will no longer be delivered to departments, but to a Central Location where they will be received, inventoried, and automatically issued tag numbers by software to tag the items. We have

identified software that will not only allow us to log the fixed assets that are \$5,000 and over, but will also allow us to log inventory items under the \$5,000 threshold.

We feel that the focus that we have placed on addressing current deficiencies and potential deficiencies will reduce future risk.

Sincerely,

A handwritten signature in cursive script, appearing to read "M. Celita Green".

M. Celita Green, Controller
City of Gary

INFORMATION TECHNOLOGY DEPARTMENT
CITY OF GARY
SUMMARY OF CHARGES

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Monique Bowling-Boyd, IT Department Employee:			
Duplicate Invoices Submitted and Paid, page 4	\$ 354,547.81	\$ -	\$ 354,547.81
Balances Due for Electronic Equipment and Equipment Not in Inventory, pages 4 and 5:			
Unpaid Invoices	936,987.97	-	936,987.97
Paid Invoices	28,932.42	-	28,932.42
Other Non-Apple Branded Portable Equipment Purchased, page 6	25,817.94	-	25,817.94
Apple Branded Equipment from Other Suppliers Not in Inventory, page 6	21,454.15	-	21,454.15
Additional Audit Costs, page 6	<u>29,818.90</u>	<u>-</u>	<u>29,818.90</u>
Totals	<u>\$ 1,397,559.19</u>	<u>\$ -</u>	<u>\$ 1,397,559.19</u>

This report was forwarded to the office of the Indiana Attorney General and the United States Attorney's Office for the Northern District of Indiana.

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