



THE CITY OF  
**EAST POINT**

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**COUNCIL INITIATED  
INVESTIGATION REPORT**

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Council Initiated Investigation Report

June 3, 2013

June 3, 2013

The Honorable Earnestine D. Pittman, Mayor  
The Honorable Sharonda D. Hubbard, Council Member, Ward A – At Large  
The Honorable Alexander Gothard, Council Member, Ward A  
The Honorable Pat Langford, Council Member, Ward B – At Large  
The Honorable Lance Rhodes, Council Member, Ward B  
The Honorable Marcel L. Reed, Council Member, Ward C – At Large  
The Honorable Myron B. Cook, Council Member, Ward C  
The Honorable J. Slaughter-Gibbons, Council Member, Ward D – At Large  
The Honorable LaTonya Martin, Council Member, Ward D  
Ms. Corliss Lawson, Esq., City Attorney

City of East Point  
2777 East Point Street  
East Point, GA 30344

Dear Honorable Mayor, Honorable Council Members, and City Attorney:

Per the city's request, I have completed an investigation into allegations of improprieties related to the procurement of product and services on behalf of the City of East Point. My examination was conducted in accordance with lawful fraud examination techniques, including an examination of books and records, voluntary interviews with the appropriate personnel, and additional evidence-gathering procedures as deemed necessary under the circumstances.

My investigation determined there were violations of the City's procurement codes. In addition, pertinent accounts payable files for the years 2008 through 2010 were incomplete or missing. This is a violation of the state of Georgia's record retention laws.

I am available to appear at a council meeting to answer questions and discuss the investigation results. Lastly, I thank the Mayor, City Council, City Attorney, City Manager and staff for their helpful assistance and cooperation during this investigation.

Respectfully,

Mark A. Felton, CPA, CFE, CFFA, CVA, MBA  
Felton Financial Forensics and Valuations, LLC.

cc: Randy Turner, Esq., Turner & Ross, LLC, Attorneys at Law

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## I. Background

In late summer 2012, the new city attorney, Corliss Lawson, was contacted by a City of East Point employee who alleged certain improprieties in the City of East Point's bidding and procurement process. Based upon this initial allegation an investigation was conducted, which included reviews of relevant records and interviews of appropriate personnel.

## II. Executive Summary

The Council Initiated Investigation examination began in October 2012 after the Mayor and City Council authorized City Attorney Corliss Lawson to manage the investigation and contract with fraud investigative professionals. The investigation was named "Council Initiated Investigation." Ms. Lawson appointed Randy Turner, an attorney with the firm Turner and Ross, LLC to conduct the investigation. I became part of the fraud investigative team in mid-January 2013.

The Council Initiated Investigation was based on information provided by a City of East Point employee alleging certain improprieties in the City's bidding and procurement process including:

- Violation of the City's sealed bidding process by opening bids before the reveal date and informing the "select" vendor of the lowest bid.
- The purchasing of large capital items before their scheduled replacement dates.
- Equipment purchases of-between \$20,000 and \$250,000 immediately disappearing with no investigative follow-up by upper management.
- Violation of basic procurement checks and balances when certain individuals with inventory accounting and custodial duties were allowed to purchase and receive inventory.
- Employees receiving gifts from vendors.
- An employee asking a vendor to make a church contribution in return for business.
- Employee(s) removing City inventory for personal use and gain.

I reviewed selected purchases from 2000 to 2012 and conducted interviews of key employees and/or vendors who I believed to have information regarding the above allegations. I reviewed purchasing guidelines and various inventory and financial documents. My investigation determined there were violations of the City's procurement codes. In addition, pertinent accounts payable files for the years 2008 through 2010 were incomplete or missing. This is a violation of the state of Georgia's record retention laws.

### III. Scope and Approach

The objective of the Council Initiated Investigation was to determine the existence of improprieties in the City's bidding and procurement process.

In Phase I, the initial investigative phase, I reviewed disbursement-related transactions occurring between January 1, 2010 and December 31, 2011. I performed investigative techniques and analyses to assess the likelihood that purchasing code violations had occurred. This phase was limited in scope and was not intended to represent a full investigation. However, based upon the results of the initial investigation, the City Council voted unanimously on March 18, 2013 to approve Phase II of the investigation.

In Phase II, I reviewed disbursement-related transactions occurring between January 1, 2000 and December 31, 2012. In addition to performing the same investigative techniques and analyses employed in Phase I, I also reviewed purchasing and disbursement documents and interviewed key employees and/or vendors who I believed to have information regarding the allegations.

Phase III involved the documentation of findings and a suggested plan for corrective action.

### IV. Documents and Files Reviewed

Investigative techniques and/or analyses were conducted on the following data files and documents:

- Bank statements for all months available on-line via Regions Bank's iTreasury system for the City's sixteen checking accounts, (most of the accounts were available on-line as far back as February 1, 2006.)
- Blanket order list
- Chart of accounts
- City-issued credit card statements and expense reimbursement requests for key employees
- Commodity code list
- Commodity/vendor cross reference list
- Contract list
- Directory of employees
- Employee information report
- Employee master file
- Employee miscellaneous information listing
- Employee relationship listing

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- Group code listing
- Inventory item by building
- Inventory item list by item number
- Inventory item/contract cross reference list
- Inventory item/vendor cross reference list
- List of all checks disbursed between January 1, 2000 and December 31, 2012
- List of all paid invoices with corresponding expense coding for payments made between January 1, 2000 and December 31, 2012
- List of all purchase orders issued between January 1, 2000 and December 31, 2012
- List of all requisitions issued between January 1, 2000 and December 31, 2012
- Payment type code listing
- Pending receipts (inventory deliveries) list
- Requisition list
- Termination list
- Vendor master file
- Vendor/commodity cross reference list
- Vendor/contract cross reference list

The following documents for fiscal years 2008, 2009 and 2010 were incomplete, missing or destroyed, and therefore not available for my review:

- Paid invoices with accompanying requisitions, purchase orders, and independent documents such as bill of lading documenting receipt of materials purchased.
- FIA (Credit) Card Services vendor files.



V. Fraud Examination Report Findings

Based upon the documents reviewed and information collected during the course of the Council Initiated Investigation, my review determined there were violations of the City's procurement codes. In addition, pertinent accounts payable files for the years 2008 through 2010 were incomplete or missing. This is a violation of the state of Georgia's record retention laws. The following findings support my conclusions.

*Finding E: Missing or Destroyed Accounting-Related Records*

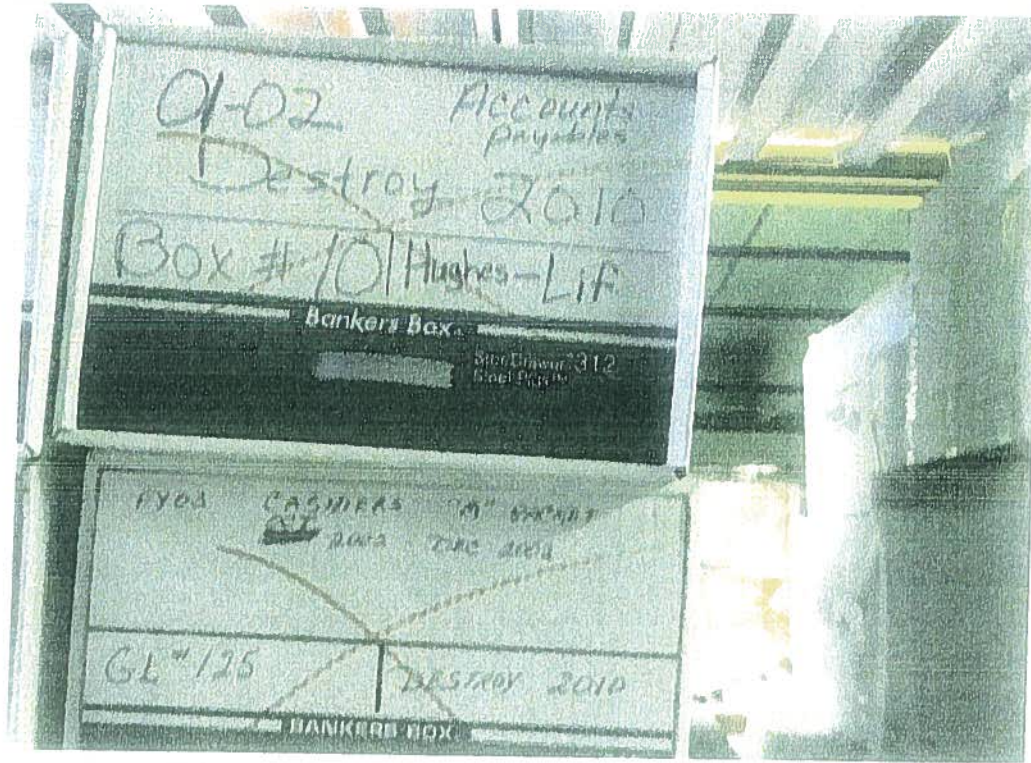
Key physical documents such as city-issued credit card statements documenting expenditures, bills of lading documenting receipt of goods purchased, and invoices documenting payments, were either missing or destroyed in direct violation of the State of Georgia's Retention Schedules for Local Government Records.

Georgia law requires local governments to maintain certain types of records for specified periods of time, (see Table 1). Failure to retain records for the mandated minimum period of time can subject the city to fines, loss of rights, and seriously disadvantage the city in the event of litigation.

Table 1-State of Georgia Retention Schedules for Selected Record Types

Table 1	
Record Title	Retention Requirement
Accounts Payable/Vendor Files/Invoices	5 years
Bids and Competitive Selection Records	Capital improvement project: 11 years
	All others: 7 years
Contracts and Agreements	Capital improvement project: 10 years after expiration
	Other contracts: 7 years after expiration
Credit Card Records	7 years

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Some City records were retained after the mandatory retention date had passed.

In other cases, records that should have been retained according to Georgia state statutes were missing or destroyed.

Figure 1 - Banker (Storage) Boxes



Figure 2 - Banker (Storage) Boxes



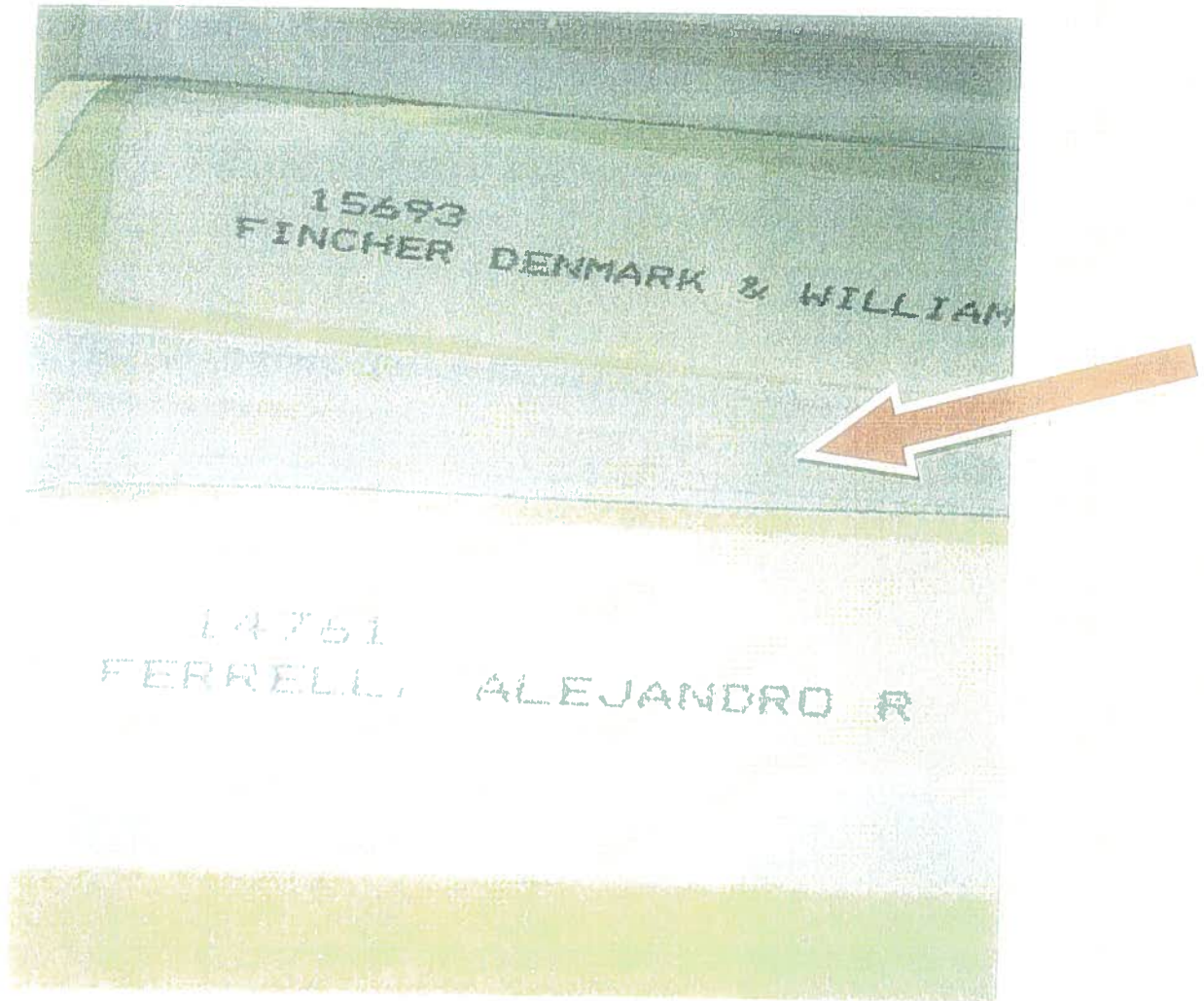


Figure 3: Missing FIA Card Services Vendor File

This is a close-up of the contents of one particular banker box. After a certain period of time, vendor files are removed from the Accounting Department's file cabinets, stored in banker boxes and moved to off-site storage. The boxes remain in off-site storage until needed or the state's mandatory retention period has expired at which point the contents in the boxes are destroyed. The above arrow shows where the FIA Card Services vendor file for fiscal 2006 should have been filed; instead it was missing. The FIA Card Services vendor file contains credit card statements and various documents supporting expenditures made using city-sponsored credit cards. The FIA vendor file should have been filed between the Ferrell and Fincher files.

Finding 2: Invoices Paid without a Purchase Order

The City's procurement policies require properly approved purchase orders for all services and products purchased, regardless of amount, before invoices are paid. From January 2000 through the end of December 2012, 31% of the invoices (representing 46% of the total dollar amount of invoices) did not have a purchase order. In other words, almost \$200 million in City purchases did not have a purchase order.

Table 2 - Top Five Vendors (in Total Dollars Paid) Without a Purchase Order<sup>1</sup>

Table 2					
Rank	Vendor Number	Vendor Name	Total Dollar of Invoices Without P.O.s	Total Invoice Dollar Amount	Percent of Total Dollars Without P.O.s
1	16175	Camp Dresser & McKee, Inc. <sup>2</sup>	\$ 3,482,433	\$ 3,620,890	96%
2	12588	Archer Western Contractors	\$ 1,715,465	\$ 1,984,376	86%
3	17968	Metals & Materials Engineers	\$ 1,489,540	\$ 1,489,540	100%
4	13606	Ruby-Collins, Inc.	\$ 1,459,901	\$ 1,476,856	99%
5	1218	Equity Utility Service. Company, Inc.	\$ 1,437,415	\$ 2,325,882	62%
Grand Total			\$ 9,584,754	\$ 10,897,544	

See Exhibit 1 in the Appendix for a listing of the top 30 vendors having the highest percentage of invoices paid without a purchase order.

<sup>1</sup> For the years 2000 through 2012. This excludes governmental units, insurance companies, and retirement vendors.

<sup>2</sup> Camp Dresser & McKee, Inc. has three different vendor numbers with the City of East Point. Each vendor should have one unique vendor number with the City. Multiple vendor numbers could lead to incorrect financial reporting to the City Council and governmental entities such as the Internal Revenue Service via IRS Form 1099.

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Finding 3: The Appearance of Vendor/Employee Impropriety

Figure 4 and Figure 5 show envelopes received from Cherokee Truck Company containing a sealed bid for a street sweeper. Sealed bid contract over \$25,000, as in this case, are required to remain sealed until "the time and place of opening of solicitation documents"<sup>3</sup> specified in the published public notice of bid.

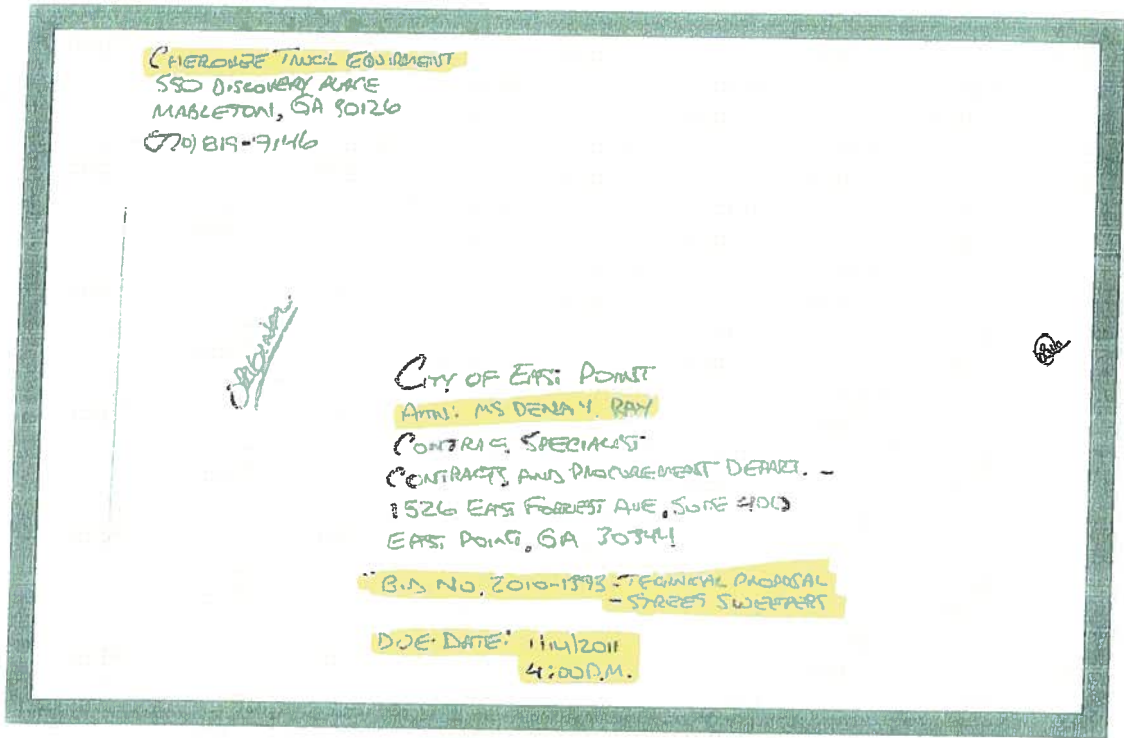


Figure 4 - Bid Envelop Containing Cherokee Truck Company's Sealed Bid

Cherokee addressed the envelope in Figure 4 to Ms. Dena Ray, a Contract Specialist in the Contracts and Procurement Department. It was properly addressed as per the instructions in the bid solicitation package.

<sup>3</sup> "Bids shall be opened publicly in the presence of one (1) or more witnesses at the time and place designated in the invitation for bids. The name of each bidder, the amount of each bid, and other such relevant information as the purchasing agent deems appropriate shall be recorded. The record and each bid shall be open to public inspection." Source: City of East Point, Georgia, Chapter 3 Procurement Code, Sec. 4-3302(6).

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Figure 5 shows the bid envelope addressed to Charles Moore, the City's sanitation services manager. Before the envelope was delivered to Mr. Moore, the gentleman who delivers the mail recognized it as a bid envelope, and wrote the contract specialist's name, Dena Ray, on it thinking Cherokee Truck had incorrectly addressed the envelope and delivered the

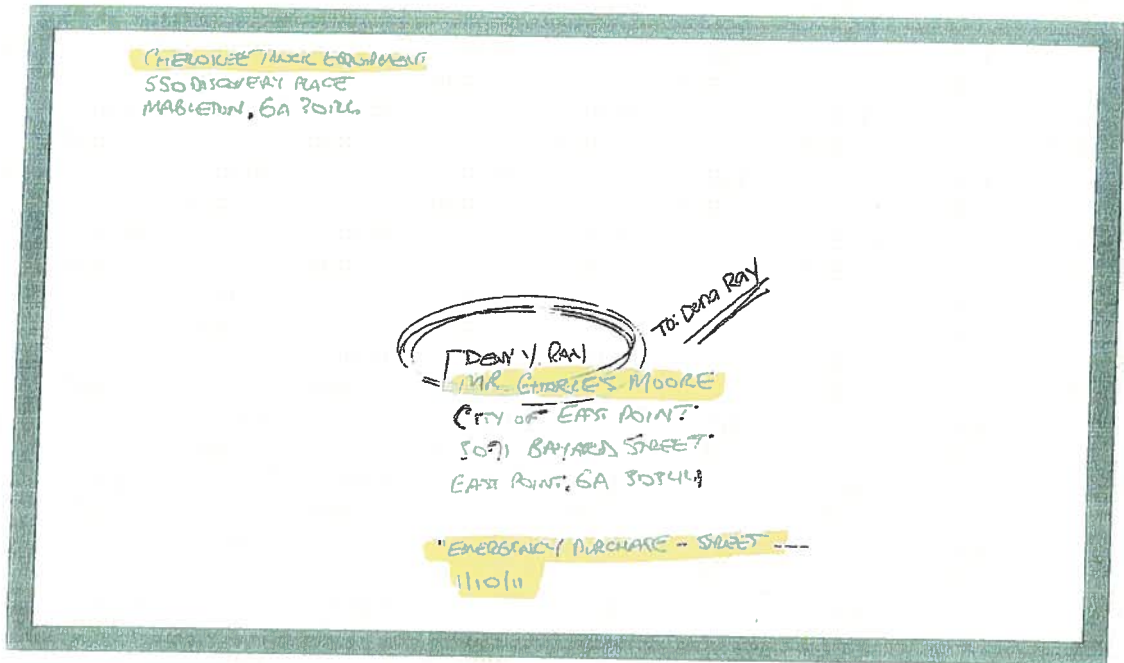


Figure 5 - Sealed Bid Envelope Addressed to Mr. Charles Moore

envelope to her. According to Ms. Ray, she took both envelopes to Nesby Ingram, Director of Contracts and Procurement (who has since been terminated). Mr. Ingram asked Ms. Ray, the unintended recipient of the letter, "Who gave this to you? How did you get it?" Soon after he remarked, "You never saw this, understand? I will talk to the man who delivers the mail and let him know that he is to deliver the mail where it is addressed and not assume anything. This is not addressed to you."

The vendor who addressed the sealed bid envelope to Mr. Moore violated the City's procurement code and instructions specified in the bid solicitation package. It is unknown why the vendor sent a copy of the sealed bid to Mr. Moore.

I was unable to find documentation showing how Mr. Nesby handled this particular procurement code violation. For reasons not documented, the City cancelled the open bid solicitation without making an award, and procured the street sweepers using a different city's approved bid contract.

Finding 3: Artificially Divided Purchases

I performed an analysis to determine if purchases were being artificially divided to circumvent procurement authorization requirements. The City's Procurement Code specifically prohibits the artificial division of contracts "so as to constitute a small purchase."<sup>4</sup>

The procurement code specifies different procurement processes depending upon the purchasing amount. The purchasing amounts are categorized by five threshold limits. The five threshold limits are:

1. Purchases under \$300 -- authorizing "persons other than the purchasing staff" to make such purchases.<sup>5</sup>
2. Purchases up to \$5,000 -- requiring competitive quotes.<sup>6</sup>
3. Contracts over \$5,000 but less than \$25,000 -- requiring the use of bidding lists.<sup>7</sup>
4. Contracts over \$25,000 -- requiring public notice of bid offerings.<sup>8</sup>
5. Contract over \$100,000 -- requiring bid security.<sup>9</sup>

Higher thresholds require more public participation and enhanced scrutiny by the Mayor and City Council. For example, contract amounts greater than \$5,000 requires the City to advertise for bids in the local paper; whereas contracts from \$4,999 to \$300 only require the City to seek three competitive quotes.

My analysis revealed increased purchasing activity just below the limits at each level. Chart 1 depicts invoice activity before and after the \$5,000 threshold cut-off. The invoices are grouped into \$50 increments. For example, Strata 1 reports 109 invoices ranging from \$4,850 to 4900. Strata 2 reports 92 invoices in the range \$4,900 -\$4,950. Strata 3 represent the \$50 dollar range just prior to the \$5,000 cut-off limit.

There are 192 invoices in Strata 3 compared to 92 invoices in Strata 2. Strata 3 represent a 108% increase over Strata 2 in terms of number of invoices. There is a significant drop in number of invoices after the \$5,000 cut-off.

The invoices in my analysis cover the time period January 2000 through December 2012. My analysis identified more than 30 vendors (see Table 3) with invoice amounts in range of the \$5,000 threshold cut-off.

<sup>4</sup> "Contract requirements shall not be artificially divided so as to constitute a small purchase under this section."  
Source: City of East, Chapter 3 Procurement Code, Sec. 4-3304(1)

<sup>5</sup> Chapter 3 Procurement Code, Sec. 4-3304(2)

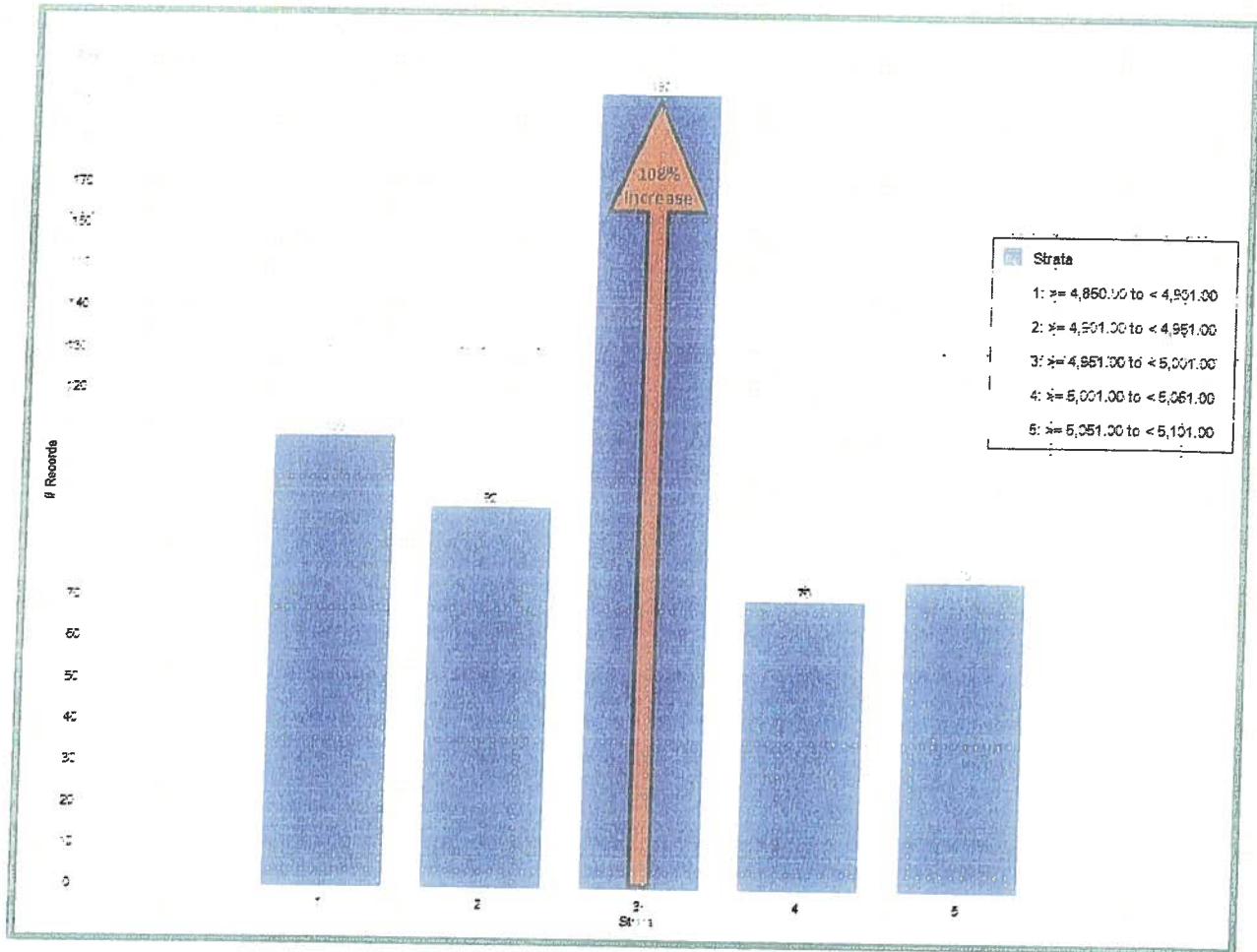
<sup>6</sup> Chapter 3 Procurement Code, Sec. 4-3304(3)

<sup>7</sup> Chapter 3 Procurement Code, Sec. 4-3304(4)

<sup>8</sup> Chapter 3 Procurement Code, Sec. 4-3302(3)

<sup>9</sup> Chapter 3 Procurement Code, sec. 4-3310(1)

Chart 1 - \$5,000 Threshold



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Table 3 Selected Vendors with Invoice Amounts in Range of \$5,000 Out-Of

Table 3				
Vendor Name	PO Number	Invoice Number	Check Date	Invoice Amount
Aaron Office Furniture	004089	118-000650-S	9/14/2001	4,921.00
Aaron Office Furniture	004091	118-000649-S	9/14/2001	338.00
Aaron Office Furniture	F06381	118-000669	9/14/2001	99.00
Aaron Office Furniture	F06517	118-000711-S	10/5/2001	99.00
Aaron Office Furniture	004262	118-000648-S	10/19/2001	95.36
Aaron Office Furniture	004262	118-000648-S	10/19/2001	3,969.15
Aaron Office Furniture	F06860	118-000766-S	11/2/2001	99.00
Aaron Office Furniture	004303	118-000695-S	11/9/2001	4,966.00
			Total	14,586.51
Atlanta Intl Hydraulic Repair	018085	24110	3/31/2005	4,940.00
Atlanta Intl Hydraulic Repair	018275	24309	5/6/2005	4,970.00
Atlanta Intl Hydraulic Repair	018630	24222	5/13/2005	411.00
			Total	10,321.00
Duckett Vandevere And		0002-04	10/13/2000	5,000.00
Duckett Vandevere And	000846	0002-06	10/20/2000	3,650.00
Duckett Vandevere And	000847	0002-07	10/20/2000	4,400.00
Duckett Vandevere And	000858	0002-08	10/20/2000	5,000.00
			Total	18,050.00
Fitness Resource	039628	SO404556	6/3/2010	150.00
Fitness Resource	039628	SO404556	6/3/2010	4799.00
Fitness Resource	039734	SO407576	6/17/2010	150.00
Fitness Resource	039734	SO407576	6/17/2010	4799.00
			Total	9898.00
General Chemical Performance	034210	90207487	3/13/2009	4,920.24
General Chemical Performance	034210	90211027	3/24/2009	4,897.42
General Chemical Performance	033551	90216767	4/8/2009	1,628.03
General Chemical Performance	034210	90213612	4/8/2009	4,999.51
General Chemical Performance	034593	90216796	4/17/2009	4,941.82
General Chemical Performance	034593	90219314	4/17/2009	4,955.93
General Chemical Performance	034974	90223391	5/15/2009	4,991.21
General Chemical Performance	035139	90229655	5/29/2009	4,950.12

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General Chemical Performance	035386	90228029	6/5/2009	4,962.16
General Chemical Performance	035395	90233069	6/5/2009	4,881.23
General Chemical Performance	035443	90235341	6/26/2009	4,967.97
General Chemical Performance	035728	90238463	7/24/2009	4,895.34
General Chemical Performance	035849	90242911	8/7/2009	3,575.65
General Chemical Performance	035884	90248925	8/7/2009	3,597.84
General Chemical Performance	035884	90245932	8/7/2009	3,609.70
			Total	66,774.17
General Chemical Performance	036064	90252311	8/21/2009	3,623.07
General Chemical Performance	036157	90255290	8/28/2009	3,591.76
General Chemical Performance	036247	90259325	9/4/2009	3,616.99
General Chemical Performance	036506	90264590	9/25/2009	3,599.36
General Chemical Performance	036413	90266809	10/2/2009	3,606.66
General Chemical Performance	036518	90269688	10/9/2009	3,584.46
General Chemical Performance	036692	90272001	10/23/2009	3,626.11
			Total	25,248.41
HD Supply Waterworks LTD	029280	4907511	6/29/2007	305.69
HD Supply Waterworks LTD	029280	3577535	6/29/2007	454.44
HD Supply Waterworks LTD	029280	5165276	6/29/2007	1,701.70
HD Supply Waterworks LTD	029280	3236083	6/29/2007	2,167.50
HD Supply Waterworks LTD	029280	4929965	6/29/2007	2,718.60
HD Supply Waterworks LTD	029280	3528927	6/29/2007	2,805.00
HD Supply Waterworks LTD	029280	4907586	6/29/2007	4,377.72
			Total	14,530.65
HD Supply Waterworks LTD	029453	5380509	7/20/2007	225.00
HD Supply Waterworks LTD	029453	5212596	7/20/2007	440.00
HD Supply Waterworks LTD	029453	5288434	7/20/2007	470.40
HD Supply Waterworks LTD	029453	5124712	7/20/2007	547.20
HD Supply Waterworks LTD	029453	5109387	7/20/2007	568.20
HD Supply Waterworks LTD	029453	5001205	7/20/2007	769.10
HD Supply Waterworks LTD	029453	5055876	7/20/2007	1,135.48
HD Supply Waterworks LTD	029453	5315619	7/20/2007	1,582.75
			Total	5,738.13
Hersey Meters	022078	1128570	2/3/2006	2,640.52
Hersey Meters	022212	1128569	2/10/2006	2,640.52
			Total	5,281.04



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Hertz Equipment Rental Corp	020168	99999999-001F	8/31/2005	7.22
Hertz Equipment Rental Corp	020168	99999999-002F	8/31/2005	41.75
Hertz Equipment Rental Corp	020168	07153661-001	8/31/2005	869.96
Hertz Equipment Rental Corp	020168	08801624-002	8/31/2005	4,069.80
Hertz Equipment Rental Corp	020168	08801624-001	8/31/2005	4,159.80
Hertz Equipment Rental Corp	020169	08801624-003	8/31/2005	4,069.80
			Total	13,218.33
National Business Furniture	046224	CV64729-OFF	2/16/2012	229.00
National Business Furniture	046224	CV764729-DMI	2/16/2012	2,104.63
National Business Furniture	046809	CV767687-TDQ	3/15/2012	4,533.81
National Business Furniture	046809	CV767687-ZPS	3/22/2012	465.75
National Business Furniture	046977	CV768615	4/12/2012	2,787.26
			Total	10,120.45
National Business Furniture	047374	CV771220-TDQ	6/14/2012	72.78
National Business Furniture	047374	CV771220-TDQ	6/14/2012	852.58
National Business Furniture	047374	CV771220-LES	6/14/2012	130.35
National Business Furniture	047652	CV772580-LES	6/14/2012	400.00
National Business Furniture	047652	CV772580-LES	6/14/2012	4,096.05
			Total	5,551.76
Pro/File Systems Inc	023315	12159	5/5/2006	4,850.00
Pro/File Systems Inc	023605	12191	6/16/2006	4,850.00
			Total	9,700.00
Southern Playgrounds Inc		2603	8/18/2006	5,000.00
Southern Playgrounds Inc		2604	8/18/2006	5,000.00
			Total	10,000.00
Sunbelt Rentals Inc	029237	10684497-001	6/29/2007	190.00
Sunbelt Rentals Inc	029237	9690491-002	6/29/2007	344.37
Sunbelt Rentals Inc	029237	9690491-001	6/29/2007	1,072.08
Sunbelt Rentals Inc	029237	9396947-005	6/29/2007	4,740.75
Sunbelt Rentals Inc	029237	9396947-004	6/29/2007	4,940.75
Sunbelt Rentals Inc	029237	10336153-001	6/29/2007	5,000.75
			Total	16,288.70
Sunbelt Rentals Inc	029951	9396947-007	8/3/2007	4,740.75
Sunbelt Rentals Inc		10336153-003	8/3/2007	4,800.75
			Total	9,541.50

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Sunbelt Rentals Inc		9396947-017	2/15/2008	840.00
Sunbelt Rentals Inc		13407259-001	2/15/2008	863.18
Sunbelt Rentals Inc		13407166-001	2/15/2008	1,163.91
Sunbelt Rentals Inc		10336153-008	2/15/2008	1,983.34
Sunbelt Rentals Inc		10336153-007	2/15/2008	4,840.75
			Total	9,691.18
Utilities Protection Ctr Inc	037277	A10186	1/8/2010	4,934.30
Utilities Protection Ctr Inc	037277	A10186	1/8/2010	4,934.31
			Total	9,868.61
Utilities Protection Ctr Inc	042489	A11273	2/3/2011	4,480.00
Utilities Protection Ctr Inc	042489	A11273	2/3/2011	4,481.69
			Total	8,961.69
Zambelli Fireworks Mfg Co Inc	014516	Deposit	6/18/2004	5,000.00
Zambelli Fireworks Mfg Co Inc	014516	Bal Due	6/25/2004	5,000.00
			Total	10,000.00
Zambelli Fireworks Mfg Co Inc	018615	Deposit-7/4 Evnt	5/13/2005	5,000.00
Zambelli Fireworks Mfg Co Inc	018615	Balance Due	6/24/2005	5,000.00
			Total	10,000.00

**Finding 5: Field Purchase Orders**

Field purchase orders are designed for small and low priced supply purchases to keep a construction-related job on task and productive. For example, a worker on a sewer line job may break his shovel. To keep the employee who can no longer work on the sewer line productive, the supervisor may authorize the worker to go to the closest hardware store or Home Depot and buy a new shovel. The procurement code does not mention rules governing field purchase orders; therefore, these purchases should be treated like any other purchase by the City and adhere to the procurement code.

The individual responsible for generating field purchase orders said field purchase orders should not exceed \$300 unless it is an emergency purchase. However, my investigation found that field purchase orders have been used for non-emergency purchases greater than \$300 and did not adhere to applicable procurement code requirements.

For the years 2000 through 2012 the city issued 21,384 field purchase orders. That is an average of 1,782 field purchase orders per year, 148 per month or assuming 20 work days per month, 7 field purchase orders written per work day for unplanned purchases. For example, Table 4 below lists the top 10 vendors that received the greatest number of field purchase orders from 2000 to 2012. The largest number of field purchase orders (1,934) was made to Office Depot Inc., totaling \$84,395.

Table 4 - Top 10 Vendors with the Greatest Number of Field Purchase Orders<sup>10</sup>

Table 4			
Rank	Vendor Name	Number of Field Purchase Orders	Total PO Amount
1	Office Depot Inc	1,934	\$ 84,395.53
2	East Point Hardware	1,115	20,791.10
3	Grainger	437	41,100.42
4	East Point Cycle & Key Inc.	404	12,171.49
5	Cintas Fire Protection #227	346	5,107.00
6	G & K Services	310	8,551.84
7	Quill Corporation	287	30,760.16
8	Home Depot Credit Services	280	31,892.91
9	East Point Auto Parts Inc.	258	15,011.12
10	Staples Advantage	215	7,360.44
	<b>Total</b>	<b>5,586</b>	<b>\$ 257,142.01</b>

A blanket order would have been the most efficient and code-compliant alternative. A blanket order can cover purchases made during a specified period of time versus purchase

<sup>10</sup> This is based upon field purchase orders issued from 2000 through 2012.

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orders for one specific purchase. For blanket orders, adherence to the threshold purchasing limits is based upon expected total purchases for the contract period. Therefore, in the case of Office Depot Inc., the sealed bid purchasing process would have been followed ensuring fair and competitive bids.

Field purchase orders can be used to circumvent taking contracts before the Council for review and approval. Table 5 shows the top 10 single field purchase order amounts. If you recall, field purchase orders are designed for small and low priced supply purchases to keep a construction-related job in the field on task and productive. For example, a worker on the sewer line breaks his shovel. To keep the employee productive, the supervisor may authorize the worker to go to the nearest hardware store or Home Depot and buy a new shovel.

However, as Table 5 shows a field purchase order was generated for Xerox Corporation in the amount of \$37,202.78 and for Masco Home Services for \$37,131.

Table 5 - Top 10 Single Field Purchase Order Amounts

Table 5					
Rank	Vendor Name	Field Purchase Order Number	Check Date	Check Number	Check Amount
1	Xerox Corporation	F14694	9/8/2011	2050888	\$ 37,202.78
2	Masco Home Services, Inc.	F14988	10/20/2011	2051697	37,131.80
3	Xerox Corporation	F14492	8/11/2011	2050308	15,227.00
4	Georgia Municipal Association	F12015	7/30/2010	2042405	11,768.72
5	Leadership Success International	F11021	11/6/2009	2037550	5,000.00
6	Xerox Corporation	F14539	8/18/2011	2050462	4,136.00
7	Niagara Conservation	F14838	9/29/2011	2051258	3,999.00
8	Diversified Companies, LLC	F11002	10/30/2009	2037378	3,960.00
9	Waterhaven	F11022	11/6/2009	2037592	3,500.00
10	Hodges Consulting Group Inc.	F11802	6/17/2010	2041566	3,500.00
<b>Total</b>					<b>\$ 125,425.30</b>

*Finding 6: Checks Disbursements Entered into Financial Statements via Journal Entry.*

From January 2007 through March 2013, the City of East Point paid over \$11.9 million to Camp Dresser & McKee, Inc., (CDM) for services provided. Of the \$11.9 million, \$6.9 million (58%) in payments were not entered through the normal check disbursement process. Instead, the payments were entered in batch amounts via a journal entry during 2008 through 2011.

This represented 85 different invoices that were not entered into the financial system through the normal check disbursement system; and resulted in CDM's vendor file (within the City's financial system) being understated by \$6.9 million. The vendor file is the source for generating financial reports such as year-to-date payments and the source for 1099 reporting to the Internal Revenue Service. Please note, CDM is exempted from 1099 reporting because it is a corporation.

In addition, the way the journal entries were prepared (for example see Exhibit 1), there were no references as to which vendor received the payments or invoice numbers paid, thereby requiring off-line record keeping and ad-hoc reporting to track total payments and details such as invoices and check numbers.

Table 6 illustrates the information that is provided by the City's financial reporting system when invoices are processed through the City's regular payables/disbursement system.

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Exhibit 1 - An Actual Journal Entry Prepared to Record CDM Check Payments

City of East Point, Georgia					
Journal Entries					
Group#					JE
Date	Account No.	Description	Debit	Credit	
12/31/2009	505-0000-117-76-10	Construction in Progress/1012AM	693,322.47		
12/31/2009	505-0000-117-76-10	Construction in Progress/1018ST	532,719.96		
12/31/2009	505-0000-117-76-10	Construction in Progress/1014SS	2,562,682.57		
12/31/2009	505-0000-117-76-10	Construction in Progress/1011WT	6,182.67		
12/31/2009	505-0000-111-11-41	Regions Bk/Capital Projects			3,794,907.67
<b>To record cash disbursements</b>					
	Check #	Project #	Amount		
	2557	1014SS	\$393,856.45		
	2558	1018ST	\$203,445.72		
	2559	1012AM	\$108,084.67		
	2560	1011WT	6,182.67		
	2561	1014SS SSES-WME	\$432,746.44		
	2562	10118ST	\$167,324.70		
	2563	1012AM	\$113,946.70		
	2564	1014SS:100009	\$150,446.62		
	2565	1018ST	\$34,419.80		
	2566	1012AM	\$94,776.60		
	2567	1014SS SSES-WME	\$482,944.87		
	2568	1018ST	\$48,449.92		
	2569	1012AM	\$124,524.75		
	2570	1018ST	\$79,079.82		
	2571	1014SS	\$285,542.30		
	2572	1012AM	\$111,275.41		
	2573	1014SS	\$817,146.89		
	2574	1012AM	\$140,714.34		
		<b>Total</b>	<b>\$3,794,907.67</b>		
				<b>3,794,907.67</b>	<b>3,794,907.67</b>
Prepared By: Jane Smith					
Approved by:					



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Table 6 Sample of Vendor Payment Reporting from the City's Financial System

Table 6					
Vendor Name	Invoice Number	Project Number	Check Date	Check Number	Invoice Amount
CDM	33	1012AM	6/30/2008	2559	\$ 28,012.69
CDM	33	1012AM	6/30/2008	2559	80,071.98
CDM	34	1012AM	6/30/2008	2563	20,688.89
CDM	34	1012AM	6/30/2008	2563	93,257.81
CDM	35	1012AM	6/30/2008	2566	75,934.22
CDM	35	1012AM	6/30/2008	2566	18,842.38
CDM	36	1012AM	6/30/2008	2569	17,139.83
CDM	36	1012AM	6/30/2008	2569	107,384.92
CDM	37	1012AM	6/30/2008	2572	40,540.41
CDM	37	1012AM	6/30/2008	2572	70,735.00
CDM	38	1012AM	6/30/2008	2574	60,587.79
CDM	38	1012AM	6/30/2008	2574	80,126.55
				Total	\$ 693,322.47



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Finding 7: Non-unique Vendor Numbers

In 2010 and 2011, 11,638 separate “vendors”<sup>11</sup> shared nine (9) vendor numbers. These nine vendor numbers were established to record miscellaneous one-time payments to vendors, residents and employees for transactions such as cash bonds, insurance refunds, employee reimbursements, etc. Ideally, each vendor should have its own unique vendor number but it is not always practical in cases of one-time checks to residents and employees. However, if a vendor is expected to receive more than two payments, the City should set-up an unique number for the vendor. In 2010 and 2011, over 127 vendors with non-unique vendor numbers received two or more check payments from the City.

The possible impact of non-unique vendor numbers is incomplete and inaccurate year-to-date vendor payment information to the Mayor, City Council, and Internal Revenue Service via 1099 reporting. For example in 2011, payments for eleven (11) invoices total \$2,810 to Martin’s Landscape. The vendor number used for all 11 invoices was 9999995: Miscellaneous – Park and Recreation. This vendor number was also used by 171 other vendors. Although required, no 1099 was issued to Martin’s Landscape in 2011.

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<sup>11</sup> In this instance, “vendors” is used to represent check payments to vendors, residents, and employees. The check payments were for refunds, employee reimbursements and services provided.





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Finding 8: Duplicate Payment of Invoices

Generally, duplicate payments to vendors are not fraud-related. Some experts estimate corporations make duplicate payments at the rate of 2%<sup>12</sup> of purchases made. Table 7 reflects a selection of vendors with duplicate invoice numbers and amounts. These would have to be investigated further to verify duplicate payments.

Table 7 - Select Vendors with Duplicate Invoice Numbers and Amounts

Vendor Name	Invoice Number	Check Date	Check Number	Invoice Amount
A Meredith Schneider Co LLC	0702791-IN	9/5/2008	2029567	1,480.68
A Meredith Schneider Co LLC	0702971-IN	10/10/2008	2030276	1,480.68
Atlanta Refuse Sales	6227	10/6/2006	2017418	1,365.89
Atlanta Refuse Sales	6227	10/20/2006	2017754	1,365.89
Atlanta Refuse Sales	5863	6/16/2006	2014717	1,375.00
Atlanta Refuse Sales	5863	6/16/2006	2014717	1,375.00
Ferguson Enterprises Inc	0427770	8/12/2010	2042652	486.37
Ferguson Enterprises Inc	0427770	7/15/2010	2042104	486.37
HVAC Service Inc	1645	10/6/2006	2017501	4,975.00
Brucker HVAC LLC	1645	12/8/2006	2018838	4,975.00
MSC Waterworks Jonesboro	2612067	9/16/2010	2043458	980.00
MSC Waterworks Jonesboro	2612067	11/23/2010	2044938	980.00
National Truck Parts of GA	1260670001	6/16/2006	2014791	1,441.28
National Truck Parts of GA Inc	1260670001	6/23/2006	2014963	1,441.28
National Truck Parts of GA	6268	10/6/2000	163636	1,885.52
National Truck Parts of GA Inc	6268	9/15/2000	163149	1,885.52
One Call Medical Inc	210297-001	9/10/2008	13355	1,129.66
One Call Medical Inc	210297-001	9/17/2008	13382	1,129.66
Parts Enterprises	7773	4/5/2002	176968	1,599.80
Parts Enterprises	7773	6/14/2002	178152	1,599.80
Parts Enterprises	7797	4/5/2002	176968	1,599.80
Parts Enterprises	7797	6/14/2002	178152	1,599.80

<sup>12</sup> Van Holsbeck, Mark and Johnson, Jeffrey Z., "Security in an ERP World" (May 2004) www.net-security.com



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Parts Enterprises	9120	5/9/2003	183659	537.60
Parts Enterprises	9120	5/23/2003	183945	537.60
Parts Enterprises	9067	5/9/2003	183659	470.40
Parts Enterprises	9067	5/23/2003	183945	470.40
Parts Enterprises	9049	5/9/2003	183659	368.20
Parts Enterprises	9049	5/23/2003	183945	368.20
Sprint	474871415-058	2/2/2007	2020282	885.61
Nextel Communications Inc	474871415-058	2/16/2007	2020592	885.61
Stone Mountain Car Care Ctr	072843	12/15/2006	2019105	423.04
Stone Mountain Car Care Ctr	072843	12/22/2006	2019443	423.04
Stone Mountain Car Care Ctr	072843	1/26/2007	2020067	423.04
Thyssenkrupp Elevator	89784	2/13/2004	188853	1,075.14
Thyssenkrupp Elevator	89784	4/9/2004	190023	1,075.14
Trend Publications LLC	6992	7/29/2005	2007671	3,793.00
Trend Publications LLC	6992	10/28/2005	2009647	3,793.00



## VI. Conclusion

As documented in the above findings, my investigation determined there were violations of the City's procurement codes. In addition, pertinent accounts payable files for the years 2008 through 2010 were incomplete or missing. This is a violation of the state of Georgia's record retention laws.

This report cannot be used for any other purpose than for that which originally precipitated this work. In addition, it cannot stand alone and must refer to the workpaper file for accurate interpretation.

## VII. Recommendations

The City of East Point has challenges that require strong ethical leadership from the offices of city manager and director of finance. With that as a core foundation I recommend the following:

- Establish an anonymous fraud hotline for reporting perceived fraud in connection with the City, its governing bodies or employees. The hotline should be monitored by a competent external company. An effectively monitored fraud hotline has been shown to be the most effective method for detecting fraud, and companies with hotlines estimate a 50% reduction in fraud related losses<sup>13</sup>.
- To maintain independence, the City's internal auditor should report directly to an audit committee lead by the mayor and staffed with council members.
- Update the City's financial accounting system to enhance the efficiencies of internal processes such as completing timely bank reconciliations.
- Train accounting staff to fully and effectively use the current or updated financial system.
- With the assistance and guidance of the external auditor, develop and implement a system of internal controls designed to minimize fraud risk and detect unreported financial transactions.
- As a routine duty, the internal auditor should perform a fraud risk assessment of the City, (or delegate this function to an external consultant), and based upon the results, develop a three-year internal audit plan to audit those areas identified as high risk.

<sup>13</sup> Based upon an annual survey conducted by the Association of Certified Fraud Examiners (ACFE).

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Appendix

Exhibit 1

Vendor Number	Vendor Name	Total Number of Invoices Without Purchase Orders (P.O.s)	Total Number of Invoices	Percent of Total Invoices Without P.O.s	Total Dollar of Invoices Without P.O.s	Total Invoice Dollar Amount	Percent of Total Dollars Without P.O.s
16175	Camp Dresser & McKee, Inc.	39	57	68%	3,482,433	3,620,890	96%
12588	Archer Western Contractors	7	10	70%	1,715,465	1,984,376	86%
17968	Metals & Materials Engineers	21	21	100%	1,489,540	1,489,540	100%
13606	Ruby-Collins, Inc.	11	12	92%	1,459,901	1,476,856	99%
1218	Equity Utility Service Company, Inc.	397	633	63%	1,437,415	2,325,882	62%
16462	Ronny D. Jones Enterprises, Inc.	10	10	100%	1,298,478	1,298,478	100%
12182	Solomn Corporation	81	99	82%	1,076,262	1,133,296	95%
17995	Jones, Andrew W. P.C.	8	8	100%	1,063,717	1,063,717	100%
1980	H.D. Supply Utilities, Ltd.	505	760	66%	1,044,089	1,557,974	67%
6935	Gresco Utility Supply, Inc.	614	736	83%	986,577	1,230,471	80%
15703	Sekisui SPR Americas, LLC	8	10	80%	864,024	906,177	95%
8446	Camp Dresser & McKee, Inc.	10	21	48%	841,242	1,085,812	77%
3644	Southern Electrical Equipment	427	557	77%	735,328	905,916	81%
16551	Mathews Contracting Company, Inc.	5	7	71%	609,808	804,401	76%
12908	Power Supply Company, LLC	227	256	89%	607,752	721,739	84%
2917	Wesco Distribution, Inc.	288	303	95%	411,948	439,053	94%
16313	FIA Card Services	1,854	2,740	68%	327,093	501,093	65%
1983	H.D. Supply Waterworks, Ltd.	122	296	41%	308,176	466,448	66%
16930	Moore Ingram Johnson & Steele,	4	4	100%	300,000	300,000	100%
3646	H.D. Supply Waterworks, Ltd.	138	311	44%	295,545	446,085	66%
12917	Site Engineering, Inc	3	9	33%	269,945	569,903	47%
18002	Engineering Strategies, Inc.	15	15	100%	202,860	202,860	100%
14664	International Brotherhood of P	195	195	100%	201,063	201,063	100%
1008	Delta Municipal Supply Company	145	159	91%	196,827	209,413	94%
12769	Peach State Ford Truck Sales I	6	22	27%	192,098	195,871	98%
3952	Tri State Utility Products, Inc.	155	190	82%	177,798	246,097	72%
1691	Gregory, Paul L.	258	258	100%	167,050	167,050	100%
7909	Athens Paper Company Atlanta	86	90	96%	130,188	131,007	99%
18001	Shaw Environmental & Infrastructure	9	9	100%	116,420	116,420	100%
13805	Diamond Distributors, Inc.	113	116	97%	105,172	105,672	100%

End of Report

