



**CITY OF ALBUQUERQUE
OFFICE OF INSPECTOR GENERAL**

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Inspector General

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Albuquerque, New Mexico

Memorandum of Investigation

FILE NO: OIG P17-209

DATE: June 6, 2017

SUBJECT: ACH Payment Related Fraud against the City of Albuquerque

STATUS: Closed

DAVID T. HARPER, INSPECTOR GENERAL
OFFICE OF THE INSPECTOR GENERAL

DISTRIBUTION: File

Introduction:

On March 28, 2017, the Office of Inspector General (OIG), City of Albuquerque (CABQ) received an email containing a memorandum and documents regarding a payment fraud scheme perpetrated against CABQ and totaling \$420,117.09. According to the memorandum, dated March 21, 2017, ESA Construction, Incorporated (ESA) contacted the CABQ Department of Municipal Development (DMD) on March 16, 2017, inquiring why they had not received payments for work completed on a City contract. DMD contacted the CABQ Accounts Payable Division (AP) to determine why the contractor had not received payments. In researching payments made, AP determined that the bank account deposit information for ESA had recently been changed. The new deposit information was not for ESA's bank, but instead for what appeared to be an account created for fraudulent purposes.

On March 29, 2017, CABQ Administration and the OIG met to discuss the best way to proceed with an administrative investigation that would focus on internal processes and policies that led to the opportunity that enabled the fraudulent scheme to be successful. It was also considered important to have the investigation completed quickly so that necessary changes to prevent further fraudulent activity could be quickly made. Due to limited OIG resources, it was agreed to have an outside investigator conduct the administrative investigation. In addition to focusing on processes and policies, it was agreed that the administrative investigation would also focus on AP personnel actions that led to the approval of the Automated Clearing House (ACH) change request, which resulted in payments intended for ESA's bank account to be deposited in a fraudulent account. A separate criminal investigation was also initiated by the Albuquerque Police Department (APD) in partnership with the Federal Bureau of Investigation (FBI).

A meeting was held with the City Attorney, the OIG and an outside investigator. It was agreed that the OIG and the City Attorney would receive updates during the investigation with an anticipated completion time of approximately two weeks.

Background:

On January 25, 2017, unidentified individual(s) sent an email to a former CABQ employee's inactive email address (most likely acquired from the outdated ACH Payment Form). The email and attachments were automatically returned to the sender, and then on February 2, 2017, were resent to a CABQ Senior Administrative Assistant (SAA) in the Accounting Services Division (ASD). On February 6, 2017, the SAA forwarded the email with attachments to the AP Coordinator. On February 7, 2017, the SAA gave the ACH Payment Form and copy of a blank check to the AP Finance Technician (FT) so that the change request could be processed.

On February 7, 2017, the FT received the ACH Payment Form from her AP Coordinator. The FT went into the "PeopleSoft" system (CABQ business application software) to verify that the Tax Identification number and vendor name on the ACH Payment Form matched the information in PeopleSoft. The information matched and the FT proceeded to update the information that was provided on the ACH Payment Form; no other verification was done. Four payments were made to the fraudulent account during a month's span.

On March 16, 2017, ESA contacted DMD to inquire why they had not received payments for the months of February and March. DMD contacted the AP Coordinator who then had DMD contact ESA for their account number and bank name. The AP Coordinator wanted to obtain the

bank information to verify that payments were getting sent to the correct bank account. The information received from ESA did not match that in PeopleSoft system. The AP Coordinator noticed there were notes in PeopleSoft system and that the ACH bank account information had been updated on February 7, 2017. The AP Coordinator contacted ESA to see if an ACH update had been submitted. ESA responded that they had not submitted any ACH update request.

From the date the bank information was changed four payments totaling \$420,117.09 had been paid to the fraudulent account.

OIG Review:

The OIG review of ACH bank deposit information forms revealed the process was manually accomplished and that the needed information to complete the request for change of deposit to another bank account was relatively simple to obtain from open sources. (See Exhibit 1)

The OIG determined the following “red flags” from the ACH Payment Form:

- Fraudulent email address (domain)
 - Actual contractor domain name: ESACONSTRUCTION.COM
 - Domain created: March 7, 2005
 - False vendor domain name: ESACONSTRUCTOININC.COM
 - Domain created: January 23, 2017
- The ACH Payment Form had outdated contact information
- The information could easily be obtained through the internet (See Exhibit 1)
- The check was generic and did not have company information on it
- The company contact on the ACH Payment Form is retired
- The bank listed on ACH Payment Form was incorrect for address given
- The bank routing number on the ACH payment form included a local address, but routing number was actually for a bank in Pennsylvania
- There was no attempt made by AP to contact vendor to verify bank account change

Note: The information gathered was forwarded to the outside investigator.

Internal Controls Update:

CABQ has revised the ACH Payment Form requiring more information from the Vendor and bank institution in order to verify that the requests are legitimate when requesting to change bank accounts. Written policies have also been updated to ensure that controls and procedures are in place. The ACH Payment Form has been taken off the CABQ.gov website.

The information in this memo was obtained by the OIG. The internal investigation completed by the outside investigator is Attorney/Client privilege at this time.

The criminal investigation is still ongoing with law enforcement.

City of Albuquerque Vendor ACH Payment Form

I here by authorize the *CITY OF ALBUQUERQUE* to initiate accounts payable payments through automatic bank deposits and, if necessary, adjustments to my account for payments made in error.

NEW:

UPDATED:

* - Required Information

CHECKING ACCOUNT INFORMATION

ACCOUNT NUMBER: *

COMPANY/ORGANIZATION NAME: *

COMPANY/ORGANIZATION PHONE: *

ACCOUNT NAME *

ABA ROUTING NUMBER: *

NAME OF BANK OR CREDIT UNION: *

BANK ADDRESS LINE 1: *

CITY AND STATE: *

ZIP CODE: *

COMPANY CONTACT: *

CONTACT PHONE: *

AUTHORIZED SIGNATURE: *

TITLE: *

DATE (MM/DD/YYYY): *

SOCIAL SECURITY OR FEIN NO: *

EMAIL:

PLEASE RETURN AN ORIGINAL, COMPLETED FORM, ALONG WITH **VOIDED CHECK, DIRECTLY TO THE ADDRESS BELOW TO INITIATE ACH PROCESSING SETUP. YOU WILL BE ESTABLISHED AS AN ACH VENDOR AND PAYMENTS WILL BE MADE VIA ACH UPON COMPLETION OF THE BANK VERIFICATION PROCESS. (POSTING TO BANK ACCOUNT IS WITHIN 48 HOURS FROM DATE OF TRANSFER) * VOIDED CHECK IS USED FOR VERIFICATION OF ACCT/RT NUMBERS ONLY IF YOU CANNOT PROVIDE ONE THIS WILL NOT HOLD UP THE PROCESS**

Questions regarding this form or your ACH transactions should be directed to the accounts payable department at the address/number below.

DFAS Accounts Payable Office
City of Albuquerque
PO Box 1985
Albuquerque, NM 87103

Phone: (505) 768-3471
Fax: (505) 768-3476
E-Mail: gmaurino@cabq.gov