



Garbage Truck Fraud - Account Payable Scam

UT Dallas Fraud Summit

March 29, 2019

In 2006, the City of El Paso began an audit on Garbage Truck Maintenance. The objectives of the audit was to review the costs involved in maintaining the Garbage Truck Inventory. The Environmental Services Department (ESD) was averaging over \$2 Million a year on maintenance.

The General Services Department was outsourcing the maintenance of Garbage Trucks to a local Vendor. GSD would upcharge the invoice by 10% to cover Admin Cost.

The ESD Director was very suspicious of the maintenance expense. She requested the audit to determine the validity of the maintenance cost.

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The final Audit Report was issued October 1, 2008. We had finished the report months earlier but were holding it because of the FBI Investigation.

The Audit Work Papers were used by the FBI in their investigation. The U.S. Attorney Office used the same Work Papers as evidence in the prosecution of the defendants.

The Audit Report was dated October 1, 2008. Timeframe FY 2006 to FY 2008.

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Audit Report Findings (Clues, Red Flags)

1. The General Services Department (GSD) was using a Contract authorized to buy parts, but was used to buy Labor Services too. The GSD Director approved the purchases. We identified \$61,295.00 in labor charges for the period under review.
2. GSD was not providing supporting documentation to User Departments for Labor & Parts Charges. We identified \$295,485.08 in Grab Arm Purchases.
3. We identified \$161,188.98 in the purchase of rebuilt Hydraulic Cylinders from the vendor that was to sell us new parts only.

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4. We identified \$10,126.77 in purchases for replacement Hydraulic Cylinders that appeared to be covered by the Manufacturer's Warranty.
5. Located 1 Invoice that contained labor charges for service work at \$80.00 per hour.

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Internal Controls Breakdown

- Materials Supervisor was not monitoring parts purchased from GOT Supply (Vendor).
- A total of \$456,674.06 in truck parts purchased, but not monitored in Fleet Focus.
- Warranties were not being monitored. Materials Supervisor purchased rebuilt hydraulic cylinders instead of filing Warranty Claims.
- Manufacturer told us that the City of El Paso Garbage Trucks had the highest # of Warranty Repairs in the USA.

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Perry Mason Moment

During a meeting with the Assistant U.S. Attorney & FBI Agents, we were shown a series of cancelled checks from the Vendor's Bank Account. Upon reviewing the information on check, an auditor identified the Garbage Truck Number in the Memo area. This information linked the entire crime together.

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Perry Mason Moment:

It linked that for each Garbage Truck serviced by the Vendor, a \$500 bribe was paid to 2 City Employees for the referral. The checks were made payable to the City Employees, relatives, and friends. They were all cashed at a Pawn Shop near the City Garage. For the period reviewed, \$72,000 in bribes were identified by the FBI.

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We located in our Accounts Payable Office, the original invoices and envelopes with the original “Post Mark”.

Included with this were the Cancelled Checks tying in the Vendor and 2 City Employees and you have:

- Bank Fraud
- Mail Fraud

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During the FBI Investigation several City Employees exchanged testimony for not being charged in the crime. The FBI never told us who they were. We had suspicion it was the General Services Director and some of the Administrative Staff.

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Prison Sentences

- Albert Torres, Age 52, received 18 months in Federal Prison. Pleaded guilty to selling parts to the City of El Paso at higher prices. Paying bribes to Lorenzo Avalos between Jan. 2006 to October 2008. Paid restitution.
- Lorenzo Avalos, Age 60+, received 36 months in Federal Prison. Pleaded guilty to receiving bribes from Albert Torres and paying more for parts. Paid restitution to the City of El Paso.
- Martin Valverde, Age unknown, received 18 months in Federal Prison. Pleaded guilty to receiving bribes from Albert Torres and paying more for parts. Cooperated with the FBI in collecting evidence.

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Restitution Collected

- \$126,313.66 from 1 person (Albert Torres ?)
- \$97,100.14 from 1 person (Lorenzo Avalos ?)
- \$223,413.80 Total

Did not pursue who paid what. I was too happy to ask the U.S. District Clerk.

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Extra Tidbits of information

- GOT Supply had a City's Garbage Truck with a Mechanic's Lien. Told them to keep it. Old Truck.
- GOT Supply had a contract to repair Military Equipment on Ft. Bliss. Loss that Federal Contract.
- GOT Supply went Bankrupt. Closed their doors.
- I received several threats through a 3rd Party. Nothing there.

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Thank You for attending

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