



THE CITY OF SAN DIEGO

DATE: May 18, 2009

TO: Honorable Members of the Audit Committee

FROM: Eduardo Luna, City Auditor

SUBJECT: **City Auditor's Quarterly Fraud Hotline Report – Qtr 3 Fiscal Year 2009**

The Office of the City Auditor administers the City's Fraud Hotline program. The primary objective of the Fraud Hotline is to provide a means for City of San Diego employees and citizens to confidentially report (1) any activity or conduct in which he/she suspects instances of fraud, waste, or abuse and (2) violations of certain federal or state laws and regulations (e.g., laws prohibiting discrimination or whistleblower laws).

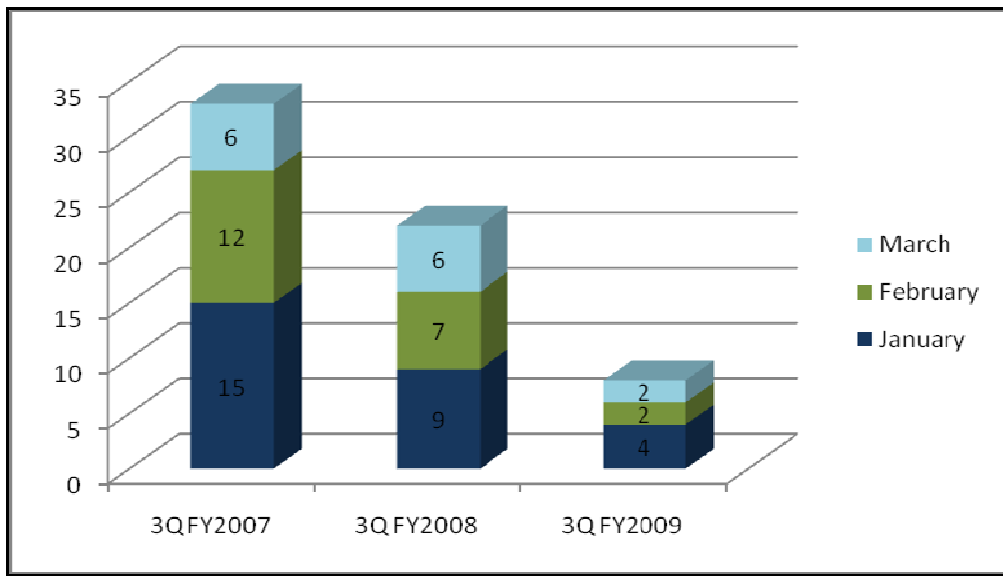
The Network Inc., an independent third-party provider accepts calls from City employees and the public, providing complete confidentiality at (866) 809-3500. The Network prepares a report for each complaint received and sends them to the Office of the City Auditor via email. Callers can choose to remain anonymous, and complaints can also be submitted directly to the Office of the City Auditor.

Fiscal Year 2009 Third Quarter Results

As shown in the following chart, during the third quarter of fiscal year 2009 (January – March 2009), 8 complaints were made to the Hotline, a 36 percent decrease from the third quarter in fiscal year 2008 in which 22 complaints were received. Additionally, as the chart shows, there has been a decrease in the number of calls received each month in the third quarter of fiscal year 2009 (January - 4 calls, February - 2 calls, and March - 2 calls). In the third quarter of fiscal year 2009, 2 of the 8 complaints received were made anonymously.



Number of Complaints Received Third Quarter of Fiscal Years 2007, 2008, 2009



Fiscal Year 2009 First Three Quarters Complaint Types

As shown in the following table, the majority of complaints made to the Hotline continue to be non-fraud, waste, or abuse-related. During the first, second and third quarters of fiscal year 2009 (July 2008 through March 2009), 119 complaints were received, and nearly 52 percent of the complaints pertain to: employee relations (24 percent); policy issues (20 percent); and customer relations (8 percent). As reported in previous quarterly updates, the Hotline Intake Review Committee reviews non-fraud related complaints and departments perform follow-up investigations. Although we received only 8 complaints in the third quarter, the average number of complaints for fiscal year 2009 is greater than 13 per month. Historically, the number of calls per quarter can fluctuate significantly. We have also found that some calls classified in a fraud-related category were immaterial, misclassified, or outside our purview.

Number of Complaints Received First Three Quarters of Fiscal Year 2009

Category	Quarter 1 July - Sept	Quarter 2 Oct - Dec	Quarter 3 Jan - Mar	Subtotal	Percent	City Auditor Investigations	Referred to Departments*
Employee Relations	18	10	1	29	24.4%	0	29
Policy Issues †	15	8	1	24	20.2%	3	21
Customer Relations ‡	6	2	2	10	8.4%	1	9
Fraud §	4	2	2	8	6.7%	4	4
Conflicts of Interest	5	2	0	7	5.9%	1	6
Discrimination	1	4	1	6	5.0%	0	6
Theft of Time	3	2	0	5	4.2%	0	5
Waste and Abuse **	1	4	0	5	4.2%	3	2
Retaliation of Whistleblowers	1	3	0	4	3.4%	0	4
Theft of Goods/Services	1	3	0	4	3.4%	1	3
Accounting / Audit Irregularities	3	0	0	3	2.5%	3	0
Safety Issues and Sanitation	2	1	0	3	2.5%	1	2
Sexual Harassment	1	2	0	3	2.5%	0	3
Substance Abuse	3	0	0	3	2.5%	0	3
Falsification of Records	0	2	0	2	1.7%	0	2
Wage/Hour Issues	0	1	1	2	1.7%	0	2
Workplace Violence	1	0	0	1	0.8%	0	1
Total	65	46	8	119	100%	17	102

* Four of these calls listed as referred to Departments were determined by the Intake Committee to be outside the purview of the Fraud Hotline.

† Three calls that were originally classified by The Network as “Policy Issues” were actually potential Fraud, Waste or Abuse calls.

‡ One call originally classified by The Network as “Customer Relations” was actually a potential “Waste” call.

§ Four calls that were classified by The Network as “Fraud” were not investigated by City Auditor staff because one was actually a “Policy Issue”, one allegation occurred too long ago to investigate, one was outside the City’s jurisdiction, and one reported a structure built without a permit that was referred to the City’s permitting Department. Also, in our April 6, 2009 memo regarding the handling of hotline complaints, we reported five Fraud complaints were being investigated by the City Auditor. However, one of those cases was reclassified by The Network as a “Theft of Time” complaint. The City Auditor determined this case was immaterial and it was referred to the Intake and Review Committee.

** Two calls that were classified by The Network as “Waste and Abuse” were not investigated by City Auditor staff because they were actually “Policy Issues”.

Fraud, Waste and Abuse Complaints Investigated by City Auditor

Since assuming responsibility for the Hotline in July 2008, City Auditor staff has investigated or is in the process of investigating 17 fraud related complaints. Of these 17, 11 were received in the first quarter, 5 were in the second quarter, and 1 was received in the third quarter of fiscal year 2009. During the first three quarters of fiscal year 2009, fraud related complaints requiring City Auditor investigation represent 14 percent of all complaints filed.

The following table shows the complaint status of the 17 City Auditor investigations by the category of hotline complaint.

Category	City Auditor Investigations	Complaint Substantiated/ Corrective Action Taken	Complaint Unsubstantiated	Not Enough Information Provided	Complaints Open and Unresolved
Policy Issues	3	1	1	0	1
Conflicts of Interest	1	0	1	0	0
Fraud	4	1	2	0	1
Waste and Abuse	3	1	1	1	0
Theft of Goods/Services	1	0	1	0	0
Accounting/Audit Irregularities	3	1	1	0	1
Safety Issues and Sanitation	1	0	0	1	0
Customer Relations	1	0	0	0	1
Total	17	4	7	2	4

Status of All Hotline Complaints Received Fiscal Year 2009 as of March 31

As reported, 119 complaints were made to the Hotline between July 2008 and March 2009. Of those complaints, 17 warranted City Auditor investigation, and 102 were immaterial or non-fraud related complaints that were referred by the Hotline Intake Committee to departments for investigation, or were outside the purview of the Fraud Hotline.

The following table shows the status of the 119 hotline complaints received. There are 93 complaints that have been closed and 26 complaints remain open. For the complaints that have been closed, 29 were substantiated and/or corrective actions were taken, 55 were unsubstantiated, 5 did not have enough information to permit an investigation, and 4 were outside the purview of the Fraud Hotline.

Complaint Status	City Auditor Investigations	Department Investigations	Total	Percent
Complaint Substantiated / Corrective Action Taken	4	25	29	24.4%
Complaint Unsubstantiated	7	48	55	46.2%
Not Enough Information Provided	2	3	5	4.2%
Complaint Outside the Purview of the Fraud Hotline	0	4	4	3.4%
Subtotal – Investigations Closed	13	80	93	78.2%
Complaints Open and Unresolved	4	22	26	21.8%
Total	17	102	119	100.0%

**City Auditor Investigations Substantiated / Corrective Action Taken Complaints
Fiscal Year 2009 – As of March 31, 2009**

- 1) A citizen alleged that the City’s Lifeguard Division’s Junior Lifeguard Program was holding fundraiser monies for months before depositing the checks received. The complaint was found to be accurate and we recommended the Junior Lifeguard Program adhere to Department policies for making deposits in a timely manner. The Department agreed to implement our recommendation. This Hotline report can be found on our website at: <http://www.sandiego.gov/auditor/pdf/hotlinereportjan16.pdf>

- 2) A prior fraudulent incident substantiated by a San Diego Police Department investigation was reported to the hotline. A City employee was terminated for theft of funds from a City work site. A complaint was made to determine if other undetected incidents of fraud may have been perpetrated by this employee. We did not find any other incidents of fraud; however, at the request of the Department, we are including a review the City’s pool fee collection process as part of our planned Park and Recreation Facilities Audit to ensure City pools have adequate controls in place to reduce the risk of similar fraud occurring in the future.

- 3) Our investigation of an allegation regarding the handling of valuable scrap metal at Point Loma was unsubstantiated, however we discovered that there are no specific management plans or procedures in place to ensure the proper tracking, recycling or reuse of scrap material. Based on our observations during our investigation, we recommended that MWWWD implement a process to manage and monitor scrap metal, specifically copper and aluminum at all facilities where the process might be lacking or non-existent. The department agreed to implement our recommendation. This Hotline report can be found on our website: at <http://www.sandiego.gov/auditor/pdf/hotlinememo-mwwd.pdf>

- 4) A citizen caller alleged that the City performed a duplicate and unnecessary replacement of a meter box causing waste of City resources. Our investigation concluded the allegation was substantiated. As a result, we expanded our testing to determine if the duplicate replacement was an isolated incident or occurring on a greater scale. We found

that approximately 92 addresses were proposed to have water meter box replacement work performed on meter boxes that had already been replaced or repaired within the last two years. We estimate the potential duplicate and unnecessary replacement costs for these 92 water meter boxes is at least \$30,728. We recommended the Water Department recover the cost of the unnecessary duplicate replacements from the contractor, implement more thorough procedures to monitor the project to prevent this from occurring in the future, and to monitor the project to ensure that complete meter boxes are not being replaced when repairs are sufficient to mitigate box problem. The Department partially agreed to implement our recommendations. This Hotline report can be found on our website: at http://www.sandiego.gov/auditor/pdf/hotlinememo_watermeterbox.pdf

Below is a summary of the 17 City Auditor Fraud Hotline investigations for fiscal year 2009, as of March 31, including the call category, a description of the complaint, and the case status.

City Auditor Investigations Summary – Fiscal Year 2009 as of March 31

No.	Call Category	General Description of Complaint	Outcome / Status
1	Policy Issues	Allegations that the Lifeguard Division held fundraiser monies for approximately two months prior to depositing	Complaint Substantiated / Corrective Action Taken
2	Accounting/Audit Irregularities	A theft of funds was substantiated by the Police. A complaint was made to determine if other fraud occurred.	Complaint Substantiated / Corrective Action Taken
3	Fraud	Allegations regarding the handling of valuable scrap metal at Point Loma	Complaint Substantiated / Corrective Action Taken
4	Waste and Abuse	Allegations that the City is performing duplicate and unnecessary replacement of meter boxes causing waste of resources	Complaint Substantiated / Corrective Action Taken
5	Policy Issues	Violation of city policy regarding disposition of monetary donations	Complaint Unsubstantiated
6	Waste and Abuse	Allegation of improper use of City assets	Complaint Unsubstantiated
7	Accounting/Audit Irregularities	Allegation of a department using improper accounting methods	Complaint Unsubstantiated
8	Fraud	Allegation of unethical processing of a retirement account	Complaint Unsubstantiated
9	Fraud	Allegation of a fraudulent request for City funds	Complaint Unsubstantiated
10	Conflicts of Interest	Allegation of policy violation regarding vendor selection	Complaint Unsubstantiated
11	Theft of Goods and Services	Allegation of improper transfer of financial liability to an outside agency	Complaint Unsubstantiated
12	Safety Issues and Sanitation	Allegation of improper use of City assets	Not Enough Information Provided

City Auditor Investigations Summary – Fiscal Year 2009 as of March 31 (Cont.)

No.	Call Category	General Description of Complaint	Outcome / Status
13	Waste and Abuse	Allegation of required repairs not being conducted as necessary	Not Enough Information Provided
14	Accounting/Audit Irregularities	Allegation of accounting irregularities by an outside agency receiving City funds.	Complaints Open and Unresolved
15	Customer Relations	Allegation of not adequately coordinating City repairs resulting in waste of resources	Complaints Open and Unresolved
16	Fraud	Allegation regarding the sale of a City asset	Complaints Open and Unresolved
17	Policy Issues	Allegation of employees being pressured to circumvent City policy	Complaints Open and Unresolved

Fraud and Non-Fraud Related Hotline Calls Are Currently Accepted

The Fraud Hotline is open to City employees, contractors, vendors, and the public to report suspected fraud, waste, and abuse involving City operations, programs, and or employees. Currently, the Fraud Hotline also accepts non-fraud related calls, such as employee relation issues or customer relation issues. Based on information provided by the caller to the Network, Inc, fraud hotline calls are classified in the following categories:

Fraud Related Categories	Non-Fraud Categories
1. Fraud	13. Customer Relations
2. Waste and Abuse	14. Discrimination
3. Accounting / Audit Irregularities	15. Employee Relations
4. Kickbacks	16. Policy Issues
5. Falsification of Company Records	17. Product Quality Concern
6. Fraudulent Insurance Claims	18. Sexual Harassment
7. Release of Propriety Information	19. Substance Abuse
8. Theft of Cash	20. Wage/Hour Issues
9. Theft of Goods and Services	21. Safety Issues and Sanitation
10. Theft of Time	22. Workplace Violence/Threats
11. Unauthorized Discounts	23. Retaliation of Whistleblowers
12. Conflict of Interest	

The Fraud Related Hotline Complaints Referred to Departments for Review

As shown in the following table, between July 2008 and March 2009, the Fraud Hotline received 34 complaints initially classified as fraud, conflict of interest, waste and abuse, theft of goods and services, theft of time, accounting/audit irregularities, and falsification of records. Of these fraud related complaints, the Office of the City Auditor initiated 12 investigations and referred or passed on 22 complaints because the complaints were outside our purview, misclassified, or not material in nature.

Fraud Related Complaint Type Category	Total	City Auditor Investigations	Referred to Departments for Investigation
Fraud	8	4	4
Conflicts of Interest	7	1	6
Waste and Abuse	5	3	2
Theft of Goods/Services	4	1	3
Theft of Time	5	0	5
Accounting / Audit Irregularities	3	3	0
Falsification of Records	2	0	2
Subtotal – Fraud Related Complaints	34	12	22
Other Non-Fraud Related Complaints	85	5	80
Total Complaints Received	119	17	102

Below is a summary of the 22 fraud related complains that were referred to City Departments for investigation for fiscal year 2009, as of March 31, including the call category, a description of the complaint, and the complaint status.

Fraud Related Department Investigations – Fiscal Year 2009 as of March 31

No.	Call Category	General Description of Complaint	Outcome / Status
1	Fraud	Allegation of structure built without permits. Person lives in California but claims out of state residency	Complaint Substantiated / Corrective Action Taken ††
2	Fraud	Disagreement over Homeowner Association Board Bylaws & Elections	Outside Purview of Hotline
3	Fraud	Allegation of Identity Theft	Outside Purview of Hotline
4	Fraud	Allegation of misrepresentation on Craigslist	Outside Purview of Hotline
5	Conflict of Interest	Allegation of displaying and selling personal items on City site	Complaint Substantiated / Corrective Action Taken ††

†† It was substantiated that a structure did not have a valid building permit. As a result of the investigation a permit was obtained.

‡‡ A perceived conflict of interest was substantiated, and the sale of goods on the City site has been discontinued.

Fraud Related Department Investigations – Fiscal Year 2009 as of March 31 (Cont.)

No.	Call Category	General Description of Complaint	Outcome
6	Conflict of Interest	Allegation of improper use of City time	Complaint Substantiated / Corrective Action Taken ^{§§}
7	Conflict of Interest	Allegation of unfair hiring decision	Complaint Unsubstantiated
8	Conflict of Interest	Allegation of workplace union activities	Complaint Unsubstantiated
9	Conflict of Interest	Allegation of firm doing work for a City Agency and developers	Complaint Unsubstantiated
10	Conflict of Interest	Allegation of unfair hiring decision	Complaint Unsubstantiated
11	Waste and Abuse	Allegation of personal use of work phone and computer	Complaints Open and Unresolved
12	Waste and Abuse	Allegation of repair of personal equipment at City facility	Complaints Open and Unresolved
13	Theft of Goods & Services	Allegation of violation of policy regarding lost and found items	Complaints Open and Unresolved
14	Theft of Goods & Services	Allegation of improper use of City vehicle	Complaints Open and Unresolved
15	Theft of Goods & Services	Allegation of one time theft of gasoline	Complaints Open and Unresolved
16	Theft of Time	Allegation of timecard reporting issue	Not Enough Information Provided
17	Theft of Time	Allegation of employee taking a leave of absence and reported the day as worked	Complaint Unsubstantiated
18	Theft of Time	Allegation of employee performing an inappropriate job task	Complaints Open and Unresolved
19	Theft of Time	Allegation of employee working unnecessary overtime	Complaint Unsubstantiated
20	Theft of Time	Allegation of timecard reporting issue	Complaint Unsubstantiated
21	Falsification of Records	Allegation of employee tricked into signing union petition	Complaint Unsubstantiated
22	Falsification of Records	Allegation of examination answer sheets disseminated to employees	Complaints Open and Unresolved

^{§§} It was substantiated that the use of flex time did not comply with City's payroll policy. A memo was issued by the Human Resources Director to all City managers outlining the policy and the need for compliance.

Conclusion

The Office of the City Auditor is dedicated to investing the staff resources necessary to investigate all of the reported claims of material fraud, waste and abuse. As of March 31, 2009 we have spent approximately 736 hours investigating 17 Fraud Hotline complaints, and 4 of those cases are still open and will require an estimated 240 hours to complete. We will also have to spend additional hours investigating the calls received in the final quarter of fiscal year 2009. Although there has been a downward trend in the number of complaints received, the numbers fluctuate greatly making it difficult to estimate the actual number that will be received during the remainder of the fiscal year. Currently, we do not have a dedicated Fraud Investigator on staff, and the time spent by audit staff investigating Hotline complaints is impacting our ability to complete our Annual Audit Work Plan, and we have been unable to investigate some cases in a timely manner. As a result, we have made the Audit Committee aware of our need for a full time Fraud Investigator position.

I will be happy to discuss this report at the next available Audit Committee meeting.



Eduardo Luna
City Auditor

cc: Honorable Mayor Jerry Sanders
Honorable City Council Members
Jay M. Goldstone, Chief Operating Officer
Mary Lewis, Chief Financial Officer
Jan Goldsmith, City Attorney
Andrea Tevlin, Independent Budget Analyst
Stanley Keller, Independent Oversight Monitor