THE CITY OF SAN DIEGO

DATE: July 19, 2011

TO: Honorable Members of the Audit Committee

FROM: Eduardo Luna, City Auditor

SUBJECT: **City Auditor's Quarterly Fraud Hotline Report – Qtr 4 Fiscal Year 2011**

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 an employee or citizen of the City of San Diego to confidentially report any activity or conduct—related to or involving City personnel, resources, or operations—for which he or she suspects instances of fraud, waste, or abuse.

California Government Code §53087.6(e)(2) states "Any investigative audit conducted pursuant to this subdivision shall be kept confidential, except to issue any report of an investigation that has been substantiated, or to release any findings resulting from a completed investigation that are deemed necessary to serve the interests of the public."

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

Fiscal Year 2011 Summary

The Fraud Hotline had 24 complaints open and unresolved on June 30, 2010 and received 60 new complaints relating to City operations during fiscal year 2011 for a total inventory of 84 complaints. Sixteen complaints received during fiscal year 2011 did not relate to City operations and were not counted in the inventory of 84 since no action or investigation was required by the City Auditor or the Departments.

As shown in Table 1 on the next page, seventy-five (75) complaints were closed during fiscal year 2011, and 25 of the complaints closed resulted in the complaint being substantiated and /or corrective action taken. One of every three complaints closed in fiscal year 2011 resulted in actions improving City operations.

Table 1 - Status of Fiscal Year 2011 Hotline Complaints Received and Unresolved Complaints from the Previous Year

Complaint Status	City Auditor Investigations	Referred to Dept	Sub-Total	Percent (City Operations Only)	Not Related to City Operations	Total
Complaints Unresolved 6/30/2010	9	15	24		0	24
Complaints Received in FY 2011	20	40	60		16	76
Subtotal	29	55	84		16	100
Complaints Closed FY 2011	-22	-53	-75		-16	-91
Substantiated/ Corrective Action	7	18	25	33.3%	0	25
Unsubstantiated	15	35	50	66.7%	16	66
Complaint Referred After Survey*	-1	1	0		0	0
Complaints Unresolved 6/30/2011	6	3	9		0	9

***Complaint referred to department after preliminary investigation by the City Auditor.**

Complaints Received in the Fourth Quarter of Fiscal Year 2011

During the fourth quarter of fiscal year 2011 (April 2011 – June 2011), 16 complaints were filed with the Hotline. Six of the complaints were categorized by the caller as Fraud-Related and 10 were categorized as Non-Fraud Related. Table 2 on the following page lists the number of complaints received by category and whether the complaint was investigated by the City Auditor, referred to the appropriate Department for resolution, or that the complaint did not relate to City operations. Of the 60 new City operations-related complaints received during fiscal year 2011, 24 (43.3%) involved a Fraud-Related issue.

Table 2 – Complaints Received in the Fourth Quarter of Fiscal Year 2011

Category: Fraud	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Sub-Total	Less: Non-City	FY 11 Total City	% of Total	City Auditor	Referred to Dept
Accounting/Audit Irregularities	2	0	0	2	4	0	4	6.7%	4	0
Fraud	4	1	2	2	9	-2	7	11.7%	6	1
Fraudulent Insurance Claims	1	0	0	0	1	0	1	1.7%	0	1
Theft of Goods/Services	2	2	1	1	6	-2	4	6.7%	1	3
Theft of Time	2	0	1	1	4	0	4	6.7%	0	4
Waste and Abuse	0	2	4	0	6	0	6	10.0%	5	1
Subtotal Fraud	11	5	8	6	30	-4	26	43.3%	16	10
Category: Non-Fraud										
Employee Relations	1	2	1	1	5	-2	3	5.0%	0	3
Customer Relations	0	4	5	4	13	-3	10	16.7%	1	9
Policy Issues	4	4	5	4	17	-3	14	23.3%	3	11
Retaliation of Whistleblowers	3	0	0	0	3	-2	1	1.7%	0	1
Safety Issues and Sanitation	1	0	2	1	4	-2	2	3.3%	0	2
Substance Abuse	1	0	0	0	1	0	1	1.7%	0	1
Wage/Hour Issues	2	0	0	0	2	0	2	3.3%	0	2
Workplace Violence/Threats	0	1	0	0	1	0	1	1.7%	0	1
Subtotal Non-Fraud	12	11	13	10	46	-12	34	56.7%	4	30
Total Complaints FY 2011	23	16	21	16	76	-16	60	100%	20	40

A caller to the Fraud Hotline can either make the complaint anonymously, or the caller can provide his or her identity and contact information. Table 3 below represents the breakdown of the caller profile by fiscal year.

Table 3 – Caller Profile by Fiscal Year

Fiscal Year	Anonymous		Identified		Total
2009	69	49%	71	51%	140
2010	28	46%	33	54%	61
2011	35	46%	41	54%	76

Status of Hotline Complaints Received in the Fourth Quarter of Fiscal Year 2011 and Unresolved Complaints from the Previous Quarter

As reported, 16 complaints were filed with the Hotline between April 2011 and June 2011. Two of these were not related to City operations, leaving 14 City-related complaints to be investigated. In addition, at the previous quarter-end (March 31, 2011), seven complaints remained open and unresolved for a total of 21 City-related open complaints that were active in the fourth quarter. Table 4 below summarizes the status of these 21 complaints. Nine of the 21 remain open and unresolved, and 12 were closed. Of the 12 that were closed, five were substantiated and/or corrective actions were taken and seven were unsubstantiated.

Table 4 – Status of Complaints Received in Fourth Quarter of Fiscal Year 2011 and Unresolved Complaints from the Previous Quarter

Complaint Status	City Auditor Investigations	Referred to Dept	Total City Related Complaints	Percent (City Operations Only)	Non-City Related Calls	Total
Complaints Unresolved 3/31/2011	6	1	7		0	7
Complaints Received 4th Qtr	5	9	14		2	16
Subtotal	11	10	21		2	23
Complaints Closed	-5	-7	-12		-2	-14
Substantiated/ Corrective Action	2	3	5	41.6%	0	0
Unsubstantiated	3	4	7	58.4%	0	0
Complaints Unresolved 6/30/2011	6	3	9		0	9

City Auditor Investigations Summary – Fourth Quarter of Fiscal Year 2011

Table 5 on the following page summarizes the status of the 11 active City Auditor Fraud Hotline investigations for the fourth quarter of fiscal year 2011 including the incident type, a general description of the complaint, and the case status.

Table 5 – Status of City Auditor Hotline Investigations

No.	Incident Type	General Description of Complaint	Outcome / Status
1	Waste and Abuse 907292434	Allegation of committing funds to projects that are not likely to come to fruition	Included in the Capital Improvement Program Performance Audit Corrective Action Taken
2	Waste and Abuse 114638660	Allegation relates to misuse of City time for personal gain	Complaint found to be Substantiated
3	Fraud 114982698	Allegation relates to fraudulent transactions with contractors	Complaint found to be Unsubstantiated
4	Waste and Abuse 115045859	Allegation relates to an abuse by employees temporarily occupying position above the employee's classification	Complaint found to be Unsubstantiated
5	Fraud 115007546	Allegation relates to misappropriation of grant funds	Complaint found to be Unsubstantiated
6	Accounting/Audit Irregularities 114042861	Allegation of misappropriation of City funds	Open/Unresolved
7	Fraud 115102160	Allegation of vendor submitting fraudulent claims for grant fund reimbursement	Open/Unresolved
8	Fraud 115141715	Allegation of vendor fraudulently billing citizen for services under City contract	Open/Unresolved
9	Accounting/Audit Irregularities 115236027	Allegation of accounting irregularities with non-profit under City contract	Open/Unresolved
10	Accounting/Audit Irregularities 115250128	Allegation of misappropriation of fees paid to the City	Open/Unresolved
11	Theft of Goods/Services 115262891	Allegation of employee thefts of City property	Open/Unresolved

City Auditor Substantiated Complaints

A Fraud Hotline complaint stating that Capital Improvement Program (CIP) funds are being wasted because the City is committing funds to projects that are not likely to come to fruition was referred to the audit team conducting a performance audit of the City's CIP, and corrective actions related to this complaint have been recommended. The audit found that the City does lack oversight of CIP to ensure projects are effectively identified and managed, leading to impediments throughout the process. The CIP audit report makes 24 recommendations for corrective actions to be taken. The audit report, including management's response, can be found on our website at:
http://www.sandiego.gov/auditor/reports/fy11_pdf/audit/11-027.pdf

The Office of the City Auditor conducted an investigation of an Environmental Services Department (ESD) employee in response to a Fraud Hotline complaint. The complaint alleged that an employee was paid for services rendered to an outside vendor while on City duty. Our investigation concluded that the allegation of employee malfeasance was substantiated. We found that the employee did not notify and obtain approval from the Department Director for outside employment per City regulations. In addition, we found documents indicating the employee was paid for City duty while also being paid by a vendor for work at a location away from the employee's City job site for the same days. The payments in question total $6,707. We also found a substantial number of email messages in the employee's City account that related to the employee's outside employment. We recommended the Department conduct an independent fact-finding, recoup all payments made for time not worked, and take appropriate disciplinary action based on the results of the fact-finding. We also recommended the Department issue a reminder to all staff regarding their responsibility to notify and obtain approval from the Department Director for any outside employment or business activity. ESD agreed to implement both of our recommendations. The Hotline Report of this investigation, including management's response, can be found on our website at:
http://www.sandiego.gov/auditor/reports/fy11_pdf/hotline/11-023_hotline_inv.pdf

Complaints Referred to Departments that were "Substantiated" and/or had "Corrective Actions Taken"

Non-material fraud, waste, or abuse complaints made to the Fraud Hotline are referred to the Intake and Review Committee, which forwards the complaint to the respective department for resolution. All callers to the Hotline are provided a report number and a date to call back for follow-up questions by the City Auditor or by the department to which the complaint has been referred.

The department is required to report its plan to resolve the matter back to the City Auditor and then submit a follow-up report when the final resolution is determined. The Intake and Review Committee will review the final resolution to ensure that the department has taken the proper actions to resolve the complaint. The City Auditor will follow up to ensure replies are received from the departments.

During the fourth quarter of fiscal year 2011, the Intake and Review Committee approved three resolutions from departments that indicated that the complaint was substantiated or corrective action(s) were taken as a result of the complaint. In order to maintain compliance with California law regarding confidentiality requirements for whistleblower hotlines and still provide the public with pertinent information, we have prepared Table 6 below with a general description of these complaints and the action taken by the departments.

Table 6 – Department Investigated Complaints that were Substantiated and/or had Corrective Actions Taken

No.	Incident Type	General Description of Complaint	Outcome / Status
1	Customer Relations 115066053	Allegation of poor customer service with regards to replacement of broken refuse container	The Department personally contacted citizen and resolved issue; the Department also issued reminder to all staff involved of the importance of communicating with customers in a thorough and polite manner. Corrective Action Taken
2	Policy Issues 115132555	Allegation of a business violating residential zoning codes.	Neighborhood Code Compliance conducted an inspection of the property and the determined that the citizen was in violation. A citation and referral to the City Attorney was made. Complaint found to be Substantiated
3	Customer Relations 115086448	Allegation of citizen receiving collections notices after the bill had been paid	Treasurer contacted citizen and resolved issue. Determined that problem occurred when citizen attempted to pay two accounts with one check. Corrective Action Taken

Conclusion

The Office of the City Auditor is dedicated to investigating all of the reported claims of material fraud, waste, and abuse. During fiscal year 2011, we spent approximately 1,556 hours administering the Fraud Hotline, coordinating Intake and Review Committee activities, and investigating Fraud Hotline complaints.

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

Respectfully Submitted,

Eduardo Luna

Eduardo Luna
City Auditor

cc: Honorable Mayor Jerry Sanders
Honorable City Council Members
Jay M. Goldstone, Chief Operating Officer
Wally Hill, Assistant Chief Operating Officer
Mary Lewis, Chief Financial Officer
Ken Whitfield, City Comptroller
Jan Goldsmith, City Attorney
Andrea Tevlin, Independent Budget Analyst