



THE CITY OF SAN DIEGO

DATE: November 15, 2011

TO: Honorable Members of the Audit Committee

FROM: Eduardo Luna, City Auditor

SUBJECT: **City Auditor's Quarterly Fraud Hotline Report – Qtr 1 Fiscal Year 2012**

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 a City employee or citizen to confidentially report any activity or conduct—related to or involving City personnel, resources, or operations—for which he or she suspect instances of fraud, waste, or abuse.

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.

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.”

City Administrative Regulation 95.60 (3.12) “strongly encourages” employees to fulfill their moral obligation to disclose improper governmental activities within their knowledge. The City Auditor ensures that calls to the Fraud Hotline are a viable means for employees and citizens to confidentially report fraud, waste and abuse affecting City resources. A Fraud Hotline awareness announcement was posted on the homepage of the City employee intranet site, CITYNET, on 7/26/2011. The announcement provided a link to the Quarterly Fraud Hotline Report for the fourth quarter of fiscal year 2011. Visits to this report during the period July 2011 through September 2011 increased to 257 from 175 visits made to the prior Quarterly Report during the period April 2011 through June 2011. Broader distribution among employees of Fraud Hotline results will reinforce the notion that action will be taken when fraud, waste, or abuse claims are reported.



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TO REPORT FRAUD, WASTE, OR ABUSE CALL OUR FRAUD HOTLINE (866) 809-3500



Complaints Received in the First Quarter of Fiscal Year 2012

During the first quarter of fiscal year 2012 (July 2011 – September 2011), 15 complaints were filed with the Hotline. Two (2) of the complaints were determined to allege material fraud, waste, and/or abuse and were assigned to the Office of the City Auditor for investigation. Six (6) were referred to City Departments for investigation through the Intake and Review Committee. These eight (8) complaints were added to the inventory of Fraud Hotline complaints. The remaining seven (7) of the 15 complaints received were non-City complaints or were not in the purview of the Fraud Hotline program. Two (2) of these complaints were allegations against sworn police officers and were referred directly to the Citizens Review Board on Police Practices (CRB). We do not take any further action once the Fraud Hotline complaint is referred to the CRB. Five (5) of the complaints were allegations that did not relate to City operations and were referred to the appropriate agency and closed with no further actions. Table 1 below summarizes the 15 complaints received during the first quarter of fiscal year 2012.

Table 1 – Complaints Received in the First Quarter of Fiscal Year 2012

Office of City Auditor Investigations	Qtr 1
Conflicts of Interest	2
Subtotal Material Complaints	2
Referred to City Departments for Investigation	
Customer Relations	2
Policy Issues	1
Fraudulent Insurance Claims	1
Waste and Abuse	2
Subtotal Non-Fraud or Non-Material Complaints	6
Total Complaints In Purview of Fraud Hotline	8
Non-City Complaints or Complaints Not in Purview of Fraud Hotline	
Referred to Proper Authority	7
Grand Total of Complaints Received	15

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 2 below represents the breakdown of the caller profile for all calls to Fraud Hotline by fiscal year.

Table 2 – 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
2012 (Qtr 1)	6	40%	9	60%	15

Status of Hotline Complaints Received in the First Quarter of Fiscal Year 2012 and Unresolved Complaints from the Previous Quarter

As reported, 15 complaints were filed with the Hotline between July 2011 and September 2011, and seven (7) of these were non-City complaints or were not in the purview of the Fraud Hotline program, leaving eight (8) new City-operations related complaints to be investigated. In addition, at the end of the previous quarter, nine (9) complaints remained open and unresolved for a total of 17 City-related open complaints that were active in the first quarter. Table 3 below summarizes the status of these 17 complaints. Ten (10) of the 17 remain open and unresolved, and seven (7) were closed. Of the seven (7) that were closed, two (2) were substantiated and corrective actions were taken, one (1) was unsubstantiated but the Department took preventative action, and the allegations made in four (4) complaints were unsubstantiated.

Table 3 – Status of Complaints Received in First Quarter of Fiscal Year 2012 and Unresolved Complaints from the Previous Quarter

Complaint Status	City Auditor Investigations	Referred to Dept	Total	Percent
Complaints Unresolved as of 7/1/2011	6	3	9	
Complaints Received in 1 st Qtr	2	6	8	
Subtotal	8	9	17	
Complaints Closed	-2	-5	-7	100%
Substantiated and Corrective Action Taken	0	2	2	28.6%
Unsubstantiated and Preventative Action Taken	0	1	1	14.3%
Unsubstantiated	2	2	4	57.1%
Complaints Unresolved as of 9/30/2011	6	4	10	

City Auditor Investigations Summary – First Quarter of Fiscal Year 2012

Table 4 below summarizes the status of the eight (8) active City Auditor Fraud Hotline investigations for the first quarter of fiscal year 2012, including the incident type, a general description of the complaint, and the case status.

Table 4 – Status of City Auditor Hotline Investigations

No.	Incident Type	General Description of Complaint	Outcome / Status
1	Conflict of Interest 115429988	Allegation of employee soliciting City Departments to purchase products from employee's outside business	Complaint Unsubstantiated
2	Conflict of Interest 115498670	Allegation relates to misuse of City time for personal gain	Complaint was duplicate of prior substantiated complaint. No further action necessary
3	Accounting/Audit Irregularities 114042861	Allegation of misappropriation of City funds	Open/Unresolved
4	Fraud 115102160	Allegation of vendor submitting fraudulent claims for grant fund reimbursement	Open/Unresolved
5	Fraud 115141715	Allegation of vendor fraudulently billing citizen for services under City contract	Open/Unresolved
6	Accounting/Audit Irregularities 115236027	Allegation of accounting irregularities with non-profit organization under City contract	Open/Unresolved
7	Accounting/Audit Irregularities 115250128	Allegation of misappropriation of fees paid to the City	Open/Unresolved
8	Theft of Goods/Services 115262891	Allegation of employee thefts of City property	Open/Unresolved

Complaints Referred to Departments that were “Substantiated” and Findings that Serve the Interests of the Public

Non-fraud, waste, or abuse complaints or non-material complaints reported to the Fraud Hotline are referred to the Intake and Review Committee, which forwards the complaints to the respective department for investigation. The department is required to report its resolution of the complaint to the City Auditor, who presents the resolution to the Intake and Review Committee. The Intake and Review Committee will review the final resolution to ensure that the department has taken the proper actions to resolve the complaint. A complaint whose allegations cannot be substantiated can still result in the Department taking proactive or preventative measures to reinforce a policy or procedure, or to improve customer service. The City Auditor will follow-up to ensure resolutions are received for all complaints sent to departments for investigation.

During the first quarter of fiscal year 2012, the Intake and Review Committee received two (2) resolutions from departments that indicated that the complaint was substantiated and corrective action(s) were taken as a result of the complaint, and received one (1) resolution that indicated that, although the complaint could not be substantiated, the Department took preventative action as a result of the complaint. In order to maintain compliance with California law regarding confidentiality requirements for whistleblower hotlines and still provide findings that serve the interests of the public concerning actions taken initiated by a Fraud Hotline complaint, we have prepared Table 5 below with a general description of these complaints and the action taken by the departments.

Table 5 – Department Investigated Complaints that were Substantiated and/or had Findings that Serve the Interests of the Public

No.	Incident Type	General Description of Complaint	Outcome / Status
1	Customer Relations 115439039	Allegation that there was a mattress dumped in a handicap space on a City Street	The Department dispatched the special pick-up unit to remove the article from the City street. Substantiated and Corrective Action Taken
2	Waste and Abuse 115586582	Allegation that the instructions on a City tax form were confusing	The Department revised the language in the instructions to more clearly describe tax rate computations per existing San Diego Municipal Code sections. Substantiated and Corrective Action Taken
3	Malfeasance 114877977	Allegation that an employee was speeding in a City vehicle	The Department’s investigation found the allegation unsubstantiated, but the employee was counseled to obey all traffic laws. Unsubstantiated and Preventative Action Taken

Conclusion

The Office of the City Auditor is dedicated to investigating all of the reported claims of material fraud, waste, and abuse related to City operations. During the first quarter of fiscal year 2012, we have spent approximately 342 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
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