



THE CITY OF SAN DIEGO

DATE: November 13, 2012

TO: Honorable Members of the Audit Committee

FROM: Eduardo Luna, City Auditor

SUBJECT: **City Auditor's Quarterly Fraud Hotline Report – Qtr 1 Fiscal Year 2013**

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.

The City's Fraud Waste and Abuse Hotline is operated pursuant to California Government Code §53087.6. The statute requires that investigations conducted pursuant to its authority be 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.

In order to maintain the highest level of transparency while adhering to the confidentiality requirements of §53087.6 we will begin to report the status on all complaints that are determined to be in the purview of the Fraud Hotline. The City Auditor has determined that it is in the public interest to receive information regarding all complaints that are investigated by the City Auditor or by the Departments under the aegis of the Intake and Review Committee.

The City Auditor will continue to create—and make public—reports for all complaints that have been substantiated. In addition, the City Auditor will provide summaries on all complaints received that are in the purview of the City's Fraud, Waste, and Abuse Hotline.



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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 2013

During the first quarter of fiscal year 2013 (June 2012 – September 2012), we received 50 Fraud Hotline complaints. Nine of the complaints were selected for investigation by the Office of the City Auditor. The Intake and Review Committee referred seven complaints to City Departments for investigation and resolution. City Auditor staff found that 31 complaints were not in the purview of the Fraud Hotline and three complaints made allegations not related to City operations. The 34 complainants were referred to the proper authorities.

The Public Utilities Department assisted with the Fraud Hotline marketing initiative by placing a notice about the Fraud Hotline in water bills beginning in March 2012. A total of 31 Fraud Hotline complaints received in first quarter of fiscal year 2013 were determined to be billing or leak inquiries by customers as opposed to substantive complaints of fraud, waste, and/or abuse. These 31 customer service-type inquiries were determined to not be in the purview of the Fraud Hotline and were forwarded to the Public Utilities Department. Table 1 below summarizes the 50 complaints received during the first quarter of FY 2013.

Table 1 – Complaints Received by Quarter in Fiscal Year 2012

Office of City Auditor Investigations	Qtr 1	% of FY2013 Total
Theft of Goods/Services	1	
Theft of Time	1	
Policy Issues	6	
Waste and Abuse	1	
Subtotal OCA Investigations	9	18%
City Department Investigations		
Customer Relations	5	
Waste and Abuse	2	
Subtotal Department Investigations	7	14%
Total Complaints Received In Purview of Fraud Hotline	16	32%
Non-City Complaints or Complaints Not in Purview of Fraud Hotline		
Referred to Proper Authority	34	68%
Total Complaints Received in Q1 FY 2013	50	100%

Status of Hotline Complaints Received in the First Quarter of Fiscal Year 2013 and Unresolved Complaints from the Previous Quarter

As reported, 50 complaints were filed with the Hotline between July 2012 and September 2012. It was determined that 34 complaints were not in the purview of the Fraud Hotline, leaving 16 complaints that were added to inventory.

In addition to the 16 complaints received that are in the purview of the Fraud Hotline, 24 complaints remained open and unresolved at the end of the previous quarter, for a total of 40 active complaints in the purview of the City’s Fraud Hotline in the first quarter. Table 2 summarizes the status of the 40 active complaints. Twenty-three (23) of the 40 remain open and unresolved, and 17 were closed. Of the 17 that were closed, the allegation in one complaint was substantiated, the allegations in 4 complaints were not substantiated but the Department took corrective or preventative action based on the information in the complaint, and the allegations made in 12 complaints were closed as unsubstantiated.

Table 2 – Status of Complaints Received in Fourth Quarter of Fiscal Year 2012 and Unresolved Complaints from the Previous Quarter

Complaint Status	City Auditor Investigations	Department Investigations	In Purview Total	Not In Purview of Fraud Hotline	Grand Total	Percent In Purview
Complaints Unresolved as of 7/01/2012	8	16	24	1	25	
Complaints Received In 4th Quarter	9	7	16	34	50	
Active Inventory	17	23	40	35	75	
Complaints Closed	-7	-10	-17	-35	-52	
Substantiated	1	0	1	0	1	5.9%
Unsubstantiated w/Corrective or Preventative Actions	3	1	4	0	4	23.5%
Unsubstantiated/Investigation Not Necessary	3	9	12	35	47	70.6%
Complaints Unresolved as of 9/30/2012	10	13	23	0	23	100.0%

City Auditor Investigations Summary – First Quarter of Fiscal Year 2013

Table 3 below summarizes the status of the 17 active City Auditor Fraud Hotline investigations for the first quarter of fiscal year 2013, including the incident type, a general description of the complaint, and the case status.

Table 3 – Status of City Auditor Hotline Investigations as of September 30, 2012

No.	Incident Type	General Description of Complaint	Outcome / Status/ Elapsed Days
1	Accounting/Audit Irregularities 116005801 Rec'd: 12/16/2011	Allegation of misstating accounting records in public reports	Allegation substantiated; Public Report issued 8/21/2012
2	Accounting/Audit Irregularities 114042861 Rec'd: 6/17/2010	Internal request by Department to assist with fraud risk assessment	Public Report Issued 9/11/2012; Corrective Action Taken by Department
3	Policy Issues 116875059 Rec'd: 7/26/2012	Allegation of misuse of Take-Home Vehicle	Corrective Action Taken by Department Closed: 8/27/2012
4	Waste and Abuse 116235836 Rec'd: 2/18/2012	Allegation of City funds being wasted on an unnecessary IT project	Department changed consultant and completed project and revised project planning procedures Corrective Action Taken Closed: 9/28/2012
5	Waste and Abuse 116463250 Rec'd: 4/13/2012	Allegation of poor oversight of project tracking of Department Policy	Department in process of revising procedures implementing policy when complaint received. Policy revised and implemented Unsubstantiated Closed 8/27/2012
6	Waste and Abuse 116760214 Rec'd: 6/27/2012	Allegation of IT Security policy violation	Evidence gathered did not support violation of IT Logon policies Unsubstantiated Closed: 9/11/2012
7	Accounting/Audit Irregularities 115250128 Rec'd: 5/26/2011	Internal request with recommendation follow-up and to assist with fraud risk assessment	Open/Unresolved

No.	Incident Type	General Description of Complaint	Outcome / Status/ Elapsed Days
8	Waste and Abuse 116154489 Rec'd: 1/27/2012	Allegation of purchases of unnecessary supplies and equipment	Open/Unresolved
9	Policy Issues 116666404 Rec'd: 6/4/2012	Allegation of permit processing irregularities	Open/Unresolved
10	Policy Issues 116832116 Rec'd 7/16/2012	Allegation of tenant water meter billing inequity	Open/Unresolved
11	Policy Issues 116846151 Rec'd 7/19/2012	Allegation of permit processing irregularities	Open/Unresolved
12	Theft of Goods/ Services 116872912 Rec'd 7/26/2012	Allegation of theft of City property	Open/Unresolved
13	Theft of Time 116903095 Rec'd 8/2/2012	Allegation of Phantom appointments and misuse of telecommuting policies	Open/Unresolved
14	Waste and Abuse 116915612 Rec'd 8/6/2012	Allegation of permit processing irregularities	Open/Unresolved
15	Policy Issues 116920837 Rec'd 8/7/2012	Allegation of permit processing irregularities	Open/Unresolved
16	Policy Issues 116957631 Rec'd 8/16/2012	Allegation of City Council improperly delegating authority to Mayor	Open/Unresolved
17	Policy Issues 117070161 Rec'd 9/13/2012	Allegation of permit processing irregularities	Open/Unresolved

City Auditor Public Reports

San Diego Convention Center Corporation Statistic Reporting

The Office of the City Auditor received a Fraud Hotline complaint on December 16, 2011 that alleged that the San Diego Convention Center Corporation (SDCCC) has been misstating the number of hotel room accommodations for conventions in its public reports in order to favorably portray the economic impact of the Convention Center and to justify the proposed

approximate \$550 million expansion. The complainant stated that the facts of the misstatement of hotel room-nights were published in a print and digital media article.

We found that the allegation that the SDCCC has misstated the actual hotel-room night totals to be substantiated. Specifically, we found that the Transient Occupancy Tax (TOT) and Total Tax Revenue statistics were based on attendance and spending per attendee averages, as opposed to actual hotel room-night figures. The SDCCC used attendance and spending per attendee averages to forecast and report economic impact statistics and hotel and sales taxes generated by events at the Convention Center.

http://www.sandiego.gov/auditor/reports/fy13_pdf/hotline/13-004_hotline.pdf

Park and Recreation Fraud Risk Assessment

In March 2011, the City Auditor issued a report titled, "Hotline Investigation of Misappropriation of City Funds." The report was issued after a Fraud Hotline investigation substantiated allegations that an employee may have been responsible for missing funds, making false entries into financial records, and concealing or destroying financial records from a recreation center. The missing funds totaled \$100,998.

Pursuant to conditions uncovered in this investigation, the Park and Recreation Director requested that the City Auditor conduct a fraud risk assessment with respect to cash handling practices in the City's recreation centers. The objective of the fraud risk assessment was to identify conditions at the recreation centers that heighten the risk of fraud so that management can remove much of the opportunity for fraud to occur, increase the chances of detecting fraud, and, at the same time, promote fraud awareness and prevention throughout the department. The fraud risk assessment determined that Park and Recreation can improve its cash handling procedures and internal controls in order to reduce the opportunity for fraud to occur.

http://www.sandiego.gov/auditor/reports/fy13_pdf/hotline/13-005.pdf

City Department Investigations Summary – First Quarter of Fiscal Year 2013

The City Auditor, through the Intake and Review Committee, reviews the final resolution of complaints investigated by the departments 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 corrective, proactive, or preventative measures to reinforce a policy or procedure or to improve customer service.

Table 4 below summarizes the status of the 23 active Fraud Hotline investigations being conducted by the departments for the first quarter of Fiscal Year 2013, including the incident type, a general description of the complaint, and the case status.

Table 4 – Status of Department-Investigated Fraud Hotline Complaints

No.	Incident Type	General Description of Complaint	Outcome / Status/Elapsed Days
1	Discrimination 116714303 Rec'd 6/15/2012	Allegation of ethnic imbalance with interview panel(s)	Department took Corrective Action with procedures to staff interview panels Closed 9/28/2012
2	Customer Relations 116709847 Rec'd 6/14/2012	Allegation of employee not at his/her assigned work station for significant periods of time.	Unsubstantiated; Department confirmed assigned tasks took employee away from work station Closed 7/18/2012
3	Customer Relations 116759301 Rec'd 6/27/2012	Allegation of Wastewater Truck parked in position not friendly to tourists	Unsubstantiated; Department confirmed necessary maintenance work at date, time of complaint Closed 7/18/2012
4	Employee Relations 116590172 Rec'd: 5/15/2012	Allegation of favoritism by supervisor	Unsubstantiated: Department conducted formal Fact-Finding Closed 8/15/2012
5	Fraudulent Insurance Claims 116610935 Rec'd 5/21/2012	Allegation of employee participating in physical activities while on industrial leave.	Unsubstantiated: Department determined employee attended lecture-only portion of training class Closed 8/15/2012
6	Theft of Time 116648107 Rec'd 5/30/12	Allegation of supervisor not providing adequate supervision to avoid conflicts	Unsubstantiated: Department confirmed proper supervisory practices Closed 8/15/2012
7	Customer Relations 116821621 Rec'd: 7/13/2012	Allegation of bait and switch tactic by pedicab driver	Unsubstantiated; Range of rates posted in pedicab Closed 8/29/2012
8	Customer Relations 116528951 Rec'd: 4/30/2012	Allegation of trash driver damaging trash can	Unsubstantiated; Customer advised of replacement procedures Closed 9/11/2012
9	Customer Relations 116901155 Rec'd: 8/2/2012	Allegation of unneeded landscape work and street renovation	Unsubstantiated; street renovation part of Master Plan; landscape not on City property Closed 9/11/2012

No.	Incident Type	General Description of Complaint	Outcome / Status/Elapsed Days
10	Waste and Abuse 116915829 Rec'd: 8/6/2012	Allegation of ineffective graffiti abatement program	Unsubstantiated; Caller's demeanor with Department abusive and some reported areas not in City Closed 9/12/2012
11	Safety and Sanitation Issues 116641608 Rec'd: 5/29/2012	Allegation of political candidate damaging City trees with campaign posters	Not enough Information; no address provided Closed: 9/28/2012
12	Conflicts of Interest 116250575 Rec'd: 2/22/2012	Allegation of violation of MOU	Open/Unresolved
13	116451284 Theft of Time Rec'd: 4/10/2012	Allegation of theft of time	Open/Unresolved
14	Customer Relations 116471149 Rec'd: 4/16/2012	Allegation of overcharging for water by HOA	Open/Unresolved
15	Safety Issues and Sanitation 116473070 Rec'd: 4/16/2012	Allegation of misuse of City property	Open/Unresolved
16	Customer Relations 116630255 Rec'd: 5/25/2012	Allegation of failure to replace broken water meter	Open/Unresolved
17	Customer Relations 116692929 Rec'd: 6/11/2012	Allegation of private contractors filing water tanker trucks at fire hydrants	Open/Unresolved
18	Customer Relations 116752381 Rec'd: 6/26/2012	Allegation of citizen dumping water in park putting eucalyptus trees at risk	Open/Unresolved
19	Wage/Hour Issues 116763722 Rec'd: 6/28/2012	Allegation of overtime being paid for hours not worked.	Open/Unresolved
20	Customer Relations 116792837 Rec'd: 7/6/2012	Allegation of referral to Collections without receiving an original bill	Open/Unresolved
21	Waste and Abuse 116912965 Rec'd: 8/6/2012	Allegation of contract mismanagement	Open/Unresolved

No.	Incident Type	General Description of Complaint	Outcome / Status/Elapsed Days
22	Customer Relations 117110597 Rec'd: 9/24/2012	Allegation of collection harassment	Open/Unresolved
23	Customer Relations 117116874 Rec'd: 9/25/2012	Allegation contesting Code Compliance citation	Open/Unresolved

Conclusion

The Office of the City Auditor is dedicated to investigating all of the reported claims of fraud, waste, and abuse related to City operations. During the first quarter of FY 2013, we have spent approximately 357 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 Members of the City Council
Jay M. Goldstone, Chief Operating Officer
Wally Hill, Assistant Chief Operating Officer
Ken Whitfield, City Comptroller
Jan Goldsmith, City Attorney
Andrea Tevlin, Independent Budget Analyst