



THE CITY OF SAN DIEGO

DATE: December 2, 2015

TO: Alia Khouri, Fleet Services Deputy Director
Kristina Peralta, Purchasing and Contracting Director

FROM: Eduardo Luna, CIA, CGFM, City Auditor
Office of the City Auditor

SUBJECT: Hotline Investigation of Misuse of Scrap Metal and Contract Deficiencies

The Office of the City Auditor received an anonymous Fraud Hotline report alleging that a City employee in the Fleet Services Division was storing scrap metal salvaged from repairs of City vehicles with the intent of selling the metal and using the proceeds for personal purposes. The report indicated that the metal was being stored in a vacant room, and that the scrap metals are normally placed in a bin for proper removal by the citywide bulk metal recycling vendor.

We determined that repair technicians were storing scrap aluminum with the intent of using the proceeds of the sale of the metal to fund a “recognition barbeque” for the shop staff. We found that two supervisors were aware of the planned use of the scrap metal, but they were not aware of the existing City policies that allow for staff recognition meals. The Fleet Services Division has no procedures in place regarding special recognition of employees.

While the dollar amount of the potential loss in this case was relatively small, and the sale was not completed, the fraud, waste, and abuse risks related to mishandling scrap metal can be substantial. We previously issued two prior Fraud Hotline investigation reports regarding scrap metal handling and internal controls (see our reports dated [January 29, 2009](#) and [July 21, 2010](#)).

During the course of this investigation, we also identified several deficiencies in the City’s described business relationship with a bulk scrap metal recycling company. We concluded that the City’s identified piggyback contract between the City and the bulk scrap metal recycling company is deficient. Purchasing and Contracting Department Procurement Specialists and management were notified, both by City staff and the

vendor, that there was no contract in place. Our investigation found that concerns were expressed regarding a lack of insurance, undefined pricing, and non-compliance with City policy. Our analysis of the City's identified piggyback contract also showed that City policy regarding the award and use of cooperative procurement contracts was not being followed. To date, Purchasing and Contracting staff have not established a valid contract with a metal recycling company. There has been no contract in place between the City and a bulk metal recycling company for over two years and eight months. Despite not having a contract in place, the vendor continues to provide bulk metal recycling services to the Public Utilities Department, Fleet Services, and other City facilities several times a month. The last four quarterly payments to the City from the vendor amounted to approximately \$117,000.

Recommendations and Management's Responses

We made the following three recommendations:

1. We recommend that the Fleet Division take immediate action to ensure that the scrap aluminum radiators and other parts identified in this report are recycled according to the normal procedures used for scrap metals.

Management's Response:

Fleet Services Division Management has taken immediate action in response to this discovery by implementing the following:

- a. *Fleet Services Management removed the radiators and other parts discovered in this audit and they were placed in the metal scrap bins and recycled appropriately.*
- b. *All supervisors have been trained on City policies and procedures regarding City property and proper disposal of City Property, specifically Administrative Regulation 45.50 Private Use of City Labor, Equipment, Materials and Supplies Prohibited. The supervisors are training their individual teams through tailgate sessions and will be completed in the next 60 days. Annual refresher training will be incorporated into other regular training.*
- c. *Improving identification and placement of scrap metal bins for increased visibility supporting supervisor control. The bins are being clearly marked and are clearly visible in central locations at each facility. Additionally, the storage locations of previously identified scrap metal are now occupied offices and will no longer be available to store any type of vehicle parts, (used or new).*
- d. *The Division is also implementing a parts exchange program whereby new parts will only be issued from the storeroom after the old part has been returned. This is part of a larger efficiency improvement effort for parts inventory and is ongoing as parts storage facilities are updated.*

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2. We recommend that Fleet Division management consider implementing an employee recognition and award program that is consistent with the City's policies and procedures related to special recognition of employees, including meal expenses, as described in Administrative Regulations 95.40 and 95.91.

Management's Response:

Fleet Services Division will be adopting the new City-wide Rewards and Recognition program which is scheduled to be presented to City Council this fiscal year.

3. We recommend that the Purchasing and Contracting Department initiate a competitive bid process, or establish a piggyback contract that complies with City policy, for citywide bulk metal recycling services.

Management's Response:

Though the SDMC does not impose competitive bidding requirements for revenue generating contracts under the purview of the Purchasing Agent, the Purchasing & Contracting Department agrees that it is in the best interests of the City to secure the best rate possible for recycled metals. An Invitation to Bid (ITB) will be released publicly on 11/23/2015 and will close on 12/10/2015. The resulting contract will be a single award to service multiple City departments requiring scrap metal hauling and recycling and will be administered through the Central Stores Division of Purchasing & Contracting. The contract will define specific reporting requirements from the successful bidder regarding revenue by department, by month.

We appreciate all of the assistance we received from the Fleet Services Division and Purchasing & Contracting Department during our investigation. Thank you.

Respectfully submitted,



Eduardo Luna
City Auditor

cc: Honorable Mayor Kevin Faulconer
Honorable Members of the City Council
Honorable Members of the Audit Committee
Scott Chadwick, Chief Operating Officer
Stacey LoMedico, Assistant Chief Operating Officer
Mary Lewis, Chief Financial Officer
Rolando Charvel, City Comptroller
Jan Goldsmith, City Attorney
Andrea Tevlin, Independent Budget Analyst