



THE CITY OF SAN DIEGO

DATE: March 28, 2017

TO: Stacey LoMedico, Assistant Chief Operating Officer

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

SUBJECT: Fraud Hotline Report of P-Card Abuse at the Department of Information Technology

The Office of the City Auditor received an anonymous Fraud Hotline report alleging that a Department of Information Technology (DoIT) manager intentionally overrode Procurement Card (P-Card) policies and internal controls. During the course of our investigation, we determined that the named manager, and two other senior managers had violated P-Card internal controls.

California Government Code §53087.6 prohibits the public disclosure of the identity of subject employees. A detailed, confidential report was provided to City management. Our investigation determined that the poor oversight of P-Card use has been ongoing for the last year and was reported to have been an issue for much longer.

We made one recommendation, and management agreed to implement that recommendation.



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In summary, we determined the following with respect to three Department of IT managers:

- One manager intentionally overrode P-Card internal controls regarding split transactions, after being specifically advised not to use the P-Card to make the purchase in question by the City's P-Card Administrator. A split transaction involves breaking up a high-dollar purchase into smaller transactions in order to circumvent the internal controls limiting the maximum dollar amount for a single transaction. The practice of splitting transactions is "strictly prohibited and viewed as a serious infraction" according to the City's Procurement Card Program Policies and Procedures Manual.
- A second manager was found to have been in possession of the P-Card assigned to a subordinate. City policy requires P-Cards to remain secured at all times to prevent unauthorized charges and fraud. When we asked the manager about inappropriate use of the P-Card in question, the manager did not disclose their own inappropriate use. As a separate City policy violation, the manager approved the use of a P-Card to pay for the purchase of services. All service procurements require a review by City departments to ensure that insurance, labor, and procurement policies are not violated. None of the required reviews took place with respect to the service purchase approved by the manager, and the manager did not have the authority to override the City's controls.
- A third manager was not honest and forthcoming regarding the misuse of the manager's assigned P-Card, and did not reveal prior internal control and policy violations that we had confirmed through independent sources and documents. For example, we identified over \$8,000 in charges made on the P-Card issued to the manager on a day when the manager was out of the office. The manager was responsible for reconciling the P-Card billing statements with receipts and would have been aware that other employees had accessed the P-Card and used it in the manager's absence.

While we did not identify fraudulent transactions such as personal purchases, our findings are especially concerning given the Department of Information Technology's responsibility for the City's information technology security, and the specific involvement by managers who have a significant role in the City's internal controls.

Recommendation and Management's Response:

1. **We recommend that the Assistant Chief Operating Officer take the appropriate corrective action with respect to the employees identified in the confidential report.**

Management agrees with the recommendation and will take the appropriate action as it relates to the personnel issues.

Target implementation date: May 1, 2017

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This investigation was conducted under the authority of California Government Code §53087.6 which states:

(e) (2) 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. In any event, the identity of the individual or individuals reporting the improper government activity, and the subject employee or employees shall be kept confidential.

(3) Notwithstanding paragraph (2), the auditor or controller may provide a copy of a substantiated audit report that includes the identities of the subject employee or employees and other pertinent information concerning the investigation to the appropriate appointing authority for disciplinary purposes. The substantiated audit report, any subsequent investigatory materials or information, and the disposition of any resulting disciplinary proceedings are subject to the confidentiality provisions of applicable local, state, and federal statutes, rules, and regulations.

Thank you for taking action on this issue.

Respectfully submitted,

A handwritten signature in black ink that reads "Eduardo Luna". The signature is written in a cursive, flowing style.

Eduardo Luna
City Auditor