



THE CITY OF SAN DIEGO

DATE: June 26, 2017

TO: Stacey LoMedico, Assistant Chief Operating Officer

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

SUBJECT: Fraud Hotline Investigation of a City Vendor

The Office of the City Auditor received a Fraud Hotline report regarding a City vendor. The report alleged that the vendor committed fraud during the bidding process and after the contract was awarded. The vendor is currently doing business with the City.

Our investigation determined that there is sufficient evidence to support the conclusion that the vendor, identified in a confidential report, made material false statements during the bidding process and submitted potentially-fraudulent documents to the City after the contract was awarded.

We also determined that the Purchasing and Contracting Department (P&C) could have discovered the false statements and potentially-fraudulent documents, but did not. As a result, the City was exposed to substantial risks from adverse legal actions. Although some industries have demonstrated higher risks for fraud and non-compliance, P&C management's current procedures do not apply additional scrutiny to City vendors in the identified high-risk lines of business. A detailed, confidential version of our report was submitted to City management.

We made four recommendations and management agreed to implement all four.

Recommendations and Management's Responses:

We recommend that the Assistant Chief Operating Officer:

1. Review the detailed information provided in the confidential version of our report and initiate permanent debarment proceedings with respect to the named vendor, as appropriate.

Management Response: Agree.

Purchasing & Contracting Department (P&C) and the City Attorney's Office have conducted a thorough, and independent investigation and will proceed with proper notice and action afforded under the San Diego Municipal Code.

Target Implementation Date: August 1, 2017

2. Review P&C's document processing procedures related to the named vendor to ensure that there were no improper actions taken by City employees.

Management Response: Agree.

P&C reviewed the activity of staff regarding document collection and screening for the vendors providing this line of business. There was no evidence of unusual or improper actions about the sequence of events. A separate report of the procedures followed will be provided to the Office of the City Auditor.

Target Implementation Date: August 1, 2017

3. Ensure that P&C takes steps to validate the current documents, identified in the confidential version of our report, for all existing vendors in the same line of business, through confirmation using independent data sources.

Management Response: Agree.

P&C has validated all documents for the existing vendors providing the same line of business in adherence to best and standard practices utilized by the department.

Target Implementation Date: August 1, 2017

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4. Ensure that P&C develops risk-based document validation procedures and implements the procedures on a routine basis.

Management Response: Agree.

P&C's Contract Compliance Unit's work plan for contract review will be risk based and all contract requirements (inclusive of insurance coverage) will be assessed. The Contract Compliance Unit has already reviewed service categories from a risk perspective and will continue to work on developing their risk based work plan to ensure that relevant, routine and timely contract monitoring is occurring to support our client departments.

Target Implementation Date: September 1, 2017

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The information in this report is being provided to you 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