



## THE CITY OF SAN DIEGO

DATE: October 1, 2014

TO: Honorable Members of the Audit Committee

FROM: Eduardo Luna, City Auditor

SUBJECT: **City Auditor's Quarterly Fraud Hotline Report – Qtr1 Fiscal Year 2015**

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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 suspects instances of fraud, waste, or abuse.

The City's Fraud, Waste, and Abuse Hotline is operated pursuant to California Government Code §53087.6. The Statute defines fraud, waste, or abuse as “any activity by a local agency or employee that is undertaken in the performance of the employee's official duties, including activities deemed to be outside the scope of his or her employment, that is in violation of any local, state, or federal law or regulation relating to corruption, malfeasance, bribery, theft of government property, fraudulent claims, fraud, coercion, conversion, malicious prosecution, misuse of government property, or willful omission to perform duty, is economically wasteful, or involves gross misconduct” §53087.6(f)(2).

The statute also 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.

The Network Inc., an independent third-party provider, accepts calls from City employees and the public at (866) 809-3500 or online at [www.sandiego.gov/auditor/](http://www.sandiego.gov/auditor/). Callers can choose to remain anonymous and all information provided via the Hotline will remain confidential. 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, or online by following a link labeled “Fraud, Waste, and Abuse Hotline” on the City Auditor's home page.



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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 2015**

During the first quarter of Fiscal Year 2015 (July 2014 – September 2014), we received 42 Fraud Hotline complaints. Ten complaints were investigated by the Office of the City Auditor. Thirteen complaints were presented to the Intake and Review Committee to be referred to City Departments for investigation and resolution. Nineteen complaints were not in the purview of the Fraud Hotline were referred to the proper authority. Table 1 below summarizes the types of complaints received during Fiscal Year 2015.

**Table 1 – Complaints Received in Fiscal Year 2015**

<b>City Auditor Investigations</b>	<b>Qtr 1</b>	<b>Total FY 15</b>
Customer Relations	1	1
Fraud	5	5
Theft of Goods/Services	2	2
Theft of Time	1	1
Waste and Abuse	1	1
<b>Subtotal OCA Investigations</b>	<b>10</b>	<b>10</b>
<b>City Department Investigations</b>		
Customer Relations	3	3
Employee Relations	2	2
Fraud	2	2
Miscellaneous	1	1
Policy Issues	1	1
Safety and Sanitation Issues	1	1
Waste and Abuse	3	3
<b>Subtotal Department Investigations</b>	<b>13</b>	<b>13</b>
<b>Total Complaints Received In Purview of Fraud Hotline</b>	<b>23</b>	<b>23</b>
Direct Referrals, Non-City Complaints or Complaints Not in Purview of Fraud Hotline	<b>19</b>	<b>19</b>
<b>Total Complaints Received in FY 15</b>	<b>42</b>	<b>42</b>

**Status of Hotline Complaints**

As reported, 42 complaints were filed with the Hotline between July 1, 2014 and September 30, 2014. It was determined that 19 complaints were not in the purview of the Fraud Hotline, leaving 23 complaints that were added to the inventory.

In addition to the receipt of 23 new complaints for investigation, eleven City-related complaints remained open and unresolved at the end of the previous quarter, totaling an active inventory of 34 complaints during the first quarter of Fiscal Year 2015. Table 2 summarizes the status of Fraud Hotline Complaints for the first quarter of Fiscal Year 2015.

Sixteen of the 34 active complaints remain open and unresolved, and 18 were closed. Five City Auditor investigations found that the allegations were unsubstantiated or were directly referred, and one was closed with Corrective Action. The allegations made in eight Department investigations were unsubstantiated or no further action was necessary, two were closed as substantiated, and two were closed with Corrective Action.

**Table 2 – Status of Fraud Hotline Complaints**

<b>Complaint Status</b>	<b>City Auditor Investigations</b>	<b>Referred to Dept</b>	<b>Total City-Related</b>	<b>Not In Hotline's Purview</b>	<b>Total</b>
Unresolved on 7/1/14	5	6	11	0	11
Received in 1 <sup>st</sup> Qtr	10	13	23	19	42
Subtotal – Active Inventory	<b>15</b>	<b>19</b>	<b>34</b>	19	53
Complaints Closed	-6	-12	<b>-18</b>	-19	-37
Substantiated	0	-2	-2	0	-2
Corrective Action	-1	-2	-3	0	-3
Unsubstantiated/other	-5	-8	-13	-19	-32
Unresolved on 9/30/14	<b>9</b>	<b>7</b>	<b>16</b>	0	16

**City Auditor Investigations Summary**

Table 3 summarizes the status of the fifteen active City Auditor Fraud Hotline investigations during the first quarter of Fiscal Year 2015, including the incident type, complaint #, date the complaint was received, and a general description of the complaint, case status, and the final resolution.

**Table 3 – Status of City Auditor Hotline Investigations**

No.	Incident Type	Complaint #	Received	Date	Status/Outcome	Date
<b>Allegation/Outcome</b>						
1	Accounting Irregularities	119757157	Received:	5/28/14	Closed: Corrective Action	7/14/14
<p>Report of accounting irregularities related to federal seized assets funds. Our investigation confirmed the Comptroller’s conclusion that the \$1 million difference between the Fiscal Year 2010 ending balance and the Fiscal Year 2011 beginning balance in the Federal Report relating to Treasury funds was the result of a typographical error.</p> <p>Our investigation also determined that:</p> <ol style="list-style-type: none"> <li>1. Federal revenues were not recorded in the appropriate segregated City Funds for Fiscal Years 2006 through 2011.</li> <li>2. Both the Federal Report and the City’s Seized Assets-Treasury Fund for Fiscal Year 2011 omitted \$12,500 in revenue received from the U.S. Treasury.</li> </ol> <p>A public report was issued on 7/10/14 and can be found at:</p> <p><a href="http://www.sandiego.gov/auditor/reports/fy15_pdf/hotline/15-002_Federal_Seized_Assets.pdf">http://www.sandiego.gov/auditor/reports/fy15_pdf/hotline/15-002_Federal_Seized_Assets.pdf</a></p>						
2	Fraud	119975761	Received:	7/16/14	Closed: Unsubstantiated	7/29/14
<p>Allegation that two former City employees violated California Government Code section 1090, which states “city officers or employees shall not be financially interested in any contract made by them in their official capacity...”</p>						
3	Theft of Goods/Services	119921075	Received:	7/3/14	Closed: Unsubstantiated	9/10/14
<p>Allegation of contractor fraud involving a Department employee.</p>						
4	Theft of Goods/Services	119921415	Received:	7/3/14	Closed: Unsubstantiated	9/10/14
<p>Allegation of theft of City property and unauthorized purchases using a City Procurement Card.</p>						

No.	Incident Type	Complaint #	Received	Date	Status/Outcome	Date
<b>Allegation/Outcome</b>						
5	Waste and Abuse	119970363	Received:	7/15/14	Closed: Direct Referral	7/22/14
Allegation of unwarranted Code Enforcement Violations were referred to the Office of the City Attorney.						
6	Fraud	119838941	Received:	6/16/14	Closed: Direct Referral	9/10/14
Allegation that a nonprofit that contracts with the City is being mismanaged was referred to the Attorney General's Charitable Trusts Section for investigation.						
7	Policy Issues	117539722	Received:	1/11/13	Open/Unresolved	
Allegation of improper building permit process.						
8	Policy Issues	119176970	Received:	1/21/14	Open/Unresolved	
Department request for Fraud Risk Assessment.						
9	Policy Issues	119873674	Received:	6/23/14	Open/Unresolved	
Allegation that a citizen received multiple parking citations due to the unavailability of handicapped parking spaces.						
10	Customer Relations	119975120	Received:	7/16/14	Open/Unresolved	
Allegation regarding Neighborhood Code Compliance and poor interactions with business owners.						
11	Theft of Time	120018746	Received:	7/25/14	Open/Unresolved	
Allegation that an un-identified City employee is working for a different employer while on City time.						
12	Fraud	120093378	Received:	8/11/14	Open/Unresolved	
Allegation that internal controls over cash handling are not being practiced at a City facility.						
13	Fraud	120092309	Received:	8/11/14	Open/Unresolved	
Allegation of City employees not working for several hours at a time.						
14	Fraud	120219954	Received:	9/8/14	Open/Unresolved	
Allegation of fraud committed by a City official.						
15	Fraud	120266002	Received:	9/17/14	Open/Unresolved	
Allegation of fraud related to the City's contracting process.						

**City Department Investigations Summary**

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 nineteen active Fraud Hotline investigations conducted by the Departments during the first quarter of Fiscal Year 2015, 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	Complaint #	Received	Date	Status/Outcome	Date
<b>Allegation/Outcome</b>						
1	Safety Issues	119704930	Received:	5/16/14	Closed: Substantiated	7/2/14
Allegation of poor judgment and unsafe behavior by a supervisor was substantiated and resulted in disciplinary action.						
2	Fraud	120017344	Received:	7/25/14	Closed: Substantiated	8/28/14
Allegation that a private company is using a City-owned hangar at no cost was substantiated and the private company was issued an invoice totaling \$1,200 to reimburse the City for the use of the hangar.						
3	Customer Relations	119640519	Received:	5/2/14	Closed: Corrective Action	7/2/14
Allegation of unwanted email from Friends of the San Diego Public Library was investigated and the complainant's email address was removed from the list.						
4	Theft of Time	119863894	Received:	6/20/14	Closed: Corrective Action	9/10/14
Allegation of personal business being conducted on City time, using City resources; also complaints regarding management. The allegations were investigated and the Department's staff were formally reminded of the City's policy on appropriate and inappropriate internet use.						
5	Policy Issues	119862557	Received:	6/20/14	Closed: Unsubstantiated	7/16/14
Allegation that candidate for a position is not qualified.						
6	Fraud	119971891	Received:	7/16/14	Closed: Unsubstantiated	7/30/14
Allegation regarding a fraudulent insurance claim.						

No.	Incident Type	Complaint #	Received	Date	Status/Outcome	Date
<b>Allegation/Outcome</b>						
7	Waste	119756834	Received:	5/28/14	Closed: Unsubstantiated	7/30/14
Allegation that a City department is building an unnecessary facility.						
8	Employee Relations	119923026	Received:	7/4/14	Closed: Unsubstantiated	7/30/14
Allegation of unfair Department promotions process.						
9	Conflict of Interest	119787338	Received:	6/4/14	Closed: Unsubstantiated	8/15/14
Allegation of a conflict of interest in a promotion was referred to the Ethics Commission and found to be unsubstantiated.						
10	Employee Relations	120030707	Received:	7/29/14	Closed: Unsubstantiated	9/10/14
Allegation of potential future age discrimination in a promotion decision.						
11	Miscellaneous	120106234	Received:	8/13/14	Closed: Unsubstantiated	9/10/14
Allegation that City employee has criminal history incompatible with job duties.						
12	Waste and Abuse	120038519	Received:	7/30/14	Closed: No Further Action	9/10/14
Allegation that an emergency glass repair vendor overcharged for work performed at the direction of the San Diego Police Department. An investigation determined that all Department procedures were followed appropriately. The complainant was provided with referrals to dispute the charges.						
13	Customer Relations	119970025	Received:	7/15/14	Open/Unresolved	
Allegation that street repair crew left a mess on a resident's property.						
14	Customer Relations	119983611	Received:	7/18/14	Open/Unresolved	
Allegation that the "No Overnight Camping" Municipal Code is not being enforced in a City park.						
15	Waste and Abuse	120029415	Received:	7/28/14	Open/Unresolved	
Allegation that an unpaid water bill amounted to \$2,400 before the water service was turned off.						
16	Waste and Abuse	120029326	Received:	7/28/14	Open/Unresolved	
Allegation that a broken water meter caused a high water bill and the bill was not adjusted after the meter was replaced.						

No.	Incident Type	Complaint #	Received	Date	Status/Outcome	Date
<b>Allegation/Outcome</b>						
17	Customer Relations	120146507	Received:	8/22/14	Open/Unresolved	
Allegation that City policy was not followed in a construction contract.						
18	Safety Issues and Sanitation	120163468	Received:	8/26/14	Open/Unresolved	
Allegation of illegal dumping.						
19	Policy Issues	120222420	Received:	9/9/14	Open/Unresolved	
Allegation regarding personal use of a City vehicle.						

### Conclusions

The Office of the City Auditor is dedicated to ensure that all reported claims of fraud, waste, and abuse related to City operations are investigated and properly resolved. In Fiscal Year 2015, we have applied approximately 354 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 Kevin Faulconer  
Honorable Members of the City Council  
Scott Chadwick, Chief Operating Officer  
Stacey LoMedico, Assistant Chief Operating Officer  
Jan Goldsmith, City Attorney  
Andrea Tevlin, Independent Budget Analyst