



THE CITY OF SAN DIEGO

DATE: October 21, 2010

TO: Honorable Members of the Audit Committee

FROM: Eduardo Luna, City Auditor

SUBJECT: **City Auditor's Quarterly Fraud Hotline Report – Qtr 1 Fiscal Year 2011**

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 City of San Diego employees and citizens to confidentially report any activity or conduct in which he/she suspects instances of fraud, waste, or abuse.

The Network Inc., an independent third-party provider, accepts calls from City employees and the public, providing complete confidentiality at (866) 809-3500. The Network prepares a report for each complaint received and sends them to the Office of the City Auditor via email. Callers can choose to remain anonymous, and complaints can also be submitted directly to the Office of the City Auditor.

In response to the San Diego County Grand Jury recommendation # 10-64 a link to the Fraud Hotline was added to the Home page of the City website. The City Television Network (Channel 24) also has a graphic it periodically displays with the Fraud Hotline toll-free telephone number. We are also working on implementing a form that would also allow employees and citizens to anonymously file a complaint from a page on the City website.



Fiscal Year 2010 First Quarter Results by Complaint Types

During the first quarter of FY 2011, (July 2010 – September 2010) 23 complaints were filed with the Hotline. Eleven of the complaints were categorized as Fraud-Related and 12 were categorized as Non-Fraud Related. The following table lists the number of complaints received by category and whether the complaint was investigated by the City Auditor, referred to the appropriate Department for resolution, or was a complaint that did not relate to City operations.

Table 1

Category: Fraud	Qtr 1	%	City Auditor	Referred to Dept	Non-City
Accounting/Audit Irregularities	2	8.70%	2	0	0
Fraud	4	17.39%	2	0	2
Fraudulent Insurance Claims	1	4.35%	0	1	0
Theft of Goods/Services	2	8.70%	0	2	0
Theft of Time	2	8.70%	0	2	0
Subtotal Fraud	11	47.83%	4	5	2
Category: Non-Fraud					
Employee Relations	1	4.35%	0	1	0
Policy Issues	4	17.39%	2	2	0
Retaliation of Whistleblowers	3	13.04%	0	1	2
Safety Issues and Sanitation	1	4.35%	0	0	1
Substance Abuse	1	4.35%	0	1	0
Wage/Hour Issues	2	8.70%	0	2	0
Subtotal Non-Fraud	12	52.17%	2	7	3
Total Complaints FY11 Qtr 1	23	100.0%	6	12	5

Status of Hotline Complaints Received in the First Quarter of FY 2011 and Unresolved Complaints from the Previous Year

As reported, 23 complaints were made to the Hotline between July 2010 and September 2010. In addition, at the end of the previous fiscal year ended June 30, 2010, 24 complaints remained open and unresolved for a total of 47 complaints. Table 2 below summarizes the

October 21, 2010

status of these 47 complaints. Twenty-four (24) of the 47 remain open/unresolved and 23 were closed. Of the 23 that were closed, 6 were substantiated and/or corrective actions were taken, and 17 were unsubstantiated.

Table 2

Complaint Status	City Auditor	Referred to Departments	Non-City Operation	Total	%
Complaints Unresolved 7/1/2010	9	15	0	24	51.0%
Complaints Received in 1st Qtr	6	12	5	23	49.0%
Subtotal	15	27	5	47	100.0%
Complaints Closed	-4	-15	-4	-23	
<i>Substantiated/Corrective Action</i>	<i>1</i>	<i>5</i>	<i>0</i>	<i>6</i>	<i>26.1%</i>
<i>Unsubstantiated</i>	<i>3</i>	<i>10</i>	<i>4</i>	<i>17</i>	<i>73.9%</i>
Complaints Referred after survey*	-1	+1			
Complaints Unresolved 9/30/2010	10	13	1	24	

*Complaint referred to department after preliminary investigation by the City Auditor

City Auditor Investigations Summary – Through the First Quarter of Fiscal Year 2011

Table 3 below is a summary of the status of the 15 City Auditor Fraud Hotline investigations through the end of the first quarter of fiscal year 2011 (September 30, 2010), including the call category, a description of the complaint, and the case status.

Table 3

No.	Call Category	General Description of Complaint	Outcome / Status
1	Waste and Abuse 113341715	Allegation of the proceeds of scrap metal sales not deposited to City general fund	Complaint to be Substantiated
2	Fraud 113672262	Allegation of lack of fiscal control in managing City contracts	Complaint to be Unsubstantiated
3	Fraud 114090203	Allegation relates to overcharging citizens by City contractor	Complaint to be Unsubstantiated
4	Accounting/Audit Irregularities 114326799	Allegation relates to Transient Occupancy Tax issues	Complaint to be Unsubstantiated
5	Theft of Time 113771077	Allegation relates to employees not observing proper tour of duty	Referred to Department after preliminary investigation
6	Customer Relations 901135085	Allegation of lack of coordination of projects that require street excavation	Open/Unresolved

7	Customer Relations 905074206	Allegation of lack of coordination of projects that require street excavation	Open/Unresolved
8	Waste and Abuse 907292434	Allegation of committing funds to projects that are not likely to come to fruition	Open/Unresolved
9	Fraud 113058084	Allegation of misappropriation of City funds	Open/Unresolved
10	Fraud 113304452	Allegation of lack of fiscal control in managing City contracts	Open/Unresolved
11	Accounting/Audit Irregularities 114042861	Allegation of misappropriation of City funds	Open/Unresolved
12	Fraud 114220637	Allegation relates to City contract bidding irregularities	Open/Unresolved
13	Policy Issues 114220720	Allegation relates to inappropriate extension of temporary promotions	Open/Unresolved
14	Accounting/Audit Irregularities 114326757	Allegation relates to reimbursement timing issues with City contracts	Open/Unresolved
15	Policy Issues 114364469	Allegation relates to mismanagement at City facility	Open/Unresolved

City Auditor Substantiated Complaints

The Office of the City Auditor conducted an investigation in response to a complaint made to the City's Fraud Hotline. The complaint alleged that General Services Department employees sold scrap metal salvaged from City projects for approximately \$5,000 and intentionally diverted \$3,000 of the proceeds of the sale to purchase raffle items for the raffle held at the Safety Awards banquet held in December 2009. The investigation concluded that the allegation is substantiated. We made six recommendations for the General Services Department to manage and monitor scrap metal, especially for the most valuable metals such as copper. The General Services Department agreed to implement all six recommendations.

This Hotline Report with management's response can be found on our website at:

http://www.sandiego.gov/auditor/reports/hotline_pdf/hotline_gen_srvcs_scrp-mtl_report.pdf

Complaints Referred to Departments that were Substantiated and/or Corrective Actions Taken

Complaints made to the Fraud Hotline that are determined to be not related to fraud, waste, or abuse are forwarded to the respective department to address the issue(s) or concern(s) reported. The departments are advised that callers to the Hotline are provided a report number and a date to call back to check the status of their complaints. Additionally, this report number allows for the City Auditor staff to request additional information from the complainant as their allegations are investigated.

The department is required to report their plan to resolve the matter back to the City Auditor and then submit a follow-up report when the final resolution is determined. The City Auditor will follow up to ensure replies are received from the departments.

During the first quarter of FY 2011, departments provided to the City Auditor a total of five replies that identified complaints as substantiated or corrective action(s) were taken. In order to maintain compliance with California law regarding confidentiality requirements for whistleblower hotlines, and still provide the public with pertinent information, we have prepared Table 4 below with a general description of these complaints and the action taken by the departments.

Table 4

No.	Call Category	General Description of Complaint	Outcome / Status
1	Substance Abuse 113792613	Allegation that employee received inappropriate personal packages at work location	Corrective Action Taken Employee admonished and discontinued receipt of packages
2	Customer Relations 114075714	Allegation of nonpayment funds due by citizen	Corrective Action Taken Replacement checks provided after proper coordination between City Staff
3	Theft of Goods/ Services 114175313	Allegation of harvesting at landfill	Corrective Action Taken A new protocol implemented to crush loads from large stores to eliminate harvesting potential
4	Wage/Hour Issues 904284587	Allegation of work hours logged when employees were not present	Corrective Action Taken New procedures for daily logs, log books, check-in, and check-out procedures implemented
5	Policy Issues 114205479	Allegation of employee sending inappropriate images from City cell phone	Complaint to be Substantiated Employee disciplined

Conclusion

The Office of the City Auditor is dedicated to investigating all of the reported claims of material fraud, waste and abuse. During the first quarter of FY 2011 we have spent approximately 398 hours administering the Fraud Hotline, coordinating the Intake and Review committee activities, and investigating 15 Fraud Hotline complaints.

I will be prepared to discuss this report at the next available Audit Committee meeting.



Eduardo Luna
City Auditor

cc: Honorable Mayor Jerry Sanders
Honorable City Council Members
Jay M. Goldstone, Chief Operating Officer
Wally Hill, Assistant Chief Operating Officer
Mary Lewis, Chief Financial Officer
Ken Whitfield, City Comptroller
Jan Goldsmith, City Attorney
Andrea Tevlin, Independent Budget Analyst