



THE CITY OF SAN DIEGO

DATE: January 14, 2016

TO: Honorable Members of the Audit Committee

FROM: Eduardo Luna, City Auditor

SUBJECT: City Auditor's Quarterly Fraud Hotline Report – Qtr 2 Fiscal Year 2016

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."

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. 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.

The Network, an independent third-party provider, accepts calls from City employees and the public at (866) 809-3500 or online at www.sandiego.gov/fraudhotline. 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 Second Quarter of Fiscal Year 2016

During the second quarter of Fiscal Year 2016 (October – December 2015), we received 27 Fraud Hotline complaints. Eight 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. Six complaints were not in the purview of the Fraud Hotline and were referred to the proper authority. **Table 1** below summarizes the types of complaints received during Fiscal Year 2016.

Table 1 – Complaints Received in Fiscal Year 2016

City Auditor Investigations	Qtr 1	Qtr 2	Total FY 16
Accounting/Audit Irregularities	1	0	1
Conflict of Interest	1	0	1
Fraud	2	2	4
Miscellaneous	1	1	2
Safety and Sanitation	0	1	1
Theft of Goods/ Services	1	0	1
Waste and Abuse	3	4	7
Subtotal OCA Investigations	9	8	17
City Department Investigations			
Employee Relations	0	3	3
Fraud	2	3	5
Miscellaneous	1	0	1
Policy Issues	1	0	1
Safety and Sanitation	0	1	1
Theft of Goods/Services	1	0	1
Theft of Time	1	2	3
Waste and Abuse	6	4	10
Subtotal Department Investigations	12	13	25
Total Complaints Received In Purview of Fraud Hotline	21	21	42
Direct Referrals, Non-City Complaints or Complaints Not in Purview of Fraud Hotline	9	6	15
Total Complaints Received in FY 16	30	27	57

Status of Hotline Complaints

As reported, 27 complaints were filed with the Hotline between October 1, 2015 and December 31, 2015. It was determined that six of these complaints were not in the purview of the Fraud Hotline, leaving 21 complaints that were added to the inventory.

In addition to the receipt of 21 new complaints for investigation, seventeen City-related complaints remained open and unresolved at the end of the previous quarter, resulting in an active inventory of 38 complaints during the second quarter of Fiscal Year 2016.

Table 2 summarizes the status of Fraud Hotline Complaints for the second quarter of Fiscal Year 2016.

Twenty-two of the 38 active complaints remain open and unresolved, and 16 were closed. One City Auditor investigation was found to be substantiated, two resulted in corrective action, and three were unsubstantiated or were otherwise resolved. The allegations made in two Department investigations were found to be substantiated, two were closed with corrective action, and six were unsubstantiated or were otherwise resolved.

Table 2 – Status of Fraud Hotline Complaints

Complaint Status	City Auditor Investigations	Referred to Dept	Total City-Related	Not In Hotline's Purview	Total
Unresolved on 10/1/15	10	7	17	0	17
Received in 2 nd Quarter	8	13	21	6	27
Subtotal – Active Inventory	18	20	38	6	44
Complaints Closed	-6	-10	-16	-6	-22
Substantiated	-1	-2	-3	0	-3
Corrective Action	-2	-2	-4	0	-4
Unsubstantiated/other	-3	-6	-9	-6	-15
Unresolved on 12/31/15	12	10	22	0	22

City Auditor Investigations Summary

Table 3 summarizes the status of the eighteen active City Auditor Fraud Hotline investigations during the second quarter of Fiscal Year 2016, including the incident type, complaint number, 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
Allegation/Outcome						
1	Theft of Goods/Services	121806224	Received	7/22/15	Substantiated	12/2/15
<p>An allegation that a City employee was storing scrap metal salvaged from repairs of City vehicles with the intent of selling the metal and using the proceeds for personal purposes was investigated and substantiated. 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 made three recommendations to ensure that the scrap metal was recycled according to the normal procedures used for scrap metal, to consider implementing an employee recognition and award program, and to establish a contract with a bulk metal recycling service. Management agreed to implement all three recommendations.</p> <p>A public report was issued on 12/2/15, and can be found at: http://www.sandiego.gov/auditor/reports/fy16_pdf/hotline/16-009_Hotline_Misuse_of_Scrap_Metal.pdf</p> <p>A detailed confidential report was also provided to City management. Pursuant to our procedures and state law, the identities of the subject employees shall be kept confidential.</p>						
2	Fraud	121953695	Received	8/18/15	Corrective Action	11/4/15
<p>An allegation regarding the City's non-compliance with state law was investigated. The allegation was found to be unsubstantiated, however the Department took corrective action to update a reference to reflect the current state standards being used in monthly wastewater testing reports.</p>						
3	Waste and Abuse	122524506	Received	11/24/15	Corrective Action	12/4/15
<p>An allegation regarding inappropriate use of email by a contractor resulted in the Department requesting that the identified individual use a City email account for communication going forward.</p>						
4	Accounting/Audit Irregularities	121800544	Received	7/21/15	Unsubstantiated	12/22/15
<p>Allegation of accounting irregularities related to vendor payments was investigated and found to be unsubstantiated.</p>						

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No.	Incident Type	Complaint #	Received	Date	Status/Outcome	Date
Allegation/Outcome						
5	Conflict of Interest	122081114	Received	9/10/15	Unsubstantiated	10/16/15
An allegation regarding a conflict of interest related to outside employment was investigated and found to be unsubstantiated.						
6	Waste and Abuse	121425596	Received	5/11/15	No Further Action Necessary	10/9/15
Allegation that a City agency's travel practices violate the City's Travel policy was investigated and referred to an appropriate agency for additional investigation.						
7	Fraud	120338740	Received	10/1/14	Open/Unresolved	
Allegation that an employee who works for a vendor that does business with the City has committed fraud in the past.						
8	Waste and Abuse	120944327	Received	2/6/15	Open/Unresolved	
Allegation that there is no oversight of a large contract for services.						
9	Waste and Abuse	121842995	Received	7/29/15	Open/Unresolved	
Allegation regarding unfair selection in a City department's hiring process.						
10	Waste and Abuse	122199158	Received	9/30/15	Open/Unresolved	
Allegation regarding abuse of discretion in violation of City policy.						
11	Fraud	122198989	Received	9/30/15	Open/Unresolved	
Allegation regarding fraud in public works contracting.						
12	Waste and Abuse	122212733	Received	10/2/15	Open/Unresolved	
Allegation regarding abuse of discretion and conflict of interest related to a contract.						
13	Waste and Abuse	122294306	Received	10/16/15	Open/Unresolved	
Allegations related to a contract award protest.						
14	Waste and Abuse	122491794	Received	11/18/15	Open/Unresolved	
Allegation regarding theft of time by a City employee.						
15	Fraud	122518497	Received	11/23/15	Open/Unresolved	
Allegation regarding unauthorized fee waivers for recreation activities.						
16	Miscellaneous	122682020	Received	12/22/15	Open/Unresolved	
Investigation to confirm the existence of three machines owned by the City.						
17	Fraud	122692752	Received	12/24/15	Open/Unresolved	
Allegation regarding unauthorized fee waivers.						

No.	Incident Type	Complaint #	Received	Date	Status/Outcome	Date
Allegation/Outcome						
18	Safety and Sanitation	122704125	Received	12/28/15	Open/Unresolved	
Allegation regarding an employee consuming alcohol while on City time.						

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 twenty active Fraud Hotline investigations conducted by the Departments during the second quarter of Fiscal Year 2016, 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
Allegation/Outcome						
1	Fraud	122012538	Received	8/28/15	Substantiated	11/18/15
Allegation regarding a Building Code violation was substantiated, and a Civil Penalty Notice and Order was issued for renting out guest quarters in violation of the San Diego Municipal Code.						
2	Policy Issues	122102474	Received	9/14/15	Substantiated	10/21/15
An allegation regarding a City department's hiring process was substantiated and resulted in a change to interview training materials citywide.						
3	Safety and Sanitation	121605236	Received	6/15/15	Corrective Action	10/21/15
An allegation regarding a Code violation was investigated and a Civil Penalty Notice and Order was issued.						
4	Theft of Goods/Services	121935290	Received	8/14/15	Corrective Action	10/7/15
Allegation of theft of water from a fire hydrant was investigated and resulted in an Administrative Warning.						
5	Theft of Time	121921674	Received	8/12/15	Unsubstantiated	11/4/15
An allegation regarding unnecessary overtime created by a City employee was investigated and found to be unsubstantiated.						
6	Waste and Abuse	121961101	Received	8/19/15	Unsubstantiated	12/3/15
An allegation of theft of time was investigated and found to be unsubstantiated.						

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No.	Incident Type	Complaint #	Received	Date	Status/Outcome	Date
Allegation/Outcome						
7	Waste and Abuse	122080559	Received	9/10/15	Unsubstantiated	12/3/15
	An allegation regarding wasteful staffing assignments was investigated and found to be unsubstantiated.					
8	Safety and Sanitation	122495102	Received	11/19/15	Unsubstantiated	12/2/15
	An allegation regarding storm water pollution was investigated and found to be unsubstantiated.					
9	Fraud	122549609	Received	11/30/15	Unsubstantiated	12/8/15
	An allegation regarding a conflict of interest related to a contract was investigated and found to be unsubstantiated.					
10	Waste and Abuse	122317450	Received	10/20/15	No Further Action Necessary	11/18/15
	Allegations regarding insufficient notice to property owners regarding a rate increase was closed because not enough information was provided.					
11	Fraud	122363552	Received	10/28/15	Open/Unresolved	
	Allegation regarding overtime abuse at a City Department.					
12	Employee Relations	122426984	Received	11/8/15	Open/Unresolved	
	Allegation regarding unnecessary overtime.					
13	Theft of Time	122428650	Received	11/9/15	Open/Unresolved	
	Allegation regarding theft of time by City employees.					
14	Waste and Abuse	122556519	Received	12/1/15	Open/Unresolved	
	Allegation of incomplete performance on a third-party contract for services.					
15	Theft of Time	122556274	Received	12/1/15	Open/Unresolved	
	Allegation of theft of time by City employees.					
16	Fraud	122605874	Received	12/9/15	Open/Unresolved	
	Allegation regarding water meter fraud.					
17	Waste and Abuse	122634297	Received	12/14/15	Open/Unresolved	
	Allegation regarding wasteful holiday party expenditures.					
18	Waste and Abuse	122680450	Received	12/22/15	Open/Unresolved	
	Allegation regarding misuse of City computers and theft of time.					

No.	Incident Type	Complaint #	Received	Date	Status/Outcome	Date
Allegation/Outcome						
19	Employee Relations	122720684	Received	12/30/15	Open/Unresolved	
Allegation regarding harassment and discrimination.						
20	Employee Relations	122720402	Received	12/30/15	Open/Unresolved	
Allegation regarding harassment.						

Conclusion

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 2016, we have applied approximately 918 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