



THE CITY OF SAN DIEGO

DATE: April 18, 2011

TO: Honorable Members of the Audit Committee

FROM: Eduardo Luna, City Auditor

SUBJECT: **City Auditor's Quarterly Fraud Hotline Report – Qtr 3 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 an employee or citizen of the City of San Diego 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 Network Inc., an independent third-party provider, accepts calls from City employees and the public at (866) 809-3500. Callers can choose to remain anonymous, providing complete confidentiality. 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.

Fraud Hotline in the News

During the first week of March local print and television news media carried stories about the public report issued by the City Auditor regarding the *Hotline Investigation of Misappropriation of City Funds* and the arraignment of a former city worker on charges of grand theft by an employee, misappropriation of public monies and falsifying and/or destroying accounts related to public monies. The media reported that a complaint to the City's Fraud Hotline initiated the investigation in several of the news stories.

The results of this investigation reinforces that the City's Fraud Hotline is a viable means for employees and citizens to provide substantive information regarding fraud, waste, and abuse and that the City Auditor will fully investigate the allegations made. These news stories should help raise awareness of the City's Hotline, which may lead to other valuable tips.

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TO REPORT FRAUD, WASTE, OR ABUSE CONTACT OUR FRAUD HOTLINE: 866-809-3500



Fiscal Year 2011 Third Quarter Results by Complaint Types

During the third quarter of FY 2011 (January 2011 – March 2011), 21 complaints were filed with the Hotline. Eight of the complaints were categorized by the caller as Fraud-Related and 13 were categorized as Non-Fraud Related. Two of these complaints related to sworn police officers and were referred directly to the Citizen’s Review Board of Police Practices. 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	Qtr 2	Qtr3	Sub-total	% of Total	City Auditor	Referred to Dept	Non-City
Accounting/Audit Irregularities	2	0	0	2	3.3%	2	0	0
Fraud	4	1	2	7	11.7%	4	1	2
Fraudulent Insurance Claims	1	0	0	1	1.7%	0	1	0
Theft of Goods/Services	2	2	1	5	8.3%	0	3	2
Theft of Time	2	0	1	3	5.0%	0	3	0
Waste and Abuse	0	2	4	6	10.0%	5	1	0
Subtotal Fraud	11	5	8	24	40.0%	11	9	4
Category: Non-Fraud								
Employee Relations	1	2	1	4	6.7%	0	3	1
Customer Relations	0	4	5	9	15.0%	1	5	3
Policy Issues	4	4	5	13	21.7%	4	7	2
Retaliation of Whistleblowers	3	0	0	3	5.0%	0	1	2
Safety Issues and Sanitation	1	0	2	3	5.0%	0	1	2
Substance Abuse	1	0	0	1	1.7%	0	1	0
Wage/Hour Issues	2	0	0	2	3.3%	0	2	0
Workplace Violence/Threats	0	1	0	1	1.7%	0	1	0
Subtotal Non-Fraud	12	11	13	36	60.0%	5	21	10
Total Complaints FY11	23	16	21	60	100.00%	16	30	14

Source of Hotline Complaints

A caller to the Fraud Hotline can either make the complaint anonymously, or the caller can provide his or her identity and contact information. Table 2 represents the breakdown of the caller profile by fiscal year.

Table 2

FY	Anonymous		Identified		Total
2009	69	49%	71	51%	140
2010	28	46%	33	54%	61
2011	28	47%	32	53%	60

Status of Hotline Complaints Received in the Third Quarter of Fiscal Year 2011 and Unresolved Complaints from the Previous Quarter

As reported, 21 complaints were filed with the Hotline between January 2011 and March 2011. In addition, at the previous quarter-end, December 31, 2010, 11 complaints remained open and unresolved for a total of 32 open complaints that were active in the third quarter. Table 3 below summarizes the status of these 32 complaints. Seven (7) of the 32 remain open and unresolved, and 25 were closed. Of the 25 that were closed, 5 were substantiated and/or corrective actions were taken, 15 were unsubstantiated, and 5 did not relate to City operations.

Table 3

Complaint Status	City Auditor Investigations	Referred to Dept	Sub-Total	Percent (City Operations Only)	Not Related to City Operations	Total
Complaints Unresolved 12/31/2010	7	4	11		0	11
Complaints Received in 3rd Qtr	7	9	16		5	21
Subtotal	14	13	27		5	32
Complaints Closed	-8	-12	-20		-5	-25
Substantiated/ Corrective Action	1	4	5	25.0%	0	5
Unsubstantiated	7	8	15	75.0%	5	20
Complaints Unresolved 3/31/2011	6	1	7		0	7

City Auditor Investigations Summary – Third Quarter of Fiscal Year 2011

Table 4 below summarizes the status of the 14 active City Auditor Fraud Hotline investigations for the third quarter of FY 2011 (March 31, 2011), including the incident type, a description of the complaint, and the case status.

Table 4

No.	Incident Type	General Description of Complaint	Outcome / Status
1	Fraud 113058084	Allegation of misappropriation of City funds	Referral made to San Diego Police Dept
2	Policy Issues 114220720	Allegation relates to inappropriate extension of temporary promotions	Complaint found to be Unsubstantiated
3	Accounting/Audit Irregularities 114326757	Allegation relates to reimbursement timing issues with City contracts	Timing issues of reimbursement claims substantiated but determined no fraud by vendor
4	Waste and Abuse 11472818	Allegation relates to inappropriate vehicle tow	Complaint found to be Unsubstantiated
5	Waste and Abuse 114794519	Allegation relates to misclassification of positions	Complaint found to be Unsubstantiated
6	Waste and Abuse 114980312	Allegation relates to improper procurement practices relating to a formal RFP	Complaint found to be Unsubstantiated
7	Waste and Abuse 114364469	Allegation relates to employee undercharging citizens for City services and facilities	Complaint found to be Unsubstantiated
8	Customer Relations 114841909	Complaint relates to (unidentified) dirty streets and lack of posting to notify residents when streets will be cleaned	Complaint did not contain sufficient information to initiate investigation and no response was received from caller when additional information was requested.
9	Waste and Abuse 907292434	Allegation of committing funds to projects that are not likely to come to fruition	Open/Unresolved

No.	Incident Type	General Description of Complaint	Outcome / Status
10	Accounting/Audit Irregularities 114042861	Allegation of misappropriation of City funds	Open/Unresolved
11	Waste and Abuse 114638660	Allegation relates to misuse of City time for personal gain	Open/Unresolved
12	Fraud 114982698	Allegation relates to fraudulent transactions with contractors	Open/Unresolved
13	Fraud 115007546	Allegation relates to misappropriation of grant funds	Open/Unresolved
14	Waste and Abuse 115045859	Allegation relates to an abuse of employees temporarily occupying position above the employee's classification	Open/Unresolved

City Auditor Substantiated Complaints

The Office of the City Auditor conducted an investigation of Park and Recreation employees in response to a complaint made to the City's Fraud Hotline. The complaint alleged that an employee may have been responsible for missing funds from the recreation center at which the employee was assigned. The investigation determined that the allegations of missing funds, making false entries into financial records and concealing or destroying financial records were substantiated. The missing funds totaled \$100,998.

The Hotline Report of this investigation, including management's response, can be found on our website at:

http://www.sandiego.gov/auditor/reports/fy11_pdf/hotline/holine_inv_misappropriation_of_funds.pdf

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

Complaints made to the Fraud Hotline that are determined by the City Auditor to be unrelated to material fraud, waste, or abuse are referred to the Intake and Review Committee, which forwards the complaint to the respective department for resolution. All callers to the Hotline are provided a report number and a date to call back for follow-up questions by the City Auditor or by the department to which the complaint has been referred.

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The department is required to report its 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 third quarter of FY 2011, departments provided the City Auditor a total of four replies that identified complaints as substantiated or as having corrective action(s) 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 5 below with a general description of these complaints and the action taken by the departments.

Table 5

No.	Incident Type	General Description of Complaint	Outcome / Status
1	Retaliation of Whistleblowers 114124298	Allegation relates to retaliation of whistleblower	Department provided workplace harassment and employee assistance training to group, and new management structure tasked with closely monitoring situation
2	Customer Relations 114727228	Allegation relates to inappropriate use of City email system by employee	Department conducted fact finding, determined allegation to be substantiated, and took disciplinary action
3	Policy Issues 114805766	Allegation relates to inappropriate use of trash containers by citizen	Department made field observations to confirm code violations and implemented a plan to make follow-up inspections.
4	Policy Issues 114853069	Allegation relates to use of City facilities for airport parking by employees on personal travel	Department issued two directives prohibiting parking at Department facilities and use of City assets for transportation to and from airport when on personal travel

Conclusion

The Office of the City Auditor is dedicated to investigating all of the reported claims of material fraud, waste, and abuse. During FY 2011 we have spent approximately 1,186 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.



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