




THE CITY OF SAN DIEGO

DATE: October 16, 2008

TO: Honorable Members of the Audit Committee

FROM: Eduardo Luna, City Auditor 

SUBJECT: **City Auditor's Quarterly Fraud Hotline Report – Qtr 1 Fiscal Year 2009**

The Office of the City Auditor administers the City's Fraud Hotline program. The Office of the City Auditor assumed all administrative responsibilities for the Fraud Hotline on July 21, 2008. The primary objective of the Fraud Hotline is to provide a means for City of San Diego employees and citizens to confidentially report (1) any activity or conduct in which he/she suspects instances of fraud, waste, or abuse and (2) violations of certain federal or state laws and regulations (e.g., laws prohibiting discrimination or whistleblower laws).

The Network Inc., an independent third-party provider accepts calls from City employees and the public, providing complete confidentiality. The caller can choose to remain anonymous. The Network issues reports for each complaint and emails the report to the Office of the City Auditor. Callers can also submit complaints directly to the Office of the City Auditor.

History

In an investigative report authored by Vinson & Elkins L.L.P. (V&E Report) dated September 16, 2004, and adopted by San Diego City Council as San Diego Municipal Code §26.1703(c) in October 2004, recommendations were made to “establish procedures to receive and respond to any complaints or concerns regarding accounting, internal controls or auditing matters, including procedures for the confidential and anonymous submission by employees of any such complaints or concerns.”

The Auditor and Comptroller's Office implemented the Fraud Hotline (866-809-3500) on December 2, 2005, in response to San Diego Municipal Code §26.1703(c). Upon the transition to the Strong Mayor form of Government on January 1, 2006, the Mayor's Office of Ethics and Integrity was created and through a third-party provider administered the Fraud Hotline. The Hotline was transferred to the Office of the City Auditor, effective July 1, 2008.



Category of Calls

Calls to the Hotline can generally be categorized as Fraud-related or non-fraud related calls. The Network uses 23 descriptive categories to identify and report the types of calls.

Fraud Categories	Non-Fraud Categories
1. Fraud	1. Customer Relations
2. Waste and Abuse	2. Discrimination
3. Accounting Irregularities	3. Employee Relations
4. Kickbacks	4. Policy Issues
5. Falsification of Company Records	5. Product Quality Concerns
6. Fraudulent Insurance Claims	6. Sexual Harassment
7. Release of Propriety Information	7. Substance Abuse
8. Theft of Cash	8. Wage/Hour Issues
9. Theft of Goods and Services	9. Safety Issues and Sanitation
10. Theft of Time	10. Workplace Violence/Threats
11. Unauthorized Discounts	11. Retaliation of Whistleblowers
12. Conflict of Interest	

Processing of Complaints

The Office of the City Auditor will investigate all material complaints received related to fraud, waste, and abuse. Any non-fraud or immaterial complaints made to the Fraud Hotline will be reviewed by the City Auditor's Hotline Intake and Review Committee. This committee is composed of (1) the City Auditor, (2) the Personnel Director, (3) Office of Ethics and Integrity (OEI) designee, and (4) the Labor Relations Director or their designees. This committee will review all complaints pertaining to employee relations, discrimination, harassment, and personnel related complaints. The committee will review the complaint and determine whether it meets the criteria for further investigation. The Hotline Intake and Review Committee will not review complaints referred to the Ethics Commission or complaints related to material fraud, waste, or abuse.

In most cases, non-fraud related complaints will be referred to Departments for further review and investigation. The City Auditor will send the affected Department Director a memorandum notifying him or her of the complaint and requesting a response and advising of the process for resolving the complaint, if necessary. The Office of the City Auditor ensures, through monitoring and reminders to the designated Department Director, that timely investigative and resolution activities are undertaken in response to complaints received through the Hotline. Department Directors have the responsibility to provide a reply that addresses the following:

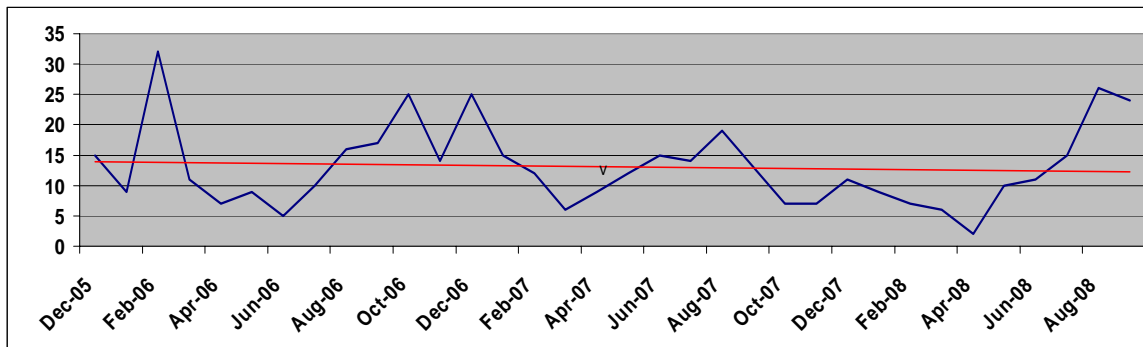
1. A description of an immediate plan to address the issue or concern;
2. Description of a plan to prevent the issue or concern from happening again; and
3. Description of the resolution of the issue/concern.

HOTLINE STATISTICS

Number of Call Received

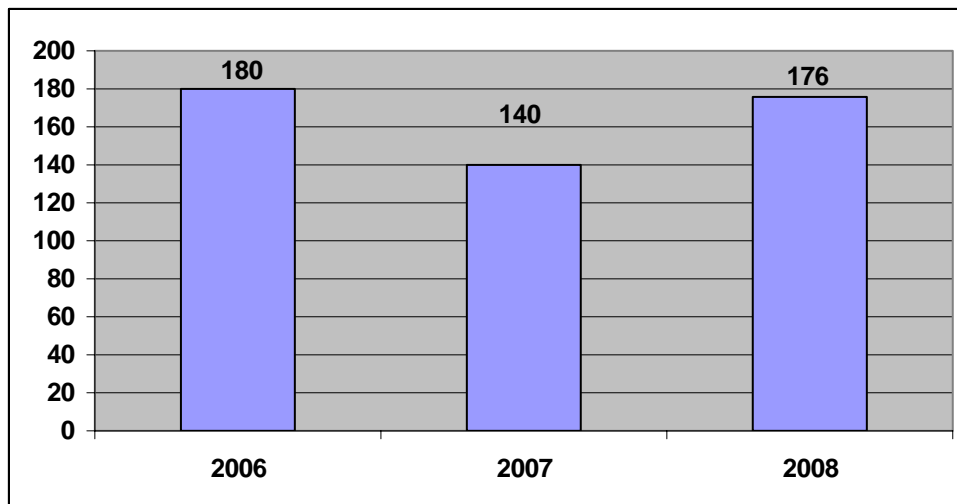
Since the Fraud Hotline was first implemented in December 2005 through September 2008, there have been 445 complaints made to the Hotline. As shown in the following graph, the number of calls has fluctuated over 34 months, with an average of 13 calls per month.

Number of Complaints Made Between December 2005 and September 2008



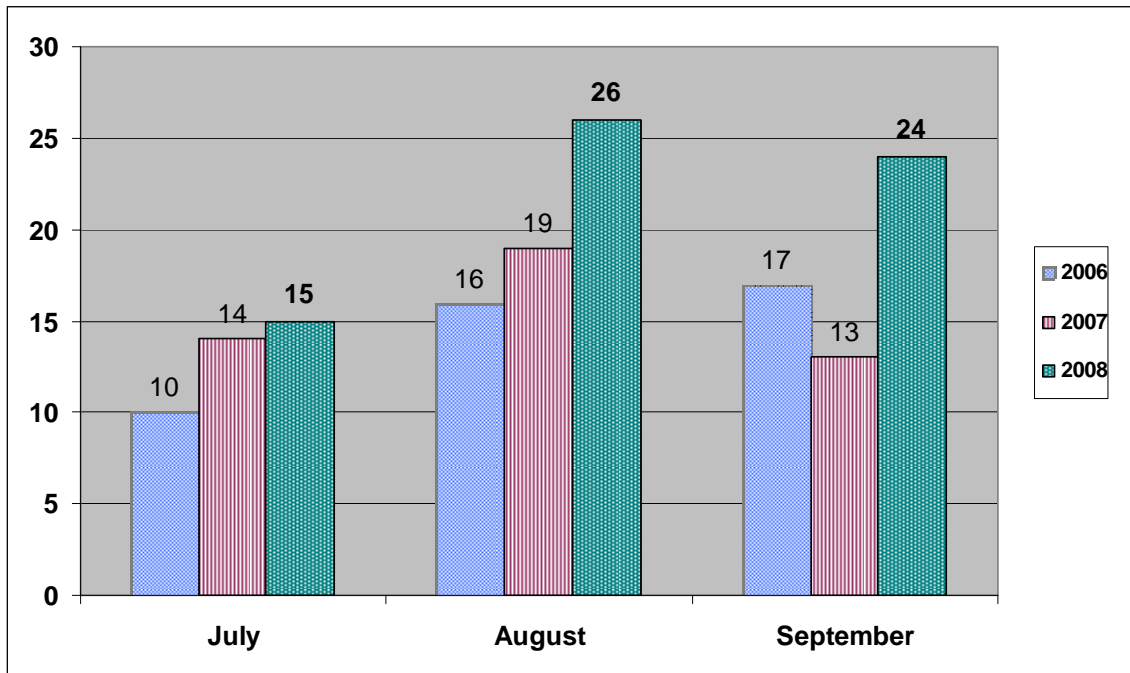
As shown in the following table, 180 and 140 calls were made to the Hotline in calendar years 2006 and 2007, respectively. Between January 2008 and September 2008, 110 complaints were filed. In 2008, we estimate 176 complaints will be made to the Hotline if the current quarterly trend continues. Based on the estimated number of complaints that will be filed in 2008, the Network's cap limit of 288 calls per year will not be exceeded. However, if the number of complaints per month averages more than 24 in 2009, the complaint cap limit will be exceeded.

Total Number of Complaints by Calendar Year



Fiscal Year 2009 First Quarter Results

As shown in the following graph, during the fiscal year 2009 first quarter (July – September 2008), 65 complaints were made to the Hotline, an increase of 41 percent from the first quarter in fiscal year 2008. During the first quarter of fiscal year 2007 and 2008, 43 and 46 complaints were filed with the Hotline, respectively.



Fiscal Year 2009 First Quarter Complaint Types

As shown in the following table, the majority of complaints made to the Hotline are non-fraud, waste, or abuse-related. During the fiscal year 2009 first quarter, 60 percent of the complaints pertain to: employee relations (28 percent); policy issues (23 percent); and customer relations (9 percent). As reported earlier, the Hotline Intake Review Committee reviews the non-fraud related complaints and departments perform follow-up investigations.

Category	Jul-08	Aug-08	Sep-08	Subtotal	Percent	City Auditor Investigations
Employee Relations	2	10	6	18	27.69%	0
Policy Issues *	7	4	4	15	23.08%	2
Customer Relations	2	2	2	6	9.23%	0
Conflict of Interest	1	4	0	5	7.69%	0
Fraud †	0	0	4	4	6.15%	3
Accounting/Audit Irregularities	1	1	1	3	4.62%	3
Substance Abuse	0	1	2	3	4.62%	0
Theft of Time	1	2	0	3	4.62%	0
Safety Issues and Sanitation	0	0	2	2	3.08%	0
Discrimination	0	1	0	1	1.54%	0
Retaliation of Whistleblowers	1	0	0	1	1.54%	0
Sexual Harassment	0	1	0	1	1.54%	0
Theft of Goods and Services	0	0	1	1	1.54%	1
Waste and Abuse	0	0	1	1	1.54%	1
Workplace Violence	0	0	1	1	1.54%	0
Total	15	26	24	65	100.00%	10

Number of Fraud Complaints

From the Hotline’s inception in December 2005 through June 2008, the City received 13 fraud complaints (3 percent of all complaints), including accounting or audit irregularities complaints. Since assuming responsibility for the Hotline in July 2008, we have received ten calls in the first three months that require investigation by City Auditor staff. During the first quarter of fiscal year 2009, fraud-related complaints requiring City Auditor investigation represent 15 percent of all complaints filed. There has been a significant increase in the number of fraud-related complaints compared to previous years.

The number of fraud and accounting complaints made in the first quarter is of concern in terms of the number hours required to investigate these complaints. Based on the 13 fraud and accounting complaints filed in 2006 and 2007, we estimated allocating 600 staff hours in fiscal year 2009 to investigate up to 15 fraud complaints or about 40 hours per complaint. If the number of fraud and accounting complaints received in the first quarter continues to trend for the remainder of the fiscal year, we estimate receiving a total of 40 fraud-related complaints and exceeding our planned staff hours by 1,080 hours. As of October 3, 2008, we had used approximately 147 of 600 staff hours investigating complaints.

* Two calls that were originally classified by the hotline network vendor as “Policy Issues” were actually potential fraud, waste or abuse calls.

† One call that was classified by the hotline network vendor as “Fraud” was actually an “Employee Relations” call.

Call Disposition

As reported, 65 complaints were made to the Hotline between July 2008 and September 2008. Of those complaints, 28 complaints have been closed and 37 complaints remain open. As shown in the following table, 19 complaints were unsubstantiated, 3 complaints did not have information to permit an investigation; and 6 complaints resulted in corrective action.

Complaint Status	Number	Percent
Complaint substantiated	0	0
Complaint unsubstantiated	19	29.23
Corrective action taken	6	9.23
Not enough information provided	3	4.62
Complaints open and unresolved	37	56.92
Total	65	100.00

Conclusion

According to the Association of Certified Fraud Examiners' 2008 Report to the Nation, Hotlines are a very effective tool for fraud detection. Nearly half of the fraud cases in their 2008 study were uncovered by a tip or complaint. The Office of the City Auditor is dedicated to investing the staff resources necessary to investigate all of the reported claims of material fraud, waste and abuse. However, if the current trend in the number of complaints continues, the Auditor's Office will be required to either reduce the number of hours spent on planned performance audits, or hire an investigator to examine the fraud related complaints received.

cc: Honorable Mayor Jerry Sanders
Honorable City Council Members
Jay M. Goldstone, Chief Operating Officer
Mary Lewis, Chief Financial Officer
Michael Aguirre, City Attorney
Andrea Tevlin, Independent Budget Analyst
Stanley Keller, Independent Oversight Monitor