



THE CITY OF SAN DIEGO

DATE: March 3, 2011

TO: Honorable Mayor, City Council, and Audit Committee Members

FROM: Eduardo Luna, City Auditor

SUBJECT: **Hotline Investigation of Misappropriation of City Funds**

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. This report covers the investigation that was completed in two phases. The first phase covered the period July 2004 through February 2008 and the second phase covered the period January 2010 through June 2010.

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.

Background

This report involves activities that occurred at two Park & Recreation Department's recreation centers. The City's recreation centers, including the two recreation centers discussed in this report, are supported by independent recreation councils. The recreation councils are an advisory group whose volunteer members plan, publicize, and provide park and recreation programs at the recreation center. The recreation council establishes guidelines for use of the facilities, sports leagues, and enrichment classes that are hosted at the recreation center. The fees paid for registration for these recreation activities goes entirely to the recreation council with the exception of a contractual program surcharge by the City for certain programs. The recreation council may also control the selection and wage structure of the contractual staff.

Field and facility permit fees collected at the recreation center are split between the City and the recreation council. The recreation council maintains its own bank account separate and apart from the City's bank account. The Recreation Center

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Director (RCD) is responsible for the preparation of the weekly deposit form of all funds received and due to the City. During the period of the investigation the RCD was also responsible for maintaining the books and records, making deposits, and preparing payment vouchers and checks for recreation council expenses. The RCD is supervised by an Area Manager (AM).

In addition to field and facility permit fees, certain patrons are required to pay cleaning/damage deposits along with their permit fees. During the period of the investigation, the cleaning/damage deposits were processed through the recreation center's bank account and accounting records.

Suspicious Transactions July 2004 through February 2008

The investigation determined that 31 checks totaling \$34,900 were made payable to a recreation center employee from a recreation council bank account during the period July 15, 2004 through February 28, 2008. Another employee was responsible for the accounting entries for these payments. The accounting entries indicate that these payments were mostly to reimburse the employee for alleged out-of-pocket payments made by the employee to patrons for refunds of cleaning/damage deposits. In addition, the investigation determined that nine checks totaling \$10,300 were made payable to various individuals who were friends of one of the recreation center employees. Accounting entries for these payments indicate they were also made to refund cleaning/damage deposits. The investigation determined that the employee made no out-of-pocket reimbursements and that the friends of the employee never applied for a field or facility permit and never made a cleaning/damage deposit.

The employee receiving the checks was also responsible for making deposits of membership and registration fees to the recreation council bank accounts. The investigation sought to reconcile receipts and registration records with deposits made to the bank accounts maintained by the recreation council. The investigation determined that a total of \$54,905 of monies received as fees were missing from the deposit records made to the accounts maintained by the recreation council.

The investigation determined that financial records that are usually kept in the normal course of business were missing from the recreation center at which these suspicious transactions were conducted. In addition, the investigation determined that monthly financial reports prepared by one of the employees inflated the revenue-on-hand balances. The inflated monthly financial reports were provided to the recreation council members who relied on the documents as a reflection of the recreation council's financial position.

In March 2007, the Park and Recreation Department retained a CPA firm to review the internal controls with issuance of permits, cash handling, and documented internal accounting procedures. In August of 2007 the City published a list of improvements to the cash handling procedures that were put into place over the balance of calendar year 2007. For example, cash registers have been installed at each recreation center and a

procedure established requiring the patron to receive a cash register receipt for all payments made to the recreation center. The bulk of the suspicious transactions identified by the investigation occurred before these additional internal controls were put into place by the Park and Recreation Department.

Reconciliation of Registration Fees Paid to Monies Deposited January 2010 through July 2010

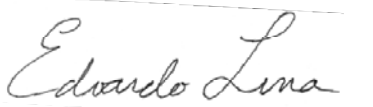
One of the same City employees involved in the suspicious transactions was reassigned to another recreation center in July 2009. A review of the records at that recreation center for the period January 30, 2010 through July 9, 2010 revealed a discrepancy in the number of patrons registering for classes, the fees received for the patron's registrations, and the deposits made to the recreation council's bank account. The investigation determined that a total of \$893 of monies received as fees were missing from the deposits records made to the accounts maintained by the recreation council. The investigation also determined that several of the internal controls established at the end of 2007 were not being followed at this recreation center.

Summary of Suspicious Transactions

Amount	Particulars
\$34,900	Checks written to employee
\$10,300	Checks written to employee's associates
\$54,905	Fees missing from deposit records of recreation center #1
\$ 893	Fees missing from deposit records of recreation center #2
\$100,998	Total

Referral to San Diego Police Department

The suspicious activity including missing funds that totaled \$100,998 was referred to the San Diego Police Department for their evaluation and appropriate action.



Eduardo Luna
City Auditor

cc: Jay M. Goldstone, Chief Operating Officer
Mary Lewis, Chief Financial Officer
Stacey LoMedico, Park & Recreation Department Director
William Lansdowne, Chief of Police
Jan Goldsmith, City Attorney
Andrea Tevlin, Independent Budget Analyst