



THE CITY OF SAN DIEGO

DATE: December 14, 2016

TO: Halla Razak, Public Utilities Department Director

FROM: Eduardo Luna, CIA, CGFM, City Auditor
Office of the City Auditor

SUBJECT: Hotline Investigation of Personal Use of City Vehicles at the Public Utilities Department

The Office of the City Auditor received two anonymous Fraud Hotline reports alleging that a Public Utilities Department (PUD) employee was using a City vehicle for personal purposes. Both reports positively identified both the City employee and the vehicle. One report described the vehicle use at the employee's home, and the other report stated that the personal use of the vehicle was related to a separate location. Our investigation determined that both allegations were substantiated, and we also substantiated personal use of City vehicles by other PUD employees.

Specifically, we found that a total of six PUD employees, including two managers, used City vehicles for personal purposes for a combined total of 1,151 hours and 56 minutes between October 1, 2015, and June 30, 2016. The majority of the time was associated with overnight take-home use of City vehicles by one employee.

California Government Code §53087.6 (e)(2) prohibits public disclosure of the identity of the subject employees. However, we provided a detailed confidential version of our report to PUD management in order for the appointing authority to review, investigate, and take the appropriate disciplinary action, as permitted under State law.

We made three recommendations to improve City operations and hold the responsible employees accountable. City management agreed to implement all three recommendations.

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Background

City policies prohibit the use of City vehicles for private purposes. While most City vehicles are equipped with GPS tracking devices, an agreement between the City and employee organizations restricts the use of GPS vehicle activity data. Specifically, the agreement states that GPS data may not be used on a routine basis to monitor employee activity for compliance with City policy.

Also, personal use of a City vehicle for commuting may need to be reported as income in accordance with IRS rules and regulations. On an annual basis, the Office of the City Comptroller identifies City employees who are provided City vehicles for take-home use. Unless vehicle marking, type, and use exceptions apply, take-home use of City vehicles may need to be reported as income.

All of the vehicles we reviewed were standard passenger-type vehicles similar to the one shown in **Exhibit 1** below. No specialized utility repair trucks (commonly taken home to respond to utility-related emergencies) were included in our investigation.

Exhibit 1

Sample Public Utilities Department Vehicle



Source: Office of the City Auditor.

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Investigation

We reviewed GPS vehicle activity records for an 18-month period from January 1, 2015 through June 30, 2016. Our initial analysis focused on the vehicle assigned to the employee identified in the Fraud Hotline complaints we received, at the locations indicated. However, we expanded the scope of our investigation to include additional employees after we determined that the subject employee was using the City vehicle for personal purposes.

Based on our initial findings, we concluded that there was a substantial risk of override of weak internal controls regarding City vehicle use. According to a manager we interviewed as part of our investigation, the employees in question had no formal schedules in place and were not required to produce daily activity reports. We also learned that PUD management, and the City as a whole, does not use GPS data to monitor City vehicle use on a routine basis to assure compliance with City policy.

We found that six PUD employees, including two managers, used City vehicles for personal purposes. Most of the employees used the vehicle to make trips home, and one employee took a City vehicle home overnight on multiple occasions. Between October 1, 2015, and June 30, 2016, six PUD employees used City vehicles for personal purposes for a combined total of 1,151 hours and 56 minutes. The majority of the time was associated with overnight take-home use of City vehicles by one employee.

One employee used a City vehicle during paid time off from work, including sick and vacation leave. The take-home personal use of a City vehicle may be reportable as income under IRS rules and regulations.

Our investigation also found that one employee conducted a substantial amount of personal activities on City time using a City vehicle. After initially denying the allegations, the PUD employee confirmed that no City business was conducted during the timeframes we identified using GPS records. Therefore, based on the PUD employee's hourly wage rate, the City lost approximately \$6,000 in unearned wages paid to the employee for time spent on personal activities. Although the employee claimed to have informally made up for the hours by working into the evening hours or the next day, no evidence supports that claim. For instance, the employee never mentioned the multiple workday absences to PUD management, no adjustments to time entries were made, and the employee used a "mental note" to account for the hours.

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Conclusion

Our investigation found sufficient evidence to support the initial allegation that the PUD employee identified in two independent, anonymous Fraud Hotline complaints abused the public trust and violated City policy through personal use of a City vehicle. We also substantiated the personal use of City vehicles by five other employees within PUD. Two of the six employees involved were managers.

We also found that PUD management, and the City as a whole, does not use GPS data to monitor City vehicle use on a routine basis to assure compliance with City policy. The City's lack of routine monitoring, or review of GPS data outside of the context of a formal complaint investigation or limited review period, appears to be a root cause of the misuse of City vehicles that we identified. City employees appear to be aware that City vehicles are equipped with GPS monitoring equipment, but they also seem to be aware that the City is generally prohibited from using the data to monitor employee activity without prior notice to the employee. This issue has been the subject of the meet-and-confer process between employee organizations and the City. The City's limited use of GPS vehicle activity data does not effectively address the risk of abuse that we identified in this report.

While one or more employees who were the subject of this investigation may no longer be employed by the City, their separation does not absolve them of responsibility for their actions. Our three recommendations are designed to hold both current and former employees accountable and to improve City operations. The following is a summary of our recommendations and management's responses.

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Recommendations and Management's Responses:

1. We recommend that the Public Utilities Department conduct an independent investigation to determine if City policies were violated and take the appropriate corrective action with respect to the identified City employees.

Response: Agree with recommendation.

Earlier in the year and independent of the auditor's investigation, PUD management had reason to suspect that one of its employees was using a City vehicle for personal purposes. This employee's personal use of a City vehicle accounted for nearly 84% of the 1,151 hours and 56 minutes identified within the Office of the City Auditor's report.

PUD will conduct an independent fact finding investigation to determine if City policies were violated by other City employees. Depending upon the results of this investigation, appropriate disciplinary action (up to and including termination) will be taken with respect to the identified City employees.

Target implementation date: April 30, 2017

2. We recommend that the Public Utilities Department, in coordination with the City Attorney's Office, and Office of the City Comptroller:
 - a. determine if action can be taken to recover any substantiated costs related to the improper payment of wages associated with the hours of personal use of City vehicles for both current and former City employees; and
 - b. evaluate the tax consequences of the personal use of City vehicles and ensure that the City complies with IRS income reporting requirements for current and former identified employees.

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Response: Agree with recommendation.

PUD, in conjunction with the City Attorney's Office and Office of the City Comptroller, will:

- a. determine if action can be taken to recover substantiated costs related to improper payment of wages associated with personal use of City vehicles and take steps to recover substantiated costs if such action is deemed appropriate; and**
- b. evaluate the tax consequences of personal use of City vehicles and ensure the City complies with IRS income reporting requirements.**

Target implementation date: April 30, 2017

3. We recommend that the Public Utilities Department, in coordination with the City Attorney's Office, and Human Resources Department:
 - a. review and strengthen internal control policies and procedures regarding City vehicle use; and
 - b. consider using GPS data to monitor City vehicle use for compliance with City policy.

Response: Agree with recommendation.

PUD will conduct a review of internal controls over City vehicle use to assess compliance with City policies and procedures. Based upon the results of this review, PUD, in conjunction with the City Attorney's Office and the Human Resources Department, will:

- a. develop specific actions to strengthen internal controls over City vehicle use; and**
- b. determine how the GPS system may be used to monitor compliance with City policy.**

Target implementation date: June 30, 2017

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The information in this report is being provided to you under the authority of California Government Code §53087.6, which states:

(e) (2) Any investigative audit conducted pursuant to this subdivision shall be kept 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.

(3) Notwithstanding paragraph (2), the auditor or controller may provide a copy of a substantiated audit report that includes the identities of the subject employee or employees and other pertinent information concerning the investigation to the appropriate appointing authority for disciplinary purposes. The substantiated audit report, any subsequent investigatory materials or information, and the disposition of any resulting disciplinary proceedings are subject to the confidentiality provisions of applicable local, state, and federal statutes, rules, and regulations.

Thank you for taking action on this issue.

Respectfully submitted,

A handwritten signature in black ink that reads "Eduardo Luna". The signature is written in a cursive, flowing style.

Eduardo Luna
City Auditor