



## THE CITY OF SAN DIEGO

DATE: January 29, 2010

TO: Honorable Members of the Audit Committee

FROM: Eduardo Luna, City Auditor

SUBJECT: **City Auditor's Quarterly Fraud Hotline Report – Qtr 2 Fiscal Year 2010**

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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 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 at (866) 809-3500. The Network prepares a report for each complaint received and sends them to the Office of the City Auditor via email. Callers can choose to remain anonymous, and complaints can also be submitted directly to the Office of the City Auditor.

### **New Investigative Tools and Resources for the Fraud Hotline**

The Office of the City Auditor is pleased to announce the acquisition of two new investigative tools that will strengthen and supplement the investigative resources of the Fraud Hotline. In November 2009, the Office of the City Auditor was approved as an associate member of the National White Collar Crime Center (NW3C). The free NW3C membership allows investigators to conduct confidential information searches of public databases of investigative subjects, a valuable investigative advantage. In addition, the Office of the City Auditor has recently acquired access to the Choicepoint/Accurant investigative database software. This software, licensed by Lexis/Nexis, allows confidential, controlled access to millions of records. These two powerful tools will leverage the resources dedicated to the Fraud Hotline and increase effectiveness and efficiency in fighting waste, fraud, and abuse.



**Fiscal Year 2010 Second Quarter Results by Complaint Types**

During the second quarter of Fiscal Year 2010, 14 complaints were filed with the Hotline. Of the 14 complaints received, six (43%) were classified as fraud, waste, or abuse. The remaining complaints involved theft of time (14%); sexual harassment (14%); falsification of company records (7%); and other non-fraud, waste or abuse categories (21%). The following table lists the number of complaints received during the second quarter by category.

<b>Category</b>	<b>Quarter 2 Oct. – Dec.</b>	<b>Percent</b>
<b>Fraud</b>	<b>5</b>	<b>35.7%</b>
<b>Waste and Abuse</b>	<b>1</b>	<b>7.1%</b>
Theft of Time	2	14.3%
Sexual Harassment	2	14.3%
Falsification of Company Records	1	7.1%
Customer Relations	1	7.1%
Employee Relations	1	7.1%
Wage /Hour Issues	1	7.1%
<b>Total</b>	<b>14</b>	<b>100.0%</b>

**Number of Complaints Received First and Second Quarter of Fiscal Year 2010  
(July 1, 2009 – December 31, 2009)**

As shown in the table below, a total of 29 complaints were made to the Hotline for the first and second quarter of fiscal year 2010. Of these complaints, ten warranted City Auditor investigation, and 19 were non-fraud related complaints that were referred by the Hotline Intake Committee to departments for investigation, or were outside the purview of the Fraud Hotline. The volume of Hotline complaints received has been fairly consistent during the first two quarters at 15 and 14 respectively. One complaint that was classified as fraud is being evaluated to determine whether it should be investigated by the City Auditor or referred to the appropriate department. As reported in previous quarterly reports, the Hotline Intake Review Committee reviews non-fraud related complaints and departments perform follow-up investigations.

Category	Quarter 1 Jul. – Sept.	Quarter 2 Oct. – Dec.	Subtotal	Percent	City Auditor Investigations	Referred to Departments
<b>Fraud</b>	<b>3</b>	<b>5</b>	<b>8</b>	<b>27.6%</b>	<b>6</b>	<b>2*</b>
<b>Waste and Abuse</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>6.9%</b>	<b>2</b>	<b>0</b>
Policy Issues	3	0	3	10.3%	0	3
Customer Relations	2	1	3	10.3%	0	3
Discrimination	2	0	2	6.9%	0	2
Employee Relations	1	1	2	6.9%	0	2
Conflicts of Interest	1	0	1	3.4%	0	1
Retaliation of Whistleblowers	1	0	1	3.4%	0	1
Workplace Violence	1	0	1	3.4%	0	1
Falsification of Company Records	0	1	1	3.4%	<b>1</b>	0
Sexual Harassment	0	2	2	6.9%	<b>1</b>	1
Theft of Time	0	2	2	6.9%	0	2
Wage /Hour Issues	0	1	1	3.4%	0	1
<b>Total</b>	<b>15</b>	<b>14</b>	<b>29</b>	<b>100.0%</b>	<b>10</b>	<b>19</b>

\* There were two “Fraud” calls that were listed as “*Referred to Departments*” that were not in the purview of the City of San Diego and were referred to an outside agency as a potential fraud, waste or abuse call.

### **Status of Hotline Complaints Received First and Second Quarter of Fiscal Year 2010 and Open Complaints from the Previous Year**

As reported, 29 complaints were made to the Hotline between July 2009 and December 2009. In addition, at the end of the previous fiscal year ended June 30, 2009, 22 complaints remained open and unresolved for a total of 51 complaints. The following table shows the status of these 51 complaints. Of these complaints, 27 remain open and unresolved and 24 were closed. Of the 24 that were closed, seven were substantiated and/or corrective actions were taken, and 17 were unsubstantiated.

Complaint Status	City Auditor Investigations	Department Investigations	Total	Percent
<b>Complaints Open and Unresolved</b>	<b>14</b>	<b>13</b>	<b>27</b>	<b>52.9%</b>
<b>Investigations Closed</b>	<b>5</b>	<b>19</b>	<b>24</b>	<b>47.1%</b>
<i>Complaint Substantiated and/or Corrective Action Taken</i>	<i>1</i>	<i>6</i>	<i>7</i>	<i>29.2%</i>
<i>Complaint Unsubstantiated</i>	<i>4</i>	<i>13</i>	<i>17</i>	<i>70.8%</i>
<b>Total</b>	<b>19</b>	<b>32</b>	<b>51</b>	<b>100.0%</b>

Below is a summary of the 19 City Auditor Fraud Hotline investigations through the end of the second quarter of fiscal year 2010 (December 31, 2009), including the call category, a description of the complaint, and the case status.

**City Auditor Investigations Summary –  
Through the Second Quarter of Fiscal Year 2010 (December 31, 2009)**

No.	Call Category	General Description of Complaint	Outcome / Status
1	Fraud	Allegation regarding the validity of an employee's education, prior work experience and use of City benefits	<b>Complaint Substantiated</b> (See summary below)
2	Fraud	Allegation regarding the sale of a City asset	<b>Complaint Unsubstantiated</b>
3	Policy Issues	Allegation that the City was overcharged for Pension contributions	<b>Complaint Unsubstantiated</b>
4	Policy Issues	Allegation that the City was overcharged for Pension contributions	<b>Complaint Unsubstantiated</b>
5	Falsification of Company Records	Allegation, previously investigated, of an employee submitting invalid education and prior work experience	<b>Complaint Unsubstantiated</b>
6	Accounting/Audit Irregularities	Allegation of accounting irregularities involving receipt and deposit of City funds	Complaint Open/Unresolved
7	Customer Relations	Allegation of not adequately coordinating City repairs resulting in waste of resources	Complaint Open/Unresolved
8	Customer Relations	Allegation of not adequately coordinating City repairs resulting in waste of resources	Complaint Open/Unresolved
9	Fraud	Allegation of embezzlement by a City employee	Complaint Open/Unresolved
10	Fraud	Allegation of abuse of public moneys to a group/association	Complaint Open/Unresolved
11	Fraud	Allegation of possible misappropriation of funds by an agency	Complaint Open/Unresolved
12	Fraud	Allegation of excessive overtime	Complaint Open/Unresolved
13	Fraud	Allegation of contracting irregularities	Complaint Open/Unresolved

No.	Call Category	General Description of Complaint	Outcome / Status
14	Fraud	Allegation of theft of materials	Complaint Open/Unresolved
15	Policy Issues	Allegation of employees being pressured to circumvent City policy	Complaint Open/Unresolved
16	Sexual Harassment <sup>u</sup>	Allegation of improper behavior towards minors during work hours	Complaint Open/Unresolved
17	Waste and Abuse	Allegation of lack of internal controls and improper expenditures by an agency	Complaint Open/Unresolved
18	Waste and Abuse	Allegation of inefficiencies regarding the City's work order system	Complaint Open/Unresolved
19	Waste and Abuse	Allegation of City staff wasting resources on projects unlikely to be funded	Complaint Open/Unresolved

<sup>u</sup> Due to the nature of this complaint, we immediately investigated this allegation and found it to be unsubstantiated. However, this case was not formally reviewed and closed as of December, 31 2009.

### City Auditor Substantiated Complaints

The Office of the City Auditor conducted an investigation of a City Comptroller employee in response to a complaint made to the City's Fraud Hotline. The complaint alleged that the employee submitted false information on City employment and promotional applications regarding the employee's prior work experience, and fraudulently obtained health and dental insurance benefits for an individual that was not a dependent or spouse. Our investigation concluded that the allegations are substantiated in part. We found the employee misrepresented some information on City job applications, and enrolled an individual as a spousal dependent for City insurance benefits while not legally married to the individual. We recommended the Office of the City Comptroller take appropriate disciplinary action based on the information provided, and we recommended the Risk Management Department implement a new process to verify spousal and dependant eligibility before insurance benefits are provided. This Hotline Report with management's response can be found on our website at: [http://www.sandiego.gov/auditor/reports/hotline\\_pdf/hotline\\_sd\\_emp\\_%20investigative\\_report.pdf](http://www.sandiego.gov/auditor/reports/hotline_pdf/hotline_sd_emp_%20investigative_report.pdf)

**The Fraud Related Hotline Complaints Referred to Departments for Review**

During the first two quarters of fiscal year 2010, the Hotline received five complaints that were labeled as fraud, waste and abuse related that were not investigated by the Office of the City Auditor. Of these five fraud related complaints, three were referred to departments for investigation, and two were passed on because they were outside our purview. A summary of these five complaints are shown below including the call category, a description of the complaint, and the case status.

**Fraud Related Department Investigations Summary –  
Through the Second Quarter of Fiscal Year 2010 (December 31, 2009)**

No.	Call Category	General Description of Complaint	Outcome / Status
1	Conflict of Interest	Allegation of employee conducting personal business using City facilities and resources	<b>Corrective Action Taken</b>
2	Theft of Time	Allegation of two City employees doing personal activities during business hours	<b>Corrective Action Taken</b>
3	Theft of Time	Allegation of City employees leaving work early	Complaint Open and Unresolved
4	Fraud♦	Allegation of cyber fraud unrelated to the City	Outside Purview of Hotline
5	Fraud♦	Allegation of credit card fraud unrelated to the City	Outside Purview of Hotline

♦ These “Fraud” calls listed as “*Referred to Departments*” were not in the purview of the City of San Diego and were referred to an outside agency as a potential fraud, waste or abuse call.

**Conclusion**

The Office of the City Auditor is dedicated to investigating all of the reported claims of material fraud, waste and abuse. During the first and second quarter of fiscal year 2010 (July 1, 2009 – December 31, 2009) we have spent approximately 784 hours investigating 19 Fraud Hotline complaints, and 14 of those cases are still open.

I will be prepared to discuss this report at the next available Audit Committee meeting.



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Eduardo Luna  
City Auditor

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