



## THE CITY OF SAN DIEGO

DATE: April 7, 2010

TO: Honorable Members of the Audit Committee

FROM: Eduardo Luna, City Auditor

SUBJECT: **City Auditor's Quarterly Fraud Hotline Report – Qtr 3 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 they suspect instances of fraud, waste, or abuse and (2) violations of certain federal or state laws and regulations.

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 Fraud Investigator Reports to the Office of the City Auditor**

The Office of the City Auditor is pleased to announce the addition of Fraud Investigator Albert J Allison. Al joined the City Auditor's Office in February 2010 after the previous Fraud Investigator left the office due to relocation. Al has broad experience in planning and conducting financial fraud investigations in both the public and private sector. Al served as IRS, Criminal Investigation (CI) Branch Chief for the San Diego Post of Duty 1988 through 2000. He directed the policies and programs of CI employees in the San Diego and Imperial Counties. The San Diego office investigated and recommended for prosecution income tax evasion, domestic and foreign money laundering, currency report violations, and made civil and criminal asset seizures. The prosecution of the financial aspects of criminal cases was the result of many successful joint agency investigations that included investment schemes, health care, telemarketing, bankruptcy, narcotics, smuggling, bribery, forgery, and financial institution failures.



In 2001, Al was the Methamphetamine Program Coordinator for the San Diego/Imperial County Narcotic Information Network (NIN) and was responsible for developing a process to improve law enforcement's ability to identify methamphetamine trafficking organizations. With the San Diego private investigation firm, Baker Street Group, Inc, Al was the firm's specialist in forensic accounting techniques, anti-money laundering, and asset location from 2002 until joining the Office of the City Auditor. Al has a Bachelor of Business Administration degree with a concentration in Accounting and a Master of Business Administration degree. He is a Certified Fraud Examiner (CFE) and a member of the International Association for Asset Recovery (IAAR).

**Fiscal Year 2010 Third Quarter Results by Complaint Types  
(January 1, 2010 – March 31, 2010)**

During the third quarter of Fiscal Year 2010, 12 complaints were filed with the Hotline. Of the 12 complaints received, four (33%) were classified as fraud, waste, or abuse. The remaining complaints involved Policy Issues (25%); Customer Relations (8.3%), Kickbacks (8.3%), Employee Relations (8.3%), Safety Issues/ Sanitation (8.3%), and Wage/Hour Issues (8.3%). Table 1 lists the number of complaints received during the second quarter by category.

**Table1**

<b>Category</b>	<b>Quarter 3 Jan- Mar</b>	<b>Percent</b>
<b>Policy Issues</b>	<b>3</b>	<b>25.0%</b>
<b>Fraud</b>	<b>3</b>	<b>25.0%</b>
<b>Customer Relations</b>	<b>1</b>	<b>8.3%</b>
<b>Kickbacks</b>	<b>1</b>	<b>8.3%</b>
<b>Employee Relations</b>	<b>1</b>	<b>8.3%</b>
<b>Safety Issues/ Sanitation</b>	<b>1</b>	<b>8.3%</b>
<b>Waste and Abuse</b>	<b>1</b>	<b>8.3%</b>
<b>Wage/Hour Issues</b>	<b>1</b>	<b>8.3%</b>
<b>Total</b>	<b>12</b>	<b>100.0%</b>

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

As shown in Table 2 below, a total of 41 complaints were made to the Hotline for the first three quarters of fiscal year 2010. Of these complaints, 13 warranted City Auditor investigation, and 28 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 at 15, 14, and 12 respectively. As reported in previous quarterly reports, the Hotline Intake

Review Committee reviews non-fraud related complaints and departments perform follow-up investigations.

**Table 2**

<b>Category</b>	<b>Quarter 1 Jul. – Oct.</b>	<b>Quarter 2 Oct. – Dec.</b>	<b>Quarter 3 Jan- Mar</b>	<b>Subtotal</b>	<b>Percent</b>	<b>City Auditor Investigations</b>	<b>Referred to Departments</b>
Policy Issues	3	2	3	8	19.5%	0	8
Fraud	3	5	3	11	26.8%	9	2
Customer Relations	2	1	1	4	9.8%	0	4
Discrimination	2	2	0	4	9.8%	1	3
Kickbacks	0	0	1	1	2.4%	1	0
Employee Relations	1	1	1	3	7.3%	0	3
Conflicts of Interest	1	0	0	1	2.4%	0	1
Safety Issues/ Sanitation	0	0	1	1	2.4%		1
Waste and Abuse	1	3	1	5	12.2%	2	3
Retaliation of Whistleblowers	1	0	0	1	2.4%	0	1
Wage/Hour Issues	0	0	1	1	2.4%		1
Workplace Violence	1	0	0	1	2.4%	0	1
<b>Total</b>	<b>15</b>	<b>14</b>	<b>12</b>	<b>41</b>	<b>100%</b>	<b>13</b>	<b>28</b>

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

As reported, 41 complaints were made to the Hotline between July 2009 and March 2010. In addition, at the end of the previous fiscal year ended June 30, 2009, 22 complaints remained open and unresolved for a total of 63 complaints. Table 3 below summarizes the status of these 63 complaints. Thirty-three (33) of the 63 remain open/unresolved and 30 were closed. Of the 30 that were closed, 11 were substantiated and/or corrective actions were taken, and 19 were unsubstantiated.

**Table 3**

<b>Complaint Status</b>	<b>City Auditor Investigations</b>	<b>Referred to Departments</b>	<b>Total</b>	<b>Percent</b>
Complaints Open and Unresolved	15	18	33	52.4%
Investigations Closed	8	22	30	47.6%
Substantiated/Corrective Action	1	10	11	36.7%
Unsubstantiated	7	12	19	63.3%
<b>Total</b>	<b>23</b>	<b>40</b>	<b>63</b>	<b>100.0%</b>

Table 4 below is a summary of the 23 City Auditor Fraud Hotline investigations through the end of the first quarter of fiscal year 2010 (March 31, 2010), 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 (March 31, 2010)**

Table 4

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	Complaint Substantiated/ Corrective Action Taken
2	Policy Issues	Allegation of employees being pressured to circumvent City policy	Complaint Unsubstantiated
3	Fraud	Allegation regarding the sale of a City asset	Complaint Unsubstantiated
4	Policy Issues	Allegation that the City was overcharged for Pension contributions	Complaint Unsubstantiated
5	Policy Issues	Allegation that the City was overcharged for Pension contributions	Complaint Unsubstantiated
6	<i>Falsification of Company Records</i>	<i>Allegation, previously investigated, of an employee submitting invalid education and prior work experience</i>	<i>Complaint duplicate information with #1 above</i>
7	Sexual Harassment	Allegation of improper behavior towards minors during work hours	Complaint Unsubstantiated
8	Waste and Abuse	Allegation of inefficiencies regarding the City's work order system	Complaint Unsubstantiated
9	Customer Relations	Allegation of not adequately coordinating City repairs resulting in waste of resources	Referred Awaiting Response
10	Policy Issues	Allegation of unnecessary destruction of City supplies	Referred Awaiting Response
11	Accounting/Audit Irregularities	Allegation of accounting irregularities involving receipt and deposit of City funds	Referred Awaiting Response
12	Customer Relations	Allegation of not adequately coordinating City repairs resulting in waste of resources	Referred Awaiting Response
13	Fraud	Allegation of embezzlement by a City employee	Complaint Open/Unresolved
14	Fraud	Allegation of abuse of public moneys to a group/association	Complaint Open/Unresolved

No.	Call Category	General Description of Complaint	Outcome / Status
15	Fraud	Allegation of possible misappropriation of funds by an agency	Complaint Open/Unresolved
16	Fraud	Allegation of excessive overtime	Complaint Open/Unresolved
17	Fraud	Allegation of contracting irregularities	Complaint Open/Unresolved
18	Fraud	Allegation of theft of materials	Complaint Open/Unresolved
19	Waste and Abuse	Allegation of lack of internal controls and improper expenditures by an agency	Complaint Open/Unresolved
20	Waste and Abuse	Allegation of City staff wasting resources on projects unlikely to be funded	Complaint Open/Unresolved
21	Fraudulent Insurance Claims	Allegation of fraudulent disability claim	Complaint Open/Unresolved
22	Kickbacks	Allegation of supervisor receiving kickbacks for making favorable work assignments	Complaint Open/Unresolved
23	Fraud	Allegation of abuse of public moneys to a group/association	Complaint Open/Unresolved

### 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 three quarters of fiscal year 2010, the Hotline received seven complaints that were labeled as fraud, waste and abuse related that were not investigated by the Office of the City Auditor. Of these seven fraud-related complaints, five were referred to departments for investigation, and two were passed on because they were outside our purview. A summary of these seven complaints is shown in Table 5 below including the call category, a description of the complaint, and the case status.

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

**Table 5**

<b>No.</b>	<b>Call Category</b>	<b>General Description of Complaint</b>	<b>Outcome / Status</b>
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 Unsubstantiated
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
6	Fraud	Fraud allegation issues were previously reviewed by City Auditor and other non-fraud issues referred to Department	Complaint Open/Unresolved
7	Waste and Abuse	Allegation of department operating outside its operating guidelines	Complaint Open/Unresolved

♦ 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 three quarters of fiscal year 2010 (July 1, 2009 – March 31, 2009) we have spent approximately 1041 hours investigating 23 Fraud Hotline complaints, and 15 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