

## Section 9

### Fraud Hotline Procedures

In this section of the audit manual, we discuss the City Auditor's policy and procedures for reviewing and reporting on Fraud Hotline referrals.

#### Overview of the Employee Hotline & Complaint Program

##### Introduction

The Office of the City Auditor, through a third party provider, administers the City's Employee Fraud Hotline. The City Auditor also directly accepts employee and citizen complaints. The primary objective of the Employee Hotline/Complaint program 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).

Upon completion of a hotline call, the third-party provider sends Incident Reports to the City Auditor and his or her representative. On a regular basis, the City Auditor will convene a Hotline Intake Review Committee to review (non-fraud) complaints related to personnel, discrimination, and harassment, and employee relation-related complaints. The Hotline Intake Review team will include the following: (1) City Auditor (2) Labor Relations Director, and (3) Personnel Director or their designees. All non-fraud complaints and concerns are reviewed by the Intake and Review Committee for a determination of whether the allegation(s) are credible and the appropriate referral for action. Complaints or allegations related to significant fraud, waste, or abuse will be investigated by City Auditor staff and not referred to the Hotline Intake Review Team.

##### Incident Report Dissemination

Incident Reports are disseminated by the third-party provider, within two hours via email to the City Auditor and his or her designee. As complaints are received, the City Auditor reviews and evaluates the seriousness of the allegation(s) to determine if the Intake and Review Committee should meet immediately for non-fraud related complaints. Otherwise, the Intake and Review Committee convenes every two weeks to review the non-fraud Incident Reports received to decide upon the referral of each report or any other appropriate action. A complaint may be referred to:

- Deputy Chief
- Department Director
- Ethics Commission
- Citizens Review Board of Police Practices
- Equal Employment Investigation Office

- Other referral as deemed appropriate by the Committee

The Office of the City Auditor will perform an investigation following the procedures recommended by the Association of Certified Fraud Examiners for any allegations of improper financial activity and fraud, waste and/or abuse that appear to be material in nature. The scope of the investigation will be to determine if the accusations made are valid and to determine if there are any potential internal control weaknesses that need to be corrected that allowed fraud, waste and/or abuse to occur.

For each significant fraud related allegation, preliminary evidence will be gathered such as reviewing the information provided via the hotline, reviewing other pertinent records and interviewing appropriate witnesses to assess if the allegation appears to be valid. The City Auditor will notify and consult with the Police Department and City Attorney for any circumstances that appear to involve criminal activity. Investigative procedures will continue for each significant allegation until a case can be made for prosecution or it is determined that there is insufficient evidence of fraud. Investigative procedures will include but are not limited to:

- Documenting the allegation in writing;
- Interviewing potential witnesses and documenting the information gathered;
- Identifying all possible schemes or indicators of fraud related to the allegation;
- Notifying and consulting with the Police Department and City Attorney's Office;
- Developing an investigative plan and determining the type of evidence to pursue; and
- Gathering evidence and performing analysis as is appropriate, such as:
  - Reviewing accounting records, payroll records, bank records, canceled checks, credit card records, etc.
  - Downloading and analyzing electronic data
  - Reviewing emails and written correspondences
  - Imaging computer hard drives and reviewing the files and activities

The City Auditor will maintain the appropriate level of confidentiality regarding all complaints. Any audit reports issued to the public will not include any confidential information that cannot be disclosed, such as personnel issues.

For any internal control weakness that are identified during the investigation of hotline complaints, a Hotline Investigation Report will be issued with appropriate recommendations to correct the deficiencies found. If the deficiencies found during a Hotline Investigation appear to be material, the City Auditor will determine if an audit needs to be performed in compliance with Generally Accepted Government Auditing Standards to determine the extent of the internal control weaknesses identified. If this occurs, the Fieldwork Standards, Audit

Planning, and Reporting of Audit Results described in Sections 4 through 7 of this manual will be followed for all audits of internal controls resulting from Hotline referrals.

### **Reporting**

On a quarterly basis, the City Auditor will provide a summary report to the Audit Committee regarding the number of calls to the hotline, category of calls received, and call disposition. The Audit Committee will place on the meeting agenda a quarterly update from the City Auditor regarding the hotline. The City Auditor will make a presentation regarding the hotline results.