



THE CITY OF SAN DIEGO

DATE: October 25, 2011

TO: Beth Murray, Deputy Director
Economic Development Division

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

SUBJECT: **Hotline Investigation Report of False Request for Reimbursement**

The Office of the City Auditor conducted an investigation into an allegation that a non-profit organization knowingly submitted a Community Development Block Grant (CDBG) reimbursement request for over \$20,000 for work that did not qualify for reimbursement. In order to qualify for reimbursement under the CDBG contract, approval of a project must be obtained before the work is started. The complaint alleged that the organization submitted the request for work to be done knowing that the work had already been completed. We concluded that the allegation was SUBSTANTIATED.

We found that the scope of work relating to tasks that were approved for reimbursement had already been completed. We determined that the final inspection of the completed work for the project had already been approved prior to the date that the organization was given authority to begin the work. In addition, it appears that the organization submitted false bids to support the three-bid requirement for the work, and an executive of the organization had a conflict of interest with the contractor selected. This matter will be referred to law enforcement for potential criminal prosecution for fraud and falsification of CDBG reimbursement documents.

Recommendation

We recommend the Economic Development Division issue a demand letter for return of the CDBG funds that were paid to the non-profit organization for work that appears to have been completed before the reimbursement agreement was authorized.

Economic Development Division Response

We agree to issue a demand letter to the non-profit organization requesting the return of CDBG funds that were used for work that appears to have been completed prior to the executed agreement.



We appreciate the assistance we received from the Economic Development Division staff during our investigation. Thank you for taking action on this issue.

A handwritten signature in cursive script that reads "Eduardo Luna". The signature is written in black ink on a light-colored background.

Eduardo Luna
City Auditor

cc: Honorable Mayor Jerry Sanders
Honorable City Council Members
Honorable Audit Committee Members
Jay M. Goldstone, Chief Operating Officer
Wally Hill, Assistant Chief Operating Officer
Mary Lewis, Chief Financial Officer
Jan Goldsmith, City Attorney
Andrea Tevlin, Independent Budget Analyst