



THE CITY OF SAN DIEGO

DATE: October 6, 2016

TO: Honorable Members of the Audit Committee

FROM: Eduardo Luna, City Auditor

SUBJECT: City Auditor's Quarterly Fraud Hotline Report – Fiscal Year 2017 Quarter 1

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 a City employee or citizen to confidentially report any activity or conduct—related to or involving City personnel, resources, or operations—for which he or she suspects instances of fraud, waste, or abuse.

The City's Fraud, Waste, and Abuse Hotline is operated pursuant to California Government Code §53087.6. The Statute defines fraud, waste, or abuse as “any activity by a local agency or employee that is undertaken in the performance of the employee's official duties, including activities deemed to be outside the scope of his or her employment, that is in violation of any local, state, or federal law or regulation relating to corruption, malfeasance, bribery, theft of government property, fraudulent claims, fraud, coercion, conversion, malicious prosecution, misuse of government property, or willful omission to perform duty, is economically wasteful, or involves gross misconduct.”

The statute also requires that investigations conducted pursuant to its authority be 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.

The Network, an independent third-party provider, accepts calls from City employees and the public at (866) 809-3500 or online at www.sandiego.gov/fraudhotline. Callers can choose to remain anonymous and all information provided via the Hotline will remain confidential. The Network prepares a report for each complaint received and sends them to the Office of the City Auditor via email. Complaints can also be submitted directly to the Office of the City Auditor, or online by following a link labeled “Fraud, Waste, and Abuse Hotline” on the City Auditor's home page.

Complaints Received in the First Quarter of Fiscal Year 2017

During the first quarter of Fiscal Year 2017 (July – September 2016), we received 44 Fraud Hotline complaints. Ten new complaints were investigated by the Office of the City Auditor. Twenty complaints were presented to the Intake and Review Committee to be referred to City Departments for investigation and resolution. Fourteen complaints were not in the purview of the Fraud Hotline and were referred to the proper authorities. **Table 1** below summarizes the types of complaints received during Fiscal Year 2017.

Table 1 – Complaints Received in Fiscal Year 2017

City Auditor Investigations	Qtr 1	Total FY 17
Fraud	2	2
Waste and Abuse	8	8
Subtotal OCA Investigations	10	10
City Department Investigations		
Discrimination	2	2
Employee Relations	2	2
Miscellaneous	1	1
Safety and Sanitation	2	2
Theft of Time	2	2
Waste and Abuse	11	11
Subtotal Department Investigations	20	20
Total Complaints Received In Purview of Fraud Hotline	30	30
Direct Referrals, Non-City Complaints or Complaints Not in Purview of Fraud Hotline	14	14
Total Complaints Received in FY 17	44	44

Status of Hotline Complaints

As reported, 44 complaints were filed with the Hotline between July 1, 2016 and September 30, 2016. It was determined that 14 of these complaints were not in the purview of the Fraud Hotline, leaving 30 complaints that were added to the inventory.

In addition to the receipt of 30 new complaints for investigation, 24 City-related complaints remained open and unresolved at the end of the previous quarter, resulting in an active inventory of 54 complaints during the first quarter of Fiscal Year 2017. **Table 2** summarizes the status of Fraud Hotline Complaints for the first quarter of Fiscal Year 2017.

Twenty-nine of the 54 active complaints remain open and unresolved, and 25 were closed. Four City Auditor investigations were found to be substantiated and seven were unsubstantiated or were otherwise resolved. The allegations made in two Department investigations were found to be substantiated, six were closed with corrective action, and six were unsubstantiated or were otherwise resolved.

Table 2 – Status of Fraud Hotline Complaints

Complaint Status	City Auditor Investigations	Referred to Dept.	Total City-Related	Not in Hotline's Purview	Total
Unresolved on 7/1/16	14	10	24	0	24
Received in 1 st Quarter	10	20	30	14	44
Subtotal – Active Inventory	24	30	54	14	68
Complaints Closed	-11	-14	-25	-14	-39
Substantiated	-4	-2	-6	0	-6
Corrective Action	-0	-6	-6	0	-6
Unsubstantiated/other	-7	-6	-13	-14	-27
Unresolved on 9/30/16	13	16	29	0	29

City Auditor Investigations Summary

Table 3 summarizes the status of the 24 active City Auditor Fraud Hotline investigations during the first quarter of Fiscal Year 2017, including the incident type, complaint number, date the complaint was received, and a general description of the complaint, case status, and the final resolution.

Table 3 – Status of City Auditor Hotline Investigations

No.	Incident Type	Complaint #	Received	Date	Status/Outcome	Date
	Allegation/Outcome					
1	Waste and Abuse	121842995	Received	7/29/15	Substantiated	8/4/16
	<p>An allegation that the Public Utilities Department’s staff was manipulating the selection phase of the hiring process to create an unfair advantage for friends and family-members of City employees was investigated. Our investigation found sufficient evidence to support the allegation of abuse. We made eight recommendations to improve the selection process and hold the responsible parties accountable. The Departments agreed to implement all eight recommendations.</p> <p>A public report was issued on August 4, 2016, and can be found at: www.sandiego.gov/sites/default/files/pud_selection_phase_of_the_hiring_process.pdf</p> <p>A detailed confidential report was also provided to City management.</p>					
2	Fraud	122518497	Received	11/23/15	Substantiated	8/18/16
	<p>An allegation that City employees were enrolling their children and grandchildren in Park and Recreation Department activities without paying the required fees was investigated and substantiated. We made two recommendations to improve oversight and hold the responsible parties accountable. The Department agreed to implement both recommendations.</p> <p>A public report was issued on August 18, 2016, and can be found at: www.sandiego.gov/sites/default/files/17-004_hotline_investigation_prd_fee_collection_abuse.pdf</p> <p>A detailed confidential report was also provided to City management.</p>					
3	Fraud	122692752	Received	12/24/15	Substantiated	9/15/16
	<p>An allegation regarding unauthorized fee waivers was investigated and substantiated. A confidential report was provided to the Department and management will take the appropriate corrective action with respect to the identified employee.</p> <p>A separate public report was not generated because the identified employee did not personally benefit from the waived fees and the total dollar amount involved was relatively small.</p>					

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No.	Incident Type	Complaint #	Received	Date	Status/Outcome	Date
Allegation/Outcome						
4	Fraud	122933242	Received	2/6/16	Substantiated	9/19/16
	An allegation regarding a contract that was awarded in violation of State law was investigated and found to be substantiated. The contract was deemed to have created a conflict of interest that was prohibited by California Government Code Section 1090, and was therefore void and unenforceable. The contract will be awarded to a different firm.					
5	Miscellaneous	123110268	Received	3/8/16	Unsubstantiated	8/30/16
	An allegation regarding contracts awarded by a City-created non-profit was investigated and found to be unsubstantiated.					
6	Fraud	123417309	Received	5/1/16	Unsubstantiated	8/15/16
	An allegation of theft of City property was investigated and found to be unsubstantiated.					
7	Waste and Abuse	123608315	Received	6/6/16	Unsubstantiated	9/29/16
	An allegation that permits are being issued despite unpaid deposit account balances due was investigated. The allegation of abuse of the collection process by City staff was found to be unsubstantiated.					
8	Waste and Abuse	123945722	Received	8/8/16	Unsubstantiated	9/1/16
	An allegation regarding a frivolous Business Tax Notice of Violation was investigated and found to be unsubstantiated.					
9	Fraud	124047099	Received	8/26/16	Unsubstantiated	9/29/16
	An allegation regarding improper billing by the Public Utilities Department was investigated and found to be unsubstantiated.					
10	Fraud	123473443	Received	5/10/16	No Further Action Necessary	9/20/16
	An allegation regarding financial fraud at a City facility was previously reported to the City and management was already conducting an investigation in response to the initial report. No further action is necessary.					
11	Waste and Abuse	123977513	Received	8/14/16	No Further Action Necessary	9/29/16
	An allegation regarding management's abuse of a hiring process was referred to the appropriate agency and closed. No further action is necessary.					
12	Fraud	122198989	Received	9/30/15	Open/Unresolved	
	Allegation regarding fraud in public works contracting.					
13	Fraud	122751508	Received	1/7/16	Open/Unresolved	
	Allegation regarding theft of registration fees for recreation activities.					
14	Policy Issues	123214299	Received	3/25/16	Open/Unresolved	
	Allegation of violations of City policy regarding P-card use.					

No.	Incident Type	Complaint #	Received	Date	Status/Outcome	Date
Allegation/Outcome						
15	Waste and Abuse	123350283	Received	4/18/16	Open/Unresolved	
	Allegation regarding P-Card abuse.					
16	Waste and Abuse	123371674	Received	4/22/16	Open/Unresolved	
	Allegation of the personal use of a City vehicle.					
17	Waste and Abuse	123608506	Received	6/6/16	Open/Unresolved	
	Allegation that a company that contracts with the City does not hold the required insurance and may have submitted false information.					
18	Waste and Abuse	123958828	Received	8/10/16	Open/Unresolved	
	Allegation regarding incorrect payroll entries.					
19	Fraud	123988094	Received	8/16/16	Open/Unresolved	
	Allegation regarding poor inventory controls and possible theft of equipment.					
20	Waste and Abuse	123998060	Received	8/17/16	Open/Unresolved	
	Allegation regarding an unfair promotion process for two City employees.					
21	Waste and Abuse	124129215	Received	9/12/16	Open/Unresolved	
	An allegation regarding improper hiring at a City Department.					
22	Waste and Abuse	124147126	Received	9/14/16	Open/Unresolved	
	Allegation regarding improper conduct related to public works contracts.					
23	Waste and Abuse	124155860	Received	9/16/16	Open/Unresolved	
	Allegation regarding policy violations by management.					
24	Waste and Abuse	124221807	Received	9/28/16	Open/Unresolved	
	Allegation regarding abuse of City vehicle privileges by management.					

City Department Investigations Summary

The City Auditor, through the Intake and Review Committee, reviews the final resolution of complaints investigated by the departments to ensure that the department has taken the proper actions to resolve the complaint. A complaint whose allegations cannot be substantiated can still result in the department taking corrective, proactive, or preventative measures to reinforce a policy or procedure, or to improve City operations.

Table 4 below summarizes the status of the 30 active Fraud Hotline investigations conducted by the Departments during the first quarter of Fiscal Year 2017, including the incident type, a general description of the complaint, and the case status.

Table 4 – Status of Department-Investigated Fraud Hotline Complaints

No.	Incident Type	Complaint #	Received	Date	Status/Outcome	Date
	Allegation/Outcome					
1	Theft of Time	122942381	Received	2/8/16	Substantiated	7/27/16
	An allegation that a City employee engaged in criminal activity using a City vehicle was investigated and substantiated. SDPD was informed and the Department took the appropriate corrective action with respect to the identified employee.					
2	Waste and Abuse	123740081	Received	6/29/16	Substantiated	9/21/16
	Allegation regarding personal use of City equipment was investigated and substantiated. The Department took the appropriate corrective action with respect to the identified employee.					
3	Waste and Abuse	123591789	Received	6/2/16	Corrective Action	8/10/16
	An allegation that City employees were parking illegally and blocking traffic during shift changes was investigated and resulted in corrective action. The Department verbally reminded staff of parking procedures and management will monitor for compliance.					
4	Fraud	123691515	Received	6/21/16	Corrective Action	8/10/16
	An allegation regarding theft of water from a fire hydrant was investigated and resulted in an Administrative Warning.					
5	Substance Abuse	123737442	Received	6/29/16	Corrective Action	9/21/16
	An allegation regarding substance use by two employees was investigated and found to be unsubstantiated. The Department will conduct a refresher training on the signs of impairment due to controlled substances.					
6	Waste and Abuse	123794390	Received	7/11/16	Corrective Action	9/21/16
	An allegation regarding misuse of City computers was investigated. The Department sent a reminder to staff regarding the acceptable use of City IT resources.					

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No.	Incident Type	Complaint #	Received	Date	Status/Outcome	Date
Allegation/Outcome						
7	Waste and Abuse	123859642	Received	7/22/16	Corrective Action	8/10/16
	An allegation regarding City employees wasting time was investigated and resulted in corrective action. The Department took the appropriate corrective action with respect to the identified employees.					
8	Waste and Abuse	123877462	Received	7/26/16	Corrective Action	9/21/16
	An allegation regarding a City employee misusing City computer equipment was investigated. The Department took the appropriate corrective action with respect to the identified employee.					
9	Fraud	123063192	Received	2/29/16	Unsubstantiated	7/13/16
	An allegation regarding workers' compensation abuse was investigated and found to be unsubstantiated.					
10	Miscellaneous	123656253	Received	6/15/16	Unsubstantiated	8/10/16
	Allegations regarding improper "Earthquake Fault Zone" and financial reports were investigated and found to be unsubstantiated.					
11	Waste and Abuse	123909792	Received	8/2/16	Unsubstantiated	9/21/16
	An allegation regarding a City employee's performance was investigated and found to be unsubstantiated.					
12	Miscellaneous	123932527	Received	8/5/16	Unsubstantiated	9/21/16
	An allegation regarding a Code violation at a private residence was investigated and found to be unsubstantiated.					
13	Waste and Abuse	123940023	Received	8/8/16	Unsubstantiated	9/21/16
	An allegation regarding a City employee wasting City time and computer resources was investigated and found to be unsubstantiated.					
14	Waste and Abuse	123954194	Received	8/10/16	Unsubstantiated	9/21/16
	An allegation regarding improper hiring at a City Department was investigated and found to be unsubstantiated.					
15	Waste and Abuse	123186170	Received	3/21/16	Open/Unresolved	
	Allegation regarding workers' compensation abuse.					
16	Waste and Abuse	123351324	Received	4/19/16	Open/Unresolved	
	Allegation regarding waste due to incorrect time entries in the payroll system for a City Department.					
17	Discrimination	123621050	Received	6/8/16	Open/Unresolved	
	Allegation of unfair promotions.					

No.	Incident Type	Complaint #	Received	Date	Status/Outcome	Date
Allegation/Outcome						
18	Discrimination	123922160	Received	8/3/16	Open/Unresolved	
	Allegation regarding discrimination in a hiring process.					
19	Waste and Abuse	123972257	Received	8/12/16	Open/Unresolved	
	Allegation regarding abuse of leave time.					
20	Waste and Abuse	124091435	Received	9/4/16	Open/Unresolved	
	Allegation regarding harassment and abuse by management.					
21	Waste and Abuse	124146708	Received	9/14/16	Open/Unresolved	
	Allegation of abuse by a City employee.					
22	Waste and Abuse	124145846	Received	9/14/16	Open/Unresolved	
	Allegation regarding favoritism by a supervisor.					
23	Discrimination	124164949	Received	9/18/16	Open/Unresolved	
	Allegation regarding unfair treatment of employees.					
24	Theft of Time	124188855	Received	9/22/16	Open/Unresolved	
	Allegation regarding inappropriate behavior by City staff.					
25	Safety and Sanitation	124201048	Received	9/24/16	Open/Unresolved	
	Allegation regarding a Code violation at a private residence.					
26	Employee Relations	124208091	Received	9/26/16	Open/Unresolved	
	Allegation regarding unequal treatment of staff by supervisors.					
27	Safety and Sanitation	124208884	Received	9/26/16	Open/Unresolved	
	Allegation regarding an unsafe building.					
28	Waste and Abuse	124216780	Received	9/27/16	Open/Unresolved	
	Allegation regarding improper employee parking notifications.					
29	Theft of Time	124238032	Received	9/30/16	Open/Unresolved	
	Allegation regarding theft of time by a supervisor.					
30	Employee Relations	124238434	Received	9/30/16	Open/Unresolved	
	Allegation regarding verbal abuse by a supervisor.					

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Conclusion

The Office of the City Auditor is dedicated to ensure that all reported claims of fraud, waste, and abuse related to City operations are investigated and properly resolved. In Fiscal Year 2017, we have applied approximately 585 hours administering the Fraud Hotline, coordinating Intake and Review Committee activities, and investigating Fraud Hotline complaints.

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

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

cc: Honorable Mayor Kevin Faulconer
Honorable Members of the City Council
Scott Chadwick, Chief Operating Officer
Stacey LoMedico, Assistant Chief Operating Officer
Jan Goldsmith, City Attorney
Andrea Tevlin, Independent Budget Analyst