

# Office of the City Auditor City of San Diego

## **Hotline Investigation Report of Abuse from the Sale of Scrap Metal**

**Audit Committee Meeting, October 11, 2010**



# Introduction

- The Office of the City Auditor conducted an investigation in response to a complaint made to the City's Fraud Hotline. The complaint alleged that employees of a division in the General Services Department sold scrap metal salvaged from City projects for approximately \$5,000 and intentionally diverted \$3,000 of the proceeds of the sale to purchase raffle items for the raffle held at the Safety Awards banquet in 2009.
- The investigation concluded that the allegation is substantiated.

# Background

- The original procedure required that scrap sales be deposited to a City bank account via a Daily Cash Receipt (DCR) and those funds would be held by the City Treasurer “in trust” and withdrawals from employee recognition events could be made via a Direct Payment (DP). Staff explained that this practice was abandoned and thereafter each division managed its own employee recognition programs.
- Typically, the proceeds from the sale of scrap would be put into the safe and then used to fund recognition ceremonies.
- A supervisor stated that there are no formal written procedures for the inventory and sale of scrap metal. The supervisor stated that there was no procedure for the collection and/or removal of scrap metal from the jobsite and that there were no controls over scrap metal for the division.

# **Safety Awards Banquet 2009**

- In December 2009, an employee recycled scrap metal and received payments of \$488.65 and \$4,649.05. The scrap was salvaged from various City jobsites. The employee received a check, cashed the check, withheld \$16 which he reported was provided to the yard workers as a tip, and transferred \$5,122 in cash to another employee who was the committee chairperson.
- The committee members utilized the proceeds from the sale of scrap metal to purchase the food, decorations, and raffle gifts for the banquet.

# Safety Awards Banquet 2009

The following is a summary of the receipts that the employees provided:

• Sale of Scrap Metal	\$5,137.70	
• Less Tip	<del>\$ -16.00</del>	
• Net proceeds from Scrap Sales		\$5,122.00
• Banquet Expenses:		
• Decoration	\$ 47.71	
• Food Items	\$ 945.64	
• Gift Cards	\$ 340.98	
• Raffle Prizes	\$3,669.34	
• Ribbon	<u>\$ 54.79</u>	
• Total Banquet Expense		\$5,058.46

- The raffle prizes included TVs, GPS devices, Blu-Ray DVD players, iPods, gifts cards, cameras, game consoles, etc. No record of the results of the raffle was located.
- The committee sold raffle tickets. The committee chairperson stated that the proceeds from the raffle (approximately \$1,200) were put into the safe intact. None of the raffle proceeds were used to fund any aspect of the 2009 Safety Awards event.

**Source:** Receipts provided

# Accounting and Reconciliation of Scrap Metal Sales

- The analysis of the recycling receipts received from the employees and the recycling companies indicate the following quantities and dollar amounts received from recycling scrap metal that includes copper, brass, stainless steel, and miscellaneous scrap:

Fiscal Year	Quantity/pounds	Amount
2010	5,398	\$5,968.38
2009	2,597	\$2,088.04
2008	1,216	\$1,954.38
2007	680	\$568.22
2006	2,545	\$5,758.06
2005	3,217	\$4,381.78
2004	194	\$538.95
Total	15,847	\$21,257.81

Source: Recycling receipts

# Summary of Findings

- The investigation was not able to determine if all of the above-reflected scrap metal recycling transactions were salvaged from City projects.
- The records maintained by staff did not reconcile with the information received from the employees and recyclers, so it is not known if the proceeds of all scrap metal recycling transactions were utilized for employee recognition or diverted for personal gain.
- All recyclers require government issued identification and most of the receipts included the employees' home address rather than the division's City address.

# Relevant Policy & Procedure

- **Cost of Meals for Special Recognition Events**

The City's Administrative Regulation (A.R.) 95.40 defines "special recognition of employees" as an "in-town" reimbursable expense that could include the cost of meals. A.R. 95.40 also provides procedures whereby the appointing authority can approve safety award dinners.

- **Private Use of City Labor, Equipment, Materials and Supplies**

A.R. 45.50 prohibits the private use of City labor, equipment, materials and supplies. Section 2.3 states that "No distinction is to be made as to the condition of the equipment and materials. This regulation applies equally to items classified as salvage, scrap, or junk."



# Recommendations

- We made six recommendations for the General Services Department to manage and monitor scrap metal, especially for the most valuable metals such as copper.
- The General Services Department agreed to implement all six recommendations.

# Conclusion

**Fraud Hotline (866) 809-3500**