



THE CITY OF SAN DIEGO

DATE: July 21, 2010

TO: Mario Sierra, Director
General Services Department

FROM: Eduardo Luna, City Auditor

SUBJECT: **Hotline Investigation Report of Abuse from the Sale of Scrap Metal**

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

Information from employees and managers interviewed indicates that there has been a long-standing practice of utilizing the proceeds from the sale of scrap metal to fund employee recognition events. A staff member stated that 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. It was stated that 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. It was stated that the employees were on an honor system and the fact that the proceeds from the sale of scrap came back to the employees in the form of funding recognition events or for purchasing tools contributed to reinforcing the honor system. It was also explained that there is an employee committee that maintains soft drink and other vending snacks and that committee is responsible for organizing the employee recognition ceremonies.



Safety Awards Banquet

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

Sale of Scrap Metal	\$5,137.70
Less Tip	<u>\$ -16.00</u>
Net proceeds from Scrap Sales	\$5,122.00

Banquet Expenses:

Decorations	\$ 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.

Accounting and Reconciliation of Scrap Metal Sales

A senior supervisor confirmed that there are no formal written procedures for the sale of scrap metal and other salvageable materials. At the initial interview, the senior supervisor provided a list of scrap metal sales compiled by an administrative assistant. The list did not include all of the scrap metal sales made by the division employees.

The proceeds from the sale of scrap and from raffle tickets are kept in the office safe in cash. Other staff confirmed that there is no formal accounting records kept with this cash.

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

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.

The Purchasing & Contracting Department has a citywide scrap metal recycling contract. Vendor services bins can be placed onsite and the market price is received for copper, brass, aluminum, stainless steel, and miscellaneous scrap metal. Purchasing & Contracting saw no impediment to this division of the General Services Department participating in this citywide contract.

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.”

Conclusion

Our investigation concluded that the allegation was substantiated and that scrap metal was sold by City employees and the proceeds used to fund both food and the purchase of raffle gifts for City employees by a division of the General Services Department.

The investigation also found that there are incomplete and inconsistent records relating to the sale of scrap metal and other recyclables that totaled in excess of \$21,000 during the fiscal years 2004 through 2010. Reports of the sale of scrap metal received from the supervisors did not agree with information obtained from employees and from local recycling companies that employees sold scrap metal to. It is not known whether employees were recycling the City’s scrap metal or were recycling scrap metal they collected that was not City property. It is also not known due to lack of City records whether employees recycled City scrap metal for their personal gain. It appears that scrap metal recycling done during normal business hours and/or transported in City vehicles would include the City’s scrap metal.

The balance of the proceeds of the sale of scrap metal and from the proceeds of the sale of raffle tickets is maintained in the office safe in a manila envelope. The approximate balance of cash in this fund on May 27, 2010 was \$1,900.

Recommendations

Based on our observations during this investigation we recommend that the General Services Department implement a process to manage and monitor scrap metal, especially for the more valuable metals of copper, brass, and aluminum. The process should include:

- All proceeds from the sale of scrap metal should be deposited with the City’s General Fund;
- Affirmation by top management that recycling of appropriate materials is an integral part of all employee’s duties;
- Utilize the citywide contract for all scrap metal recycling transactions;
- Establishment of a log or other procedures to track scrap metal and other recyclables as they are returned to the division’s headquarters;

- The scrap inventory log should be reconciled with vendor records to ensure that scrap metal and other recycling proceeds are properly deposited;
- Utilize the In-Town Reimbursable Expense procedures detailed in Administrative Regulation 95.40 to fund the Safety Awards dinner and other employee recognition events.

Attached is the written response the General Services Director provided indicating that all of the recommendations will be implemented. We appreciate the cooperation we received from General Services' staff during our investigation. Thank you for taking action on this issue.



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
David Jarrell, Deputy Chief of Public Works
Mary Lewis, Chief Financial Officer
Jan Goldsmith, City Attorney
Andrea Tevlin, Independent Budget Analyst



THE CITY OF SAN DIEGO

MEMORANDUM

DATE: July 20, 2010

TO: Eduardo Luna, City Auditor

FROM: Mario X. Sierra, Director, General Services Department

SUBJECT: Response to Hotline Investigation Report of Abuse from the Sale of Scrap Metal

I have reviewed the report by The Office of the City Auditor dated June 29, 2010 that conducted an investigation in response to a complaint made to the City's Fraud Hotline. The following are the recommendations identified in the report followed by my response.

Recommendations

Based on our observations during this investigation we recommend that the General Services Department implement a process to manage and monitor scrap metal, especially for the more valuable metals of copper, brass, and aluminum. The process should include:

1. All proceeds from the sale of scrap metal should be deposited with the City's General Fund;

RESPONSE: All sales from scrap metal will be deposited in the City's General Fund effective immediately.

2. Affirmation by top management that recycling of appropriate materials is an integral part of all employee duties;

RESPONSE: The Deputy Director will issue a memo reminding all employees of the benefits of recycling and affirming the duty to recycle.

3. Utilize the citywide contract for all scrap metal recycling transactions;

RESPONSE: The citywide contract will be utilized for all scrap metal recycling transactions effective immediately.

4. Establishment of a log or other procedures to track scrap metal and other recyclables as they are returned to Central Operations yard;

RESPONSE: A log will be used to track all recyclables returned to Central Operations Yard. The log will include the name of the employee, date, job location, type of recyclables and the approximate quantity.

5. The scrap inventory log should be reconciled with vendor records to ensure that scrap metal and other recycling proceeds are deposited;

RESPONSE: *We will utilize the citywide contract and reconcile as needed to document the estimated amounts were deposited in the General Fund.*

6. Utilize the In-Town Reimbursable Expense procedures detailed in Administrative Regulation 95.40 to fund the safety awards dinner and other employee recognition events.

RESPONSE: *Administrative Regulation 95.40 will be utilized to fund the safety awards dinner and other recognition events.*



Mario X. Sierra
Director

cc: David Jarrell, Deputy Chief of Public Works
William Dos Santos, Deputy Director, General Services Department
Kyle Elser, Audit Manager, Office of the City Auditor