

COUNCIL DOCKET OF \_\_\_\_\_

Supplemental    Adoption    Consent    Unanimous Consent   Rules Committee Consultant Review

R -

O -

Hotline Administration Plan

Reviewed    Initiated   By Audit   On 10/20/08   Item No. 8

RECOMMENDATION TO:

Approve the Hotline Administration Plan and forward to the City Council with the recommendation to approve the plan.

VOTED YEA: Faulconer, Young, Atkins

VOTED NAY:

NOT PRESENT:

CITY CLERK: Please reference the following reports on the City Council Docket:

REPORT TO THE CITY COUNCIL NO.

COUNCIL COMMITTEE CONSULTANT ANALYSIS NO.

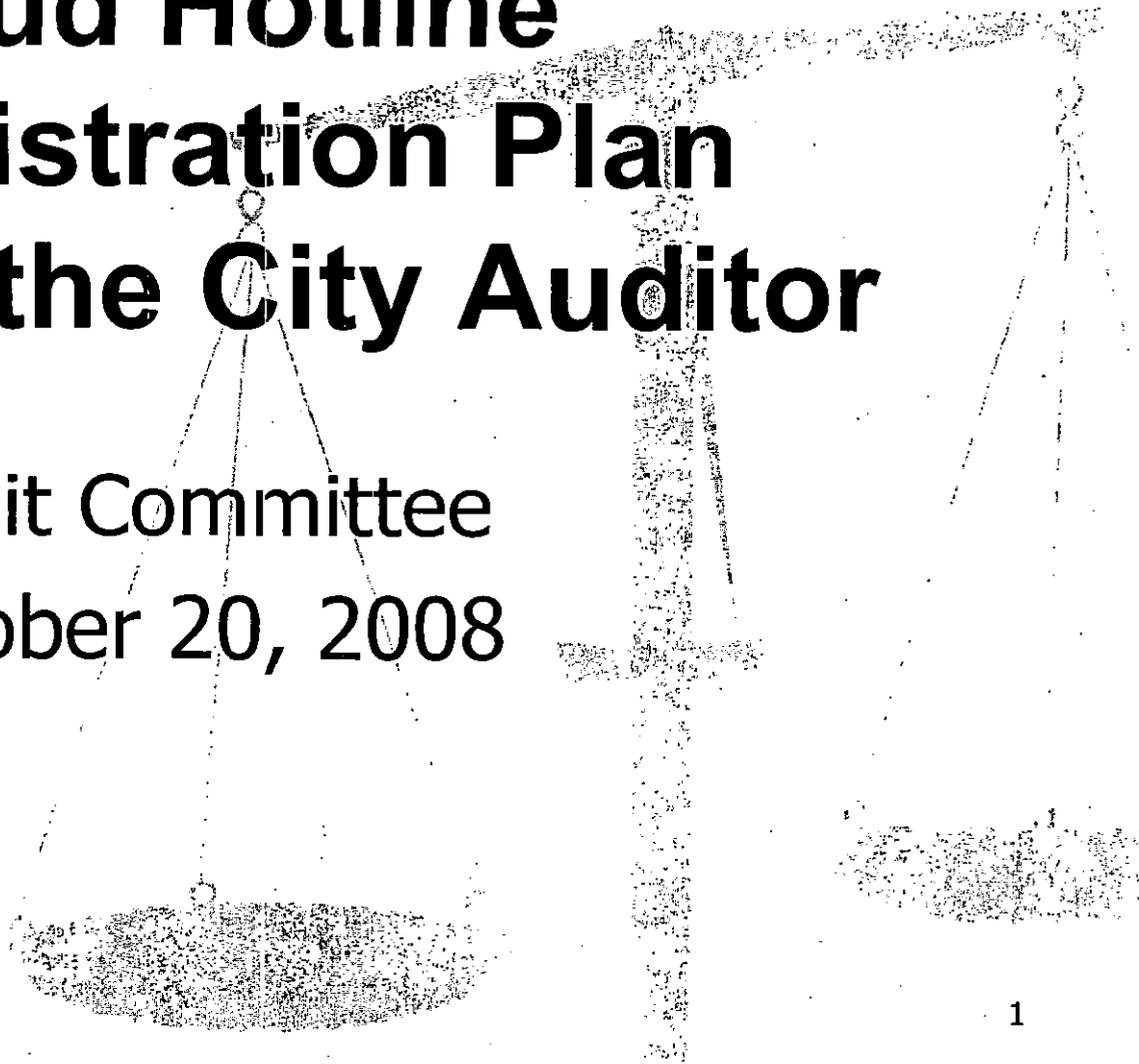
OTHER:

City Auditor's October 20, 2008, PowerPoint

COUNCIL COMMITTEE CONSULTANT 

# **Fraud Hotline Administration Plan Office of the City Auditor**

Audit Committee  
October 20, 2008

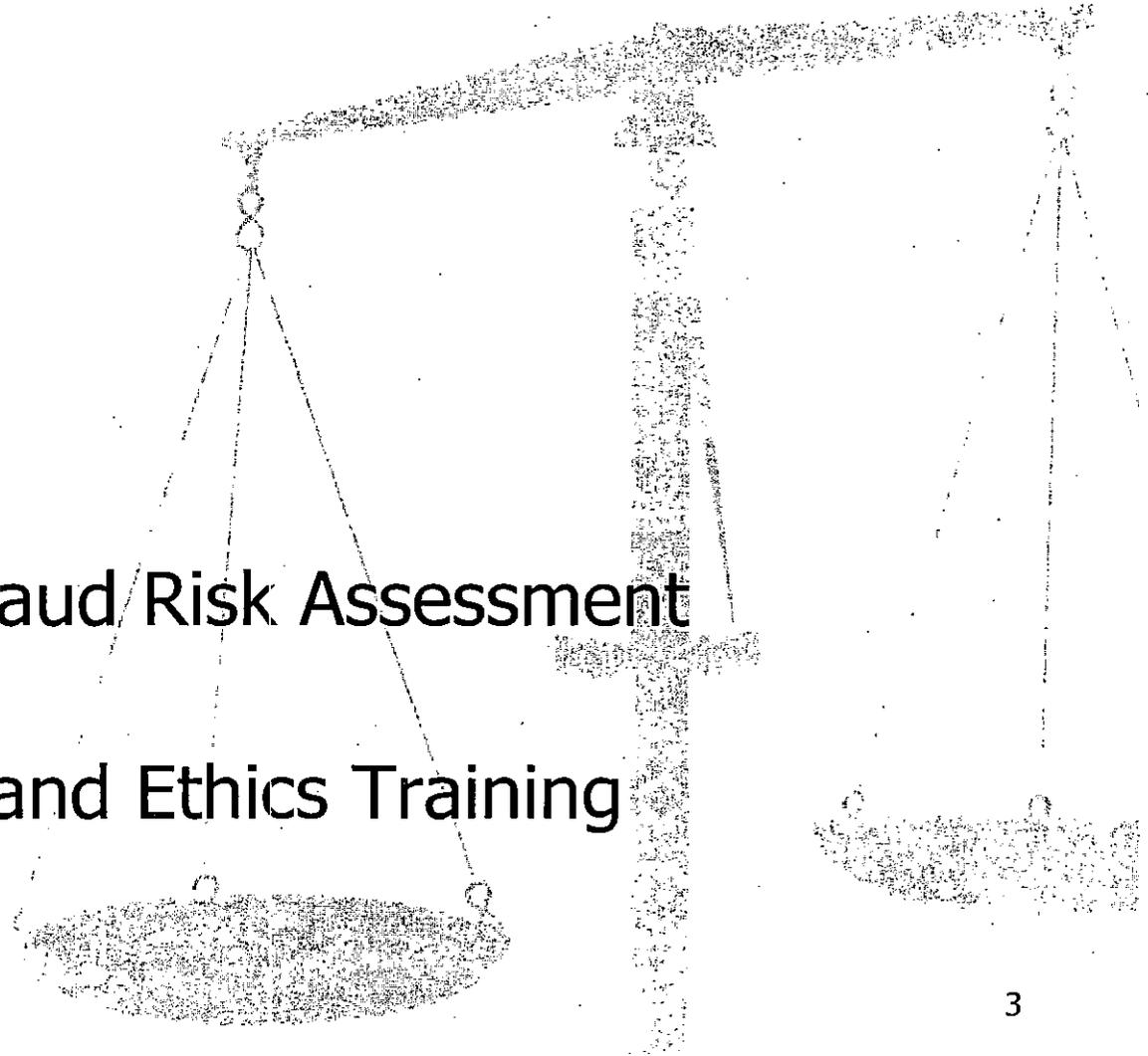


# Key Fraud Hotline Facts

- Implemented December 2005
- OCA assumed responsibility July 2008
- Opened to the public August 2008
- All calls and complaints accepted

# Components Of An Anti-fraud Program

- Fraud Hotline
- Tone at the Top
- Audit Department
- Comprehensive Fraud Risk Assessment
- Fraud Awareness and Ethics Training



# Public Website Information

OFFICE OF THE CITY AUDITOR

OFFICE OF THE  
CITY AUDITOR HOME

ABOUT US

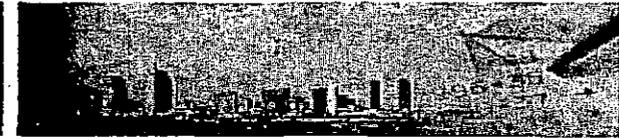
POLICIES &  
PROCEDURES

REPORTS &  
DOCUMENTS

RESOURCES

FAQ

Office of the  
**City Auditor**



## Fraud, Waste, and Abuse Hotline

---

- Hotline Information
  - [About the Hotline](#)
  - [Confidentiality](#)
  - [Whistleblower Protection](#)
  - [Hotline Process](#)
  - [Reporting Fraud, Waste, or Abuse](#)
  - [Non-Fraud Related Complaints](#)
- [The Network](#)
- [What Constitutes Fraud, Waste, and Abuse?](#)
- [Employee Hotline Summary Reports](#)

### About the Hotline

The Fraud Hotline is designed for reporting suspected cases of fraud, waste, or abuse. The Fraud Hotline is not a substitute for employment-related grievances or appeals, as existing City policy and procedures provide channels for resolution of these issues.

Face to face reporting is always the best form of communication, although that is not always feasible. Current City procedures and/or department instructions state that all complaints should be sent through the chain of command. However, recognizing that employees are not always comfortable going through the chain of command, the Fraud Hotline is another vehicle to report waste, fraud or abuse.

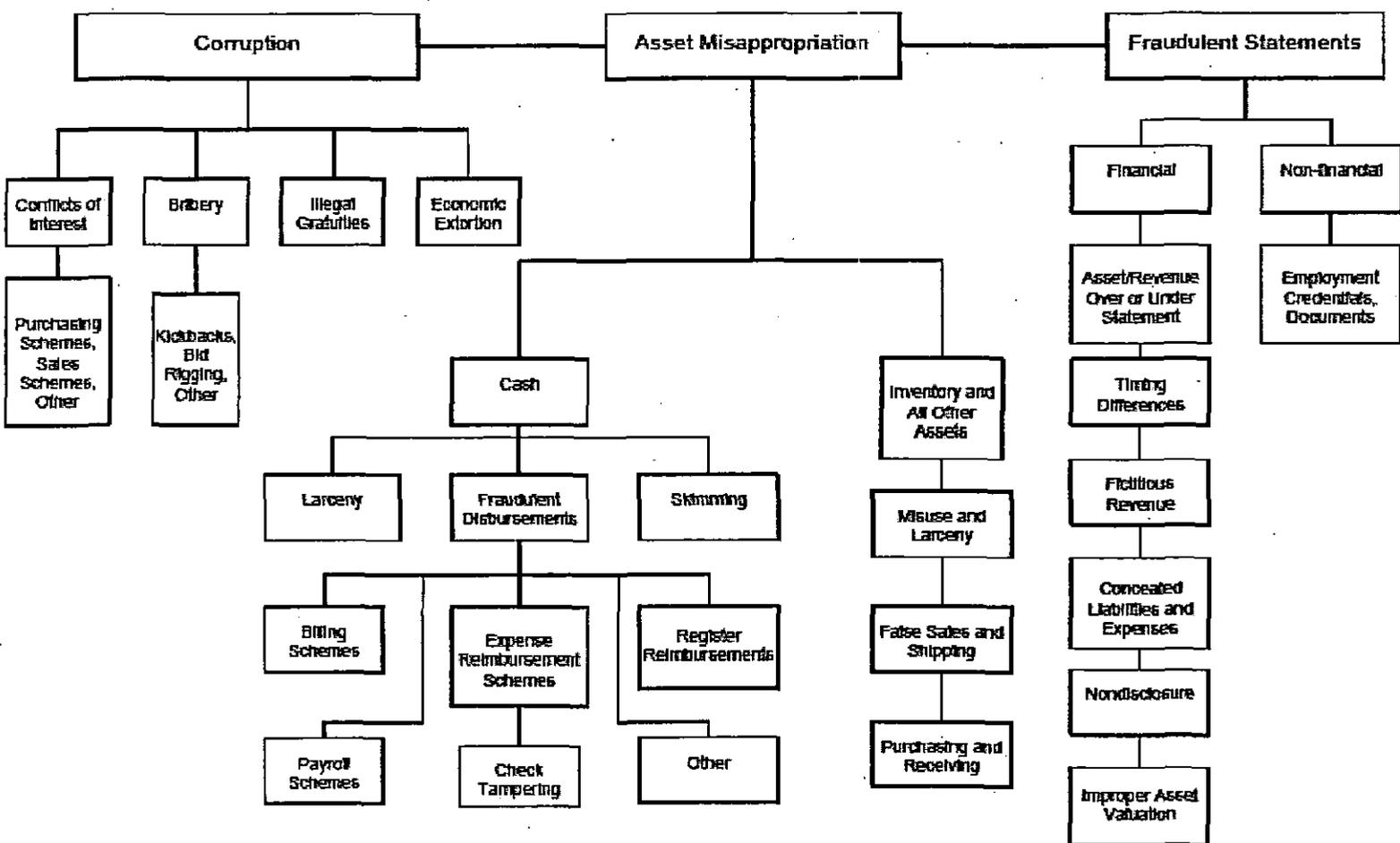
### Confidentiality

The City Auditor will at all times maintain the confidentiality of all complaints, associated reports, working papers, and other documents. Similarly, Departments investigating reviewing allegations shall also maintain the confidentiality of all complaints.

# What is Fraud, Waste, and Abuse?

- Fraud** Any intentional act or omission designed to deceive others, resulting in the victim (City of San Diego) suffering a loss and/or the perpetrator achieving a gain.
- Waste** The intentional or unintentional, thoughtless or careless expenditure, consumption, mismanagement, use, or squandering of City resources. Waste also includes incurring unnecessary costs because of inefficient or ineffective practices, systems, or controls.
- Abuse** Intentional destruction, diversion, manipulation, misapplication, maltreatment, or misuse of City resources. Extravagant or excessive use as to abuse one's position or authority. Abuse can occur in financial or non-financial settings.

# Fraud Tree



Source: Institute of Internal Auditors

# The Network Inc.

- Provides call coverage 24 hours per day, 7 days per week, and 365 days per year.
- Instant email notification of all complaints:
  - City Auditor, Audit Manager, and Audit Analyst
- Provide monthly call statistics and reports.
- Contract is approximately \$12,000 per year.

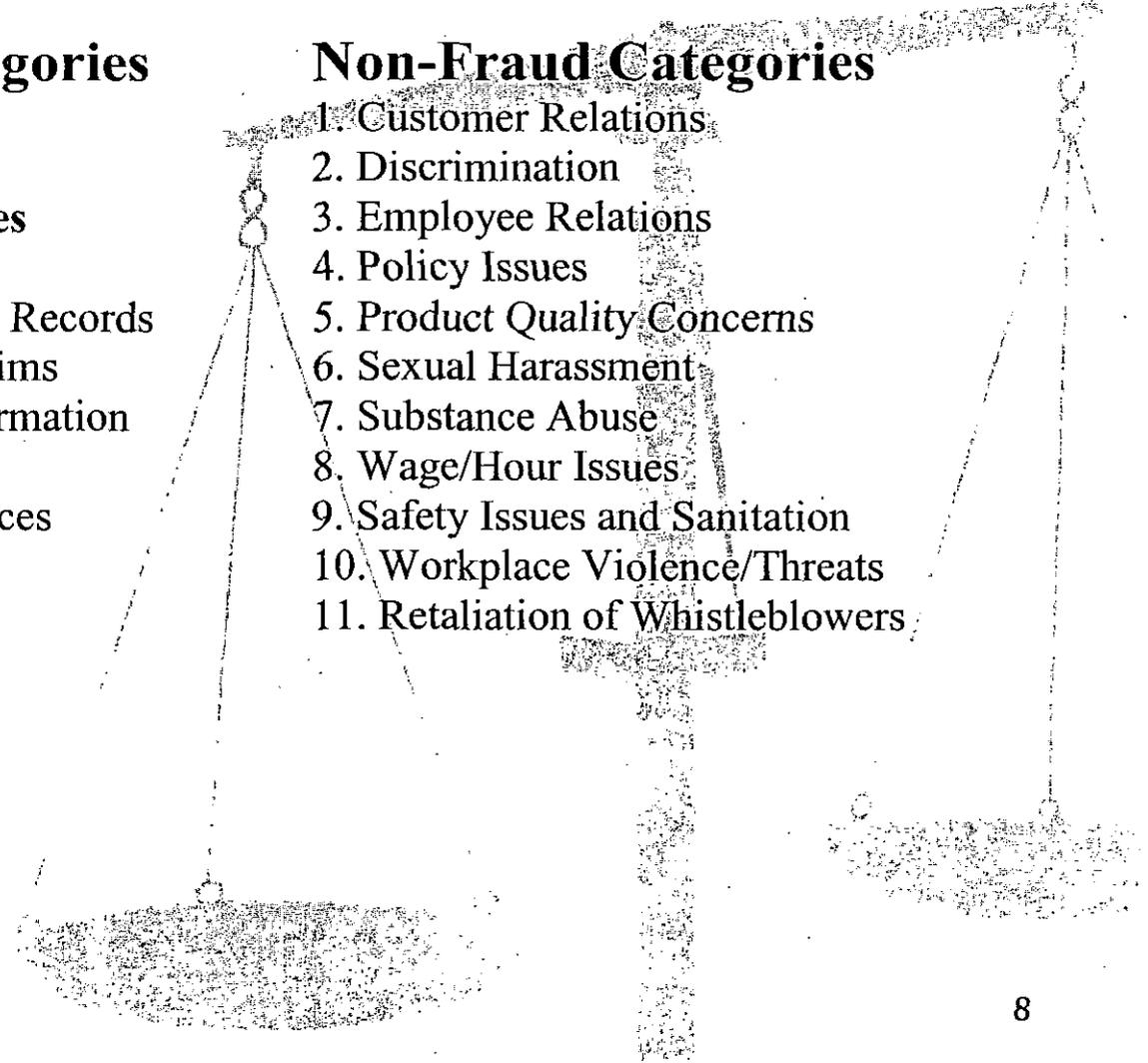
# 23 Call Categories

## Fraud Related Categories

1. Fraud
2. Waste and Abuse
3. Accounting Irregularities
4. Kickbacks
5. Falsification of Company Records
6. Fraudulent Insurance Claims
7. Release of Propriety Information
8. Theft of Cash
9. Theft of Goods and Services
10. Theft of Time
11. Unauthorized Discounts
12. Conflict of Interest

## Non-Fraud Categories

1. Customer Relations
2. Discrimination
3. Employee Relations
4. Policy Issues
5. Product Quality Concerns
6. Sexual Harassment
7. Substance Abuse
8. Wage/Hour Issues
9. Safety Issues and Sanitation
10. Workplace Violence/Threats
11. Retaliation of Whistleblowers



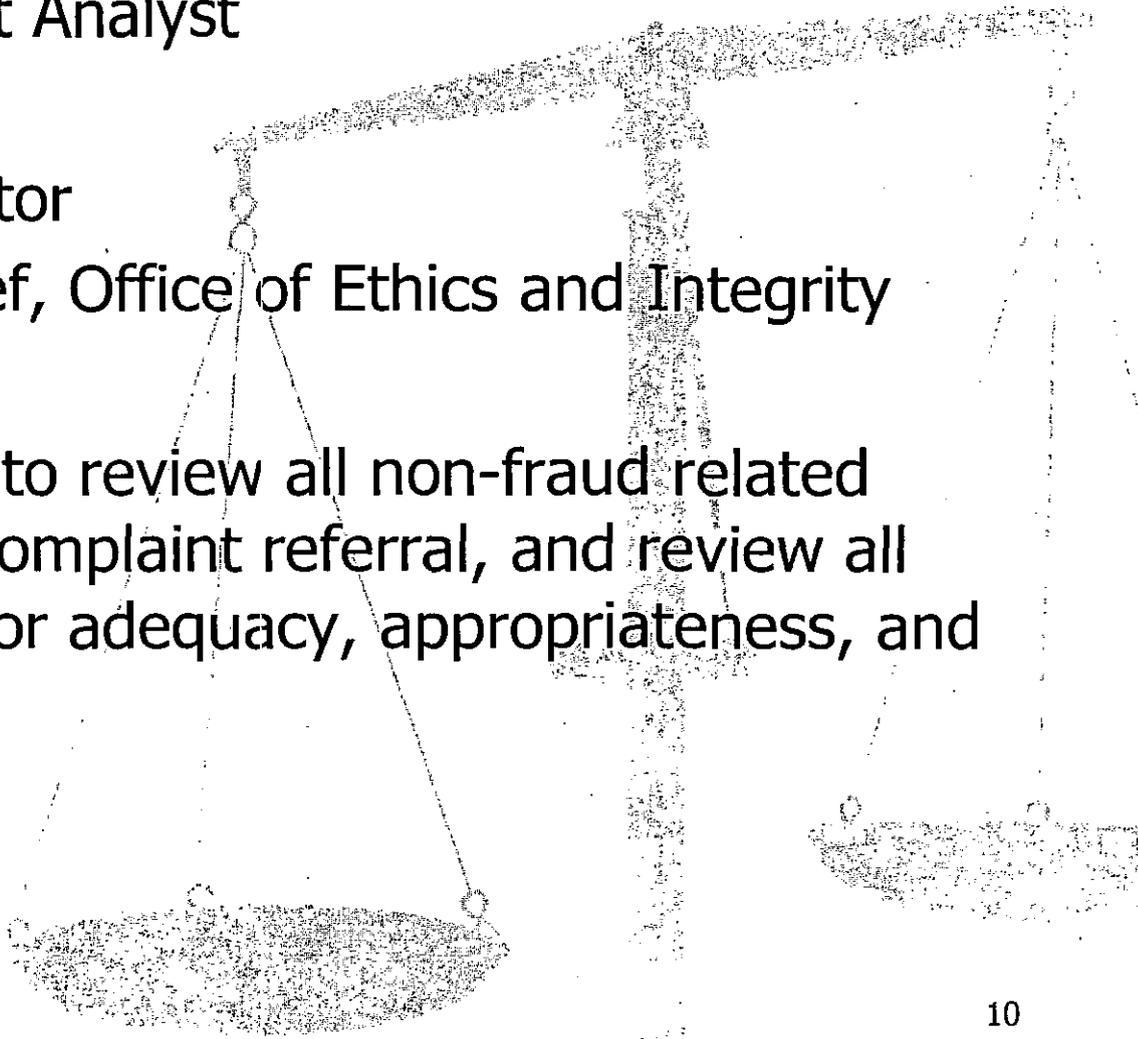
# Processing of Complaints

- The Office of the City Auditor investigates complaints related to fraud, waste, or abuse.
- Non-fraud related complaints are referred through Hotline Intake Review Committee to the Departments for resolution.
- Complaints outside the purview of the Hotline are referred to the appropriate entity.

# Hotline Intake Review Committee

- City Auditor and Audit Analyst
- Personnel Director
- Labor Relations Director
- Assistant Deputy Chief, Office of Ethics and Integrity

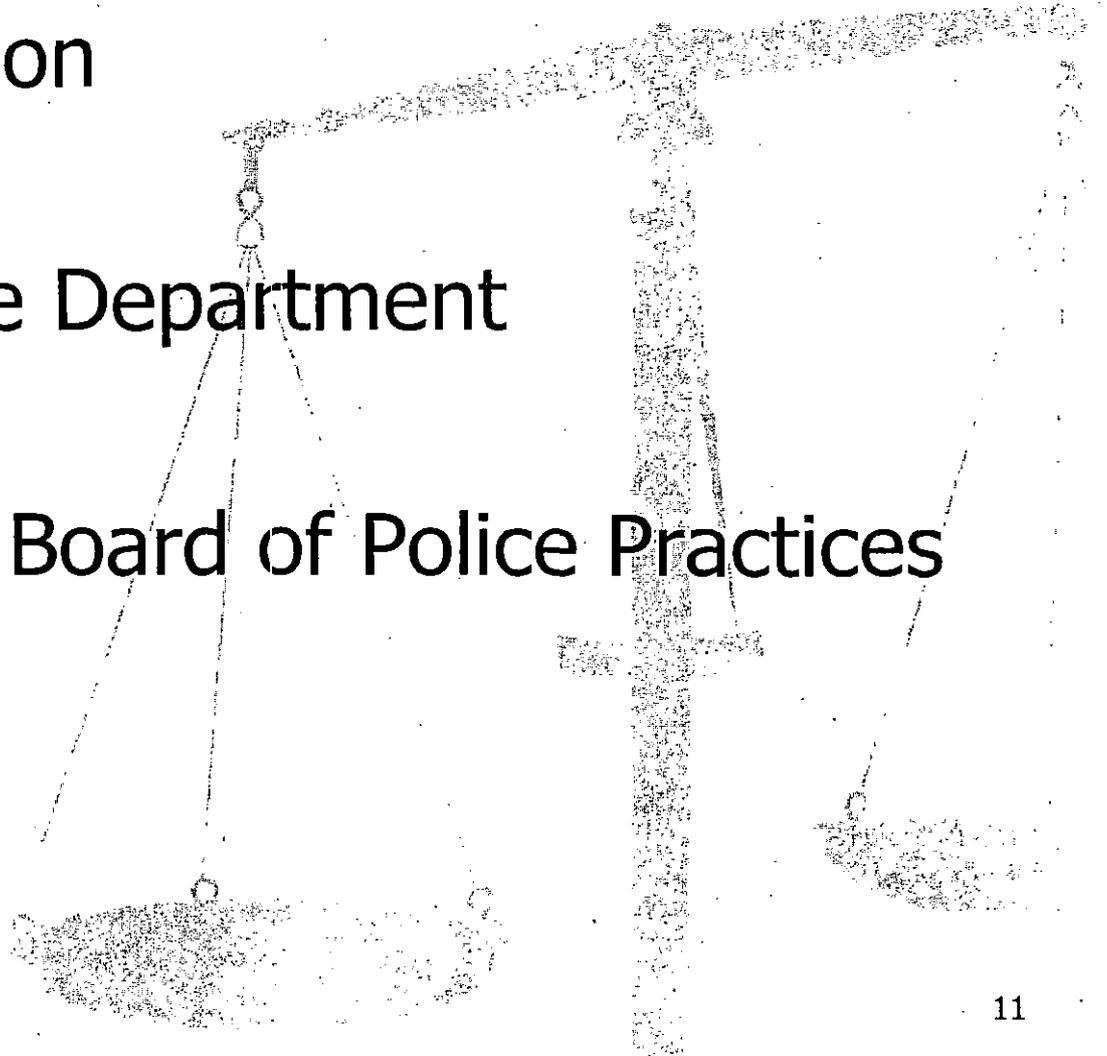
Meets every two weeks to review all non-fraud related complaints, determine complaint referral, and review all department responses for adequacy, appropriateness, and completeness.



# Complaint Referrals to Outside Entities

000307

- Ethics Commission
- San Diego Police Department
- Citizens Review Board of Police Practices



# Audit Committee Chair Notification

Email notification of any significant complaints involving the City's Senior Management, allegations of improper financial activity, and fraud.

- Chief Operating Officer,
- Chief Financial Officer,
- Deputy Chief Operating Officer for City Planning and Development,
- Deputy Chief Operating Officer for Community Services,
- Deputy Chief Operating Officer for Public Utilities,
- Deputy Chief Operating Officer for Public Works
- Deputy Chief Operating Officer for Community and Legislative Services,
- Deputy Chief Operating Officer for Public Safety,
- Deputy Chief Operating Officer for the Office of Ethics and Integrity,
- Independent Budget Analyst,
- City Clerk, and
- City Auditor.

# Escalation Team

- **Threat of or actual harm to employees, customers, or operations**
- **Any significant incident projected to reoccur within 24 hours**

**City Auditor**

- Kickbacks
- Falsification of Organization Records
- Fraud
- Fraudulent Insurance Claims
- Release of Proprietary Information
- Theft of Goods/Services
- Theft of Cash

**Labor Relations Director**

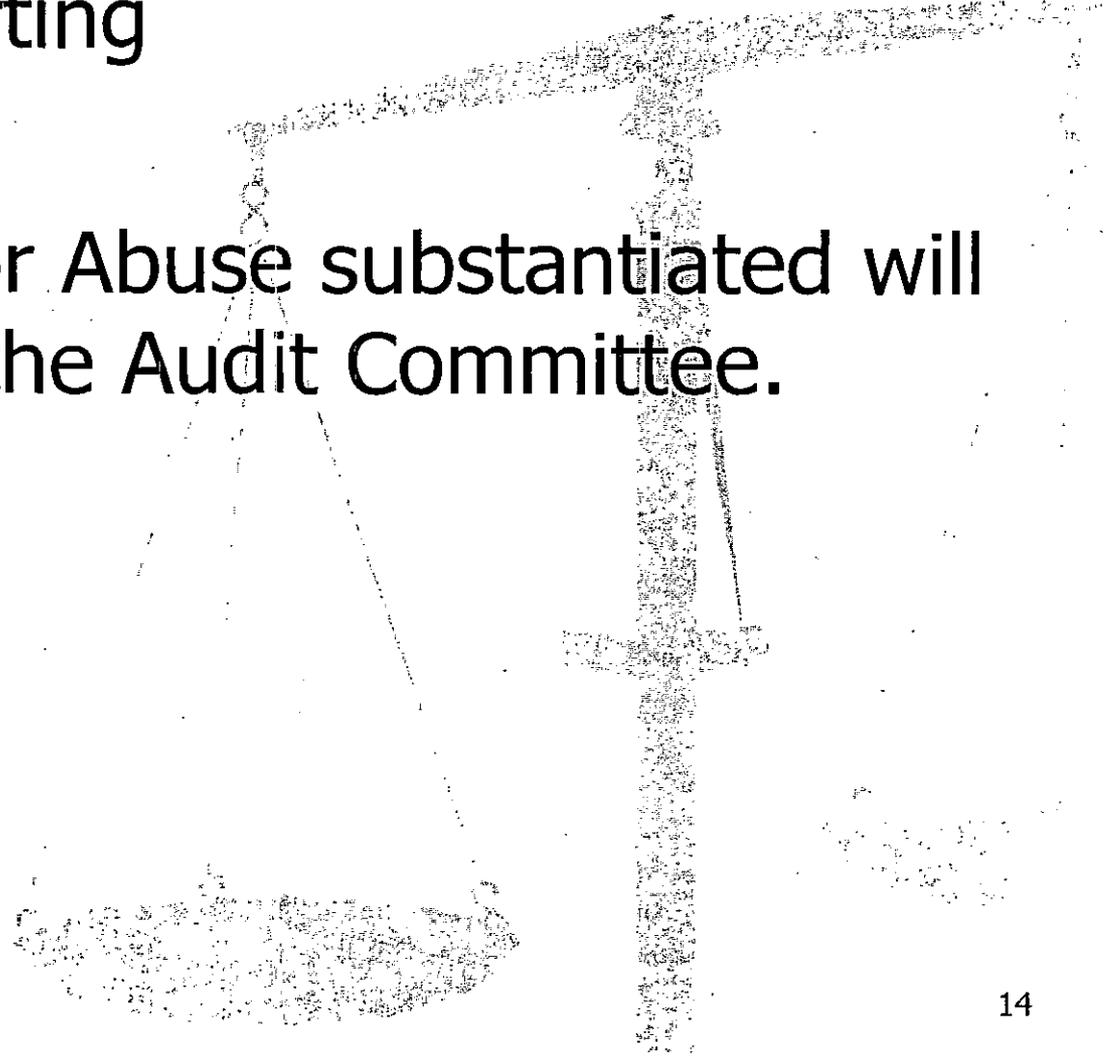
- Workplace Violence/Threats
- Substance Abuse

**Personnel Director**

- Sexual Harassment
- Retaliation of Whistleblowers

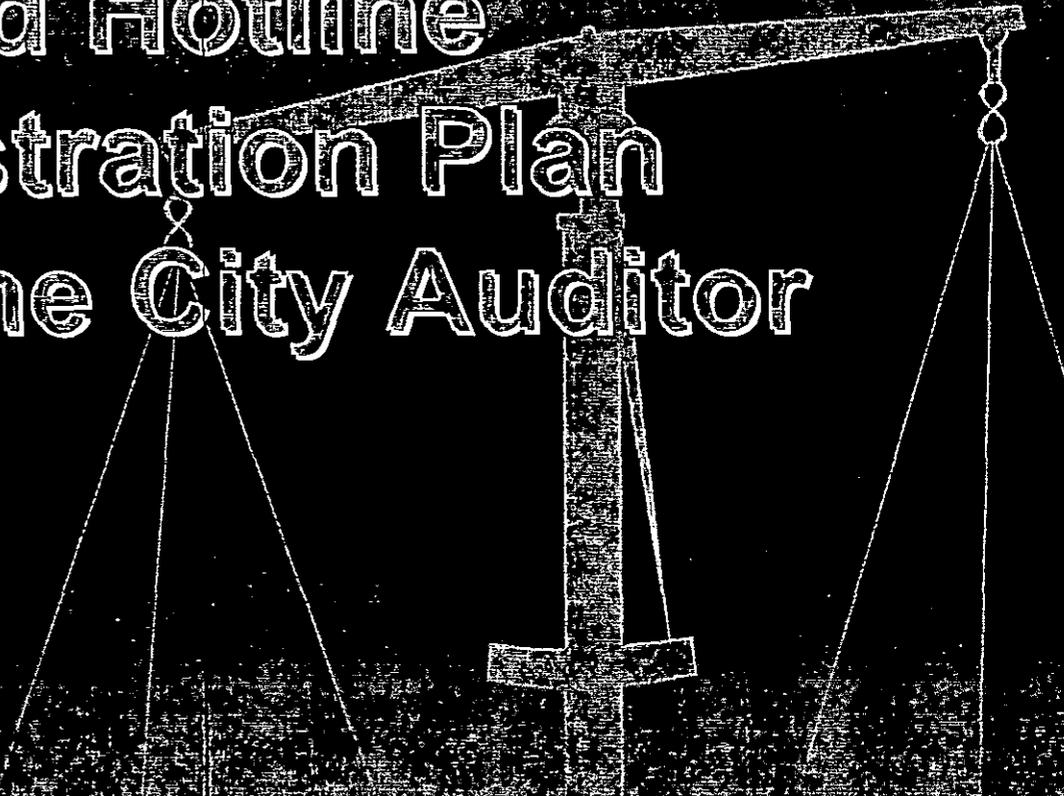
# Reporting

- Quarterly Reporting
- Fraud, Waste, or Abuse substantiated will be reported to the Audit Committee.



# Conclusion

*"Although the presence of a strong anti-fraud program does not guarantee that an organization will not be a victim of fraud, it clearly decreases losses from the crime."*



Fraud Hotline  
Administration Plan  
Office of the City Auditor

# Key Fraud Hotline Facts

060314

- Implemented December 2005
- OCA assumed responsibility July 2008
- Opened to the public August 2008
- All calls and complaints accepted



# Components Of An Anti-fraud Program

- Fraud Hotline
- Tone at the Top
- Audit Department
- Comprehensive Fraud Risk Assessment
- Fraud Awareness and Ethics Training



# Public Website Information

000316

## OFFICE OF THE CITY AUDITOR

OFFICE OF THE  
CITY AUDITOR HOME

ABOUT US

POLICIES &  
PROCEDURES

REPORTS &  
DOCUMENTS

RESOURCES

FAQ

Office of the  
**City Auditor**



## Fraud, Waste, and Abuse Hotline

- Hotline Information
  - [About the Hotline](#)
  - [Confidentiality](#)
  - [Whistleblower Protection](#)
  - [Hotline Process](#)
  - [Reporting Fraud, Waste, or Abuse](#)
  - [Non-Fraud Related Complaints](#)
- [The Network](#)
- [What Constitutes Fraud, Waste, and Abuse?](#)
- [Employee Hotline Summary Reports](#)

### About the Hotline

The Fraud Hotline is designed for reporting suspected cases of fraud, waste, or abuse. The Fraud Hotline is not a substitute for employment-related grievances or appeals, as existing City policy and procedures provide channels for resolution of these issues.

Face to face reporting is always the best form of communication, although that is not always feasible. Current City procedures and/or department instructions state that all complaints should be sent through the chain of command. However, recognizing that employees are not always comfortable going through the chain of command, the Fraud Hotline is another vehicle to report waste, fraud or abuse.

### Confidentiality

The City Auditor will at all times maintain the confidentiality of all complaints, associated reports, working papers, and other documents. Similarly, Departments investigating reviewing allegations shall also maintain the confidentiality of all complaints.

# What is Fraud, Waste, and Abuse?

## **Fraud**

Any intentional act or omission designed to deceive others, resulting in the victim (City of San Diego) suffering a loss and/or the perpetrator achieving a gain.

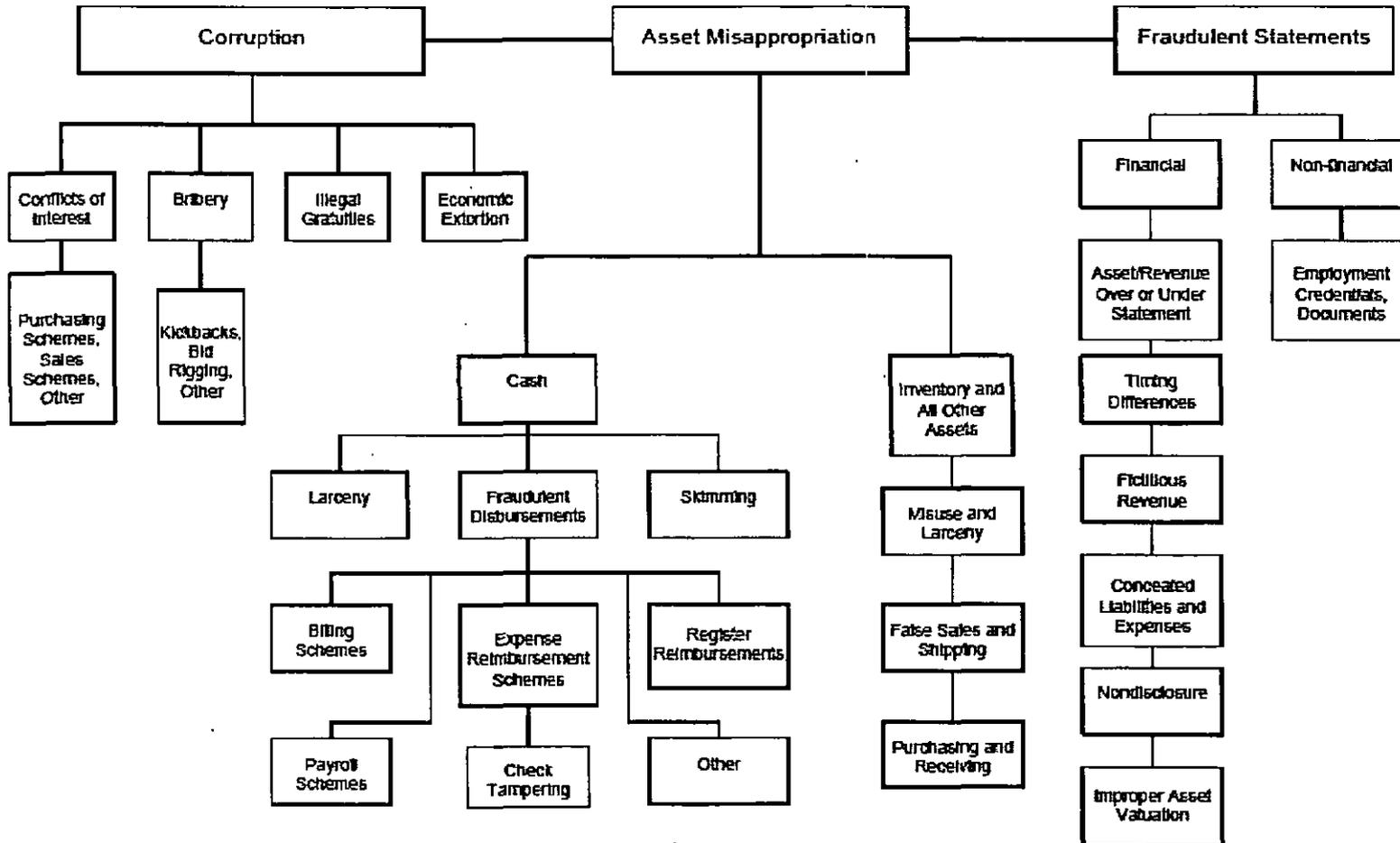
## **Waste**

The intentional or unintentional, thoughtless or careless expenditure, consumption, mismanagement, use, or squandering of City resources. Waste also includes incurring unnecessary costs because of inefficient or ineffective practices, systems, or controls.

## **Abuse**

Intentional destruction, diversion, manipulation, misapplication, maltreatment, or misuse of City resources. Extravagant or excessive use as to abuse one's position or authority. Abuse can occur in financial or non-financial settings.

# Fraud Tree



Source: Institute of Internal Auditors

# The Network Inc.

000019

- Provides call coverage 24 hours per day, 7 days per week, and 365 days per year.
- Instant email notification of all complaints:
  - City Auditor, Audit Manager, and Audit Analyst
- Provide monthly call statistics and reports.
- Contract is approximately \$12,000 per year.

# 23 Call Categories

000320

## Fraud Related Categories

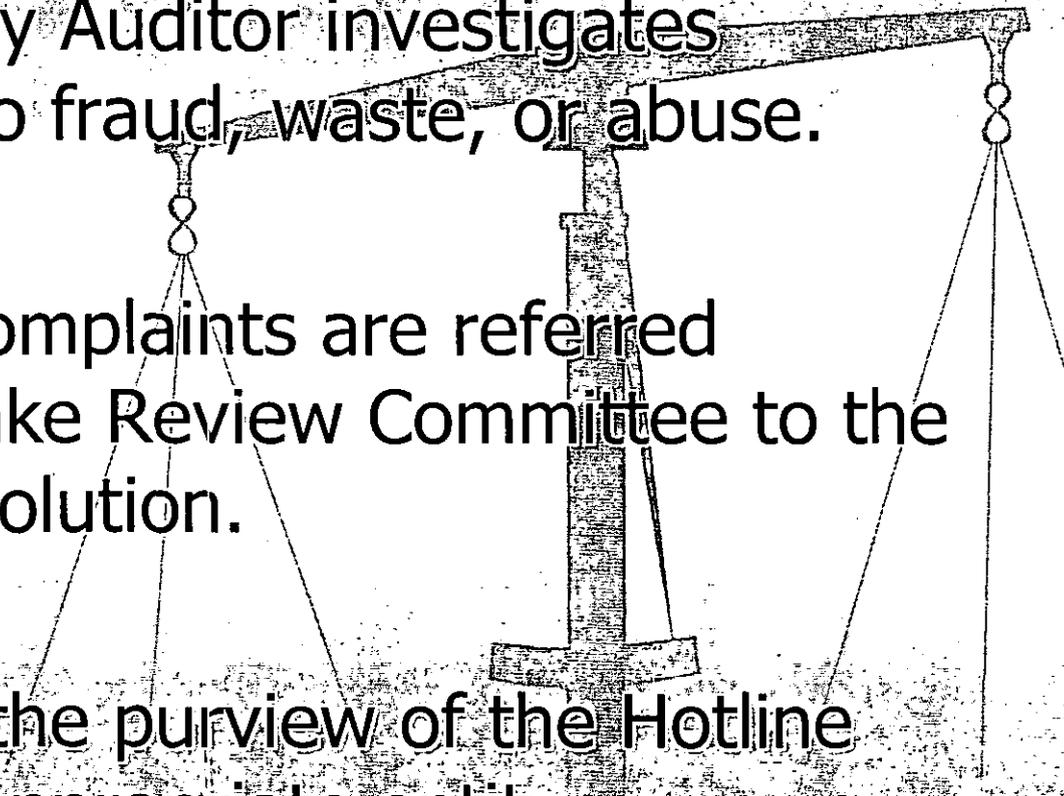
1. Fraud
2. Waste and Abuse
3. Accounting Irregularities
4. Kickbacks
5. Falsification of Company Records
6. Fraudulent Insurance Claims
7. Release of Propriety Information
8. Theft of Cash
9. Theft of Goods and Services
10. Theft of Time
11. Unauthorized Discounts
12. Conflict of Interest

## Non-Fraud Categories

1. Customer Relations
2. Discrimination
3. Employee Relations
4. Policy Issues
5. Product Quality Concerns
6. Sexual Harassment
7. Substance Abuse
8. Wage/Hour Issues
9. Safety Issues and Sanitation
10. Workplace Violence/Threats
11. Retaliation of Whistleblowers

# Processing of Complaints

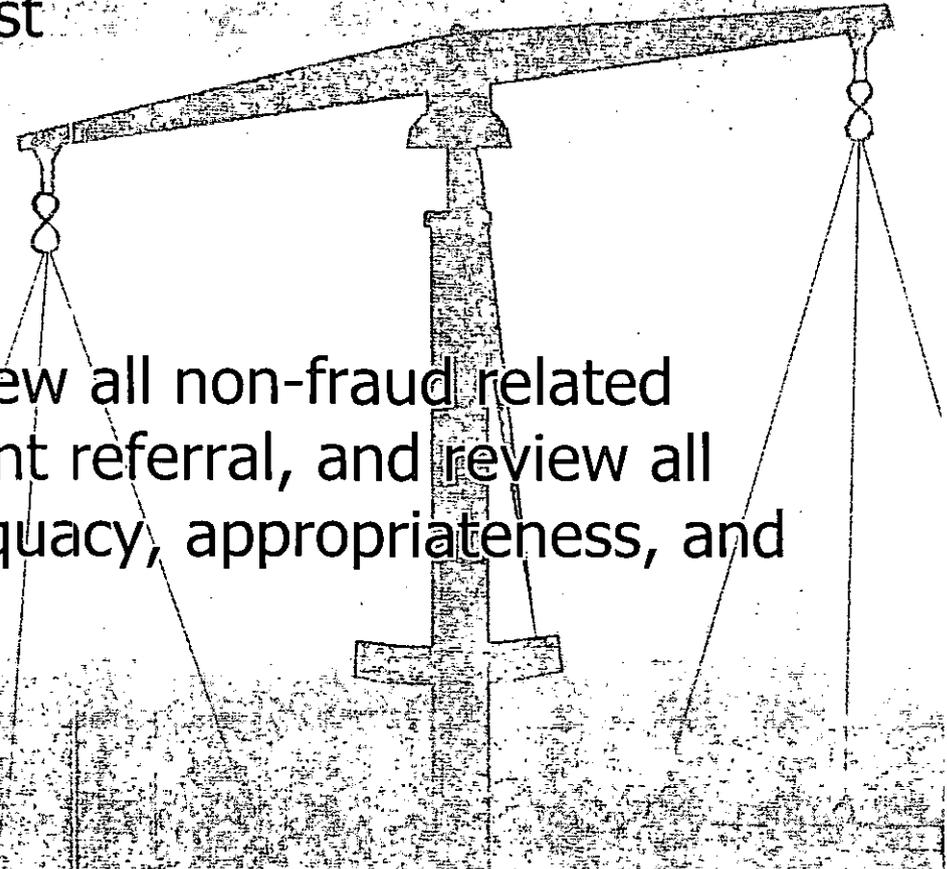
000321

- 
- The Office of the City Auditor investigates complaints related to fraud, waste, or abuse.
  - Non-fraud related complaints are referred through Hotline Intake Review Committee to the Departments for resolution.
  - Complaints outside the purview of the Hotline are referred to the appropriate entity.

# Hotline Intake Review Committee

- City Auditor and Audit Analyst
- Personnel Director
- Labor Relations Director

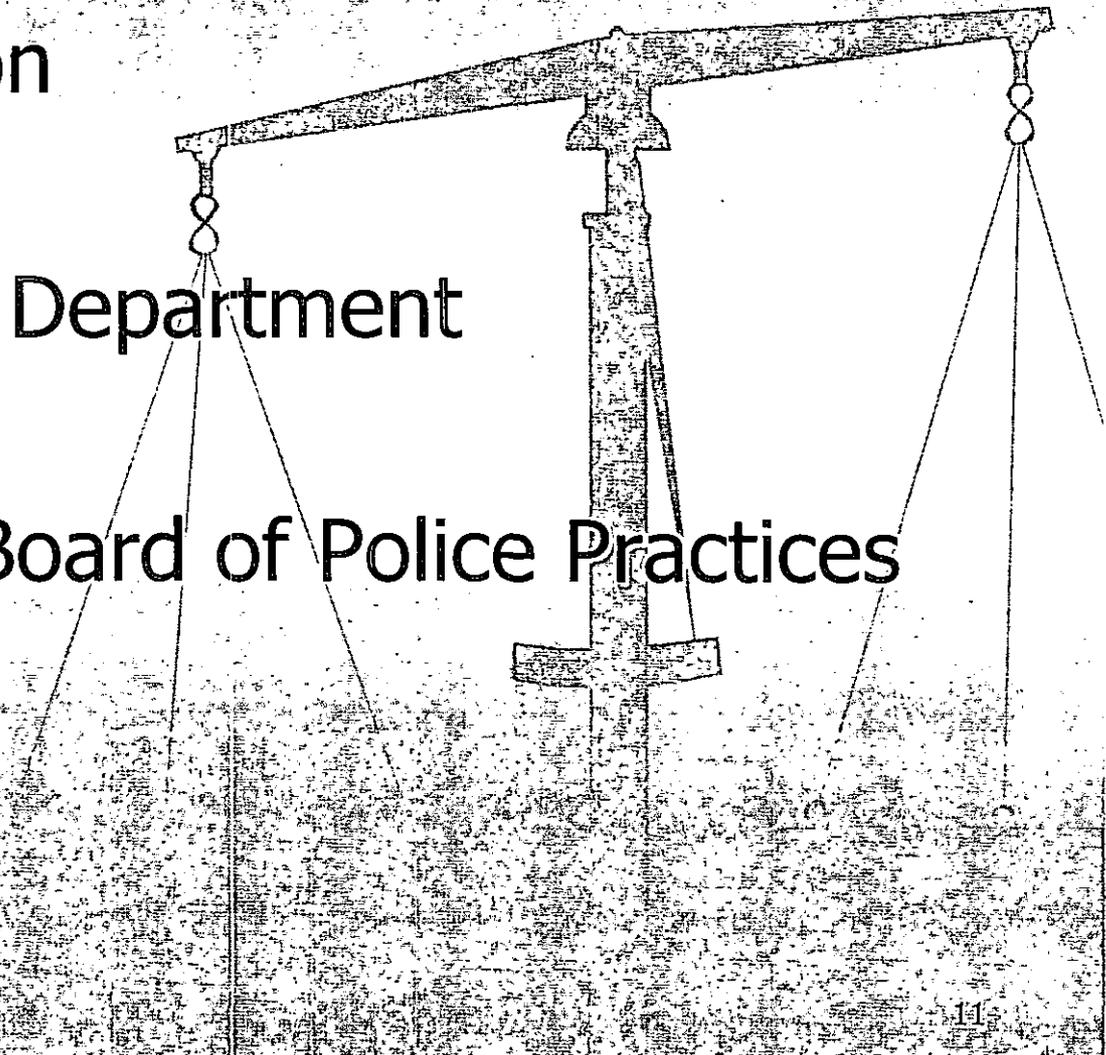
Meets every two weeks to review all non-fraud related complaints, determine complaint referral, and review all department responses for adequacy, appropriateness, and completeness.



# Complaint Referrals to Outside Entities

000323

- Ethics Commission
- San Diego Police Department
- Citizens Review Board of Police Practices



# Audit Committee Chair Notification

Email notification of any significant complaints involving the City's Senior Management, allegations of improper financial activity, and fraud.

- Chief Operating Officer,
- Assistant Chief Operating Officer (open),
- Chief Financial Officer,
- Deputy Chief Operating Officer for Public Utilities,
- Deputy Chief Operating Officer for Public Works,
- Independent Budget Analyst,
- City Clerk, and
- City Auditor.

# Escalation Team

- Threat of or actual harm to employees, customers, or operations
- Any significant incident projected to reoccur within 24 hours

City Auditor

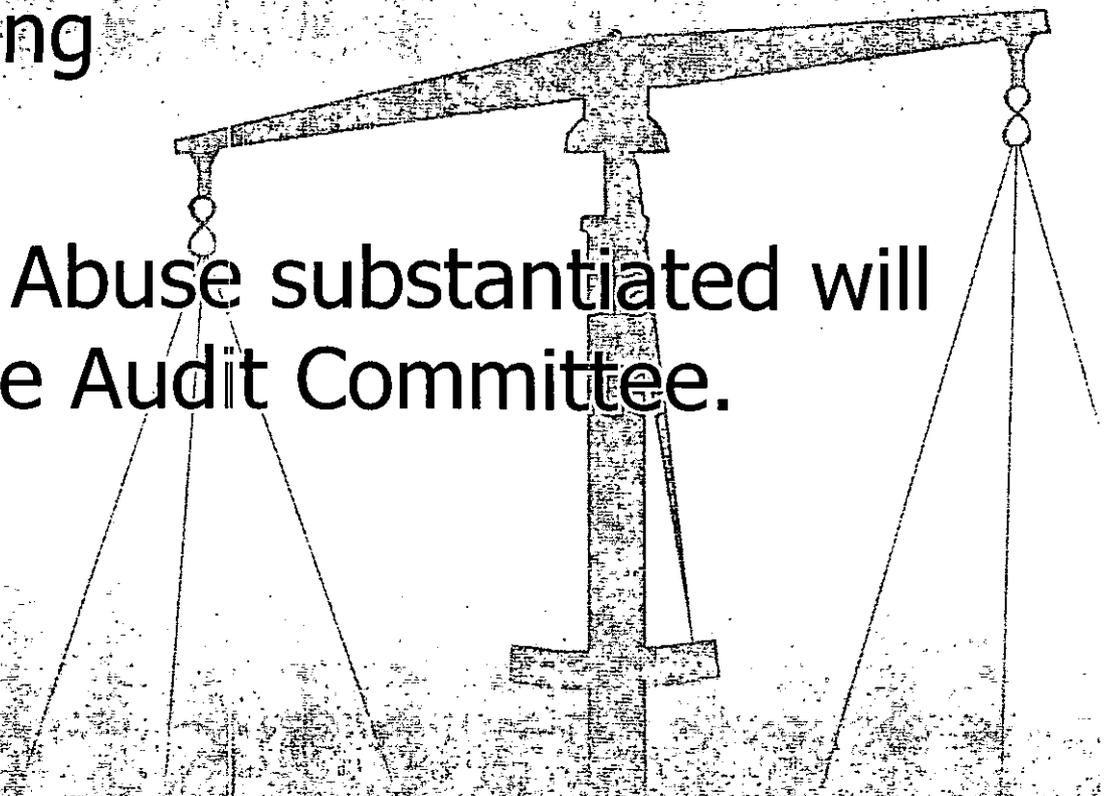
- Kickbacks
- Falsification of Organization Records
- Fraud
- Fraudulent Insurance Claims
- Release of Proprietary Information
- Theft of Goods/Services
- Theft of Cash
- Workplace Violence/Threats
- Substance Abuse
- Sexual Harassment
- Retaliation of Whistleblowers

Labor Relations Director

Personnel Director

# Reporting

- Quarterly Reporting
- Fraud, Waste, or Abuse substantiated will be reported to the Audit Committee.



# Enforcement Actions

000327

- Enforcement actions are implemented through the City's management and appointing authority structure.
- Actions may include management intervention, discipline, referral to the City Attorney's Office and/or referral to the appropriate law enforcement agency.
- Disciplinary actions by management may include oral or written counseling, oral or written warning, reprimand, supplemental performance evaluation, suspension, reduction in compensation, demotion, or termination.
- Criminal issues referred to a law enforcement agency may result in prosecution and conviction.

# Conclusion

*"Although the presence of a strong anti-fraud program does not guarantee that an organization will not be a victim of fraud, it clearly decreases losses from the crime."*

000329

REQUEST FOR COUNCIL ACTION  
CITY OF SAN DIEGO

1. CERTIFICATE NUMBER  
(FOR AUDITOR'S USE ON) 330  
01/13

TO: City Attorney

2. FROM (ORIGINATING DEPARTMENT):  
Office of the City Auditor

3. DATE:  
October 24, 2008

4. SUBJECT:  
OFFICE OF THE CITY AUDITOR FRAUD HOTLINE ADMINISTRATION PLAN

5. PRIMARY CONTACT (NAME, PHONE & MAIL STA.)  
Eduardo Luna 33026 MS 614B

6. SECONDARY CONTACT (NAME, PHONE & MAIL STA.)  
Kyle Esler 33010 MS 614B

7. CHECK BOX IF REPORT TO COUNCIL IS ATTACHED

8. COMPLETE FOR ACCOUNTING PURPOSES

FUND					9. ADDITIONAL INFORMATION / ESTIMATED COST:
DEPT.					
ORGANIZATION					
OBJECT ACCOUNT					
JOB ORDER					
C.I.P. NUMBER					
AMOUNT					

10. ROUTING AND APPROVALS

ROUTE (#)	APPROVING AUTHORITY	APPROVAL SIGNATURE	DATE SIGNED	ROUTE (#)	APPROVING AUTHORITY	APPROVAL SIGNATURE	DATE SIGNED
1	ORIGINATING DEPARTMENT	<i>[Signature]</i>	10/24/08	8			
2				9			
3	COO	<i>[Signature]</i>	10/27/08	10			
4				11			
5	CITY ATTORNEY	<i>[Signature]</i>	11/12/08				
6							
7							

DOCKET COORD: \_\_\_\_\_ COUNCIL LIAISON: *[Signature]* 11/13/08

COUNCIL PRESIDENT  SPOB  CONSENT  ADOPTION

REFER TO: *[Signature]* COUNCIL DATE: 1/13/09

11. PREPARATION OF:  RESOLUTION(S)  ORDINANCE(S)  AGREEMENT(S)  DEED(S)

11A. STAFF RECOMMENDATIONS:  
Adopt the resolution to approve the Office of the City Auditor Fraud Hotline Administration Plan

12. SPECIAL CONDITIONS:  
COUNCIL DISTRICT(S): ALL  
COMMUNITY AREA(S): ALL  
ENVIRONMENTAL IMPACT: N/A  
HOUSING IMPACT: N/A  
OTHER ISSUES:

000331

**EXECUTIVE SUMMARY SHEET**  
CITY OF SAN DIEGO

DATE ISSUED: October 24, 2008

ATTENTION: City Council

ORIGINATING DEPARTMENT: Office of the City Auditor

SUBJECT: Office of the City Auditor Fraud Hotline Administration Plan

COUNCIL DISTRICT(S): All

CONTACT/PHONE NUMBER: Eduardo Luna (619) 533-3026 or Kyle Elser (619) 533-3010

REQUESTED ACTION:

Approve the Office of the City Auditor Fraud Hotline Administration Plan.

STAFF RECOMMENDATION:

Adopt the resolution to approve the Fraud Hotline Administration Plan.

EXECUTIVE SUMMARY:

The Kroll Report made specific recommendations regarding the establishment and monitoring of effective policies and procedures for dealing with "whistleblower" complaints, including an internal employee hotline. On December 2, 2005, in response to San Diego Municipal Code §26.1703(c), the Auditor and Comptroller's Office implemented the Fraud Hotline (866-809-3500). Upon the transition to the Strong Mayor form of Government on January 1, 2006, the Mayor's Office of Ethics and Integrity was created and through a third-party provider administered the Fraud Hotline.

On January 28, 2008, the Jefferson Wells, professional audit consultant issued a written report to the Audit Committee entitled "Analysis and Recommendations for an Effective Internal Employee Hotline" to the Audit Committee. This report and subsequent Jefferson Wells memoranda to the Audit Committee (dated February 18, 2008 and March 20, 2008) discussed considerations related to the Audit Committee's Charter responsibilities with respect to the City's employee hotline, and additionally provided four recommendations to assist the Audit Committee in complying with Kroll Report recommendations and best practices. On February 25, 2008, the Audit Committee received the Hotline Report and a related memorandum dated February 22, 2008 from Jefferson Wells, and unanimously adopted a motion to forward recommendations from the report to the City Council.

The Securities and Exchange Commission required Independent Consultant to the City recommended, in his First Annual Report of Independent Consultant dated March 25, 2008, that the City implement within 45 days, consistent with the advice of Jefferson Wells for steps prior to Charter revision, the procedure contemplated by the Audit Committee charter for a confidential and anonymous hotline involving the Audit Committee independent of City management for complaints and concerns regarding financial control or financial and auditing matters.

On April 28, 2008 (Final passage on June 13, 2008), the City Council approved a resolution that contained the following six sections:

- Section 1 That the Hotline Report, and related hotline memoranda from Jefferson Wells and the Office of Ethics and Integrity, are accepted.
- Section 2 That Recommendation 1 of the Hotline Report which states "Hotline Complaints Should Be Reported to the Audit Committee" be implemented except that the recommendation is amended to replace the word "should" with "shall", and to state that the Hotline complaints involving Senior City Management shall be reported to the Audit Committee Chair, or another designated member of the Committee, so as to ensure compliance with the Brown Act.
- Section 3 That Recommendation 2 of the Hotline Report which states "Hotline Activity Should Be Reported to the Audit Committee and Audited" be implemented except that the recommendation is amended to replace the word "should" with "shall".
- Section 4 That Recommendation 3 of the Hotline Report which states that the "Hotline Number Should Be Publicized to All Citizens" be implemented except that the recommendation is amended to replace the word "should" with "shall".
- Section 5 That in anticipation of possible Charter reform in June 2008, and as soon as is practicable, Recommendation 4 of the Hotline Report which advocates "Hotline Oversight by the Independent City Auditor" be implemented.
- Section 6 That the Auditor is to present a Hotline administration plan to the Audit Committee, and if approved, present the plan to the City Council for approval.

The Fraud Hotline was transferred to the Office of the City Auditor, effective July 21, 2008 and made available to the public on August 25, 2008.

To comply with Section 6 of Resolution R-303626, on October 17, 2008, the Office of the City Auditor issued a Fraud Hotline Administration Plan to comply with the requirements of Resolution Number 303626. The Fraud Hotline Administration Plan was presented to the Audit Committee on October 20, 2008 and was approved by the members of the Audit Committee. Additionally, at the same meeting, the Office of the City Auditor presented hotline statistics for the period, July to September 2008.

FISCAL CONSIDERATIONS: None

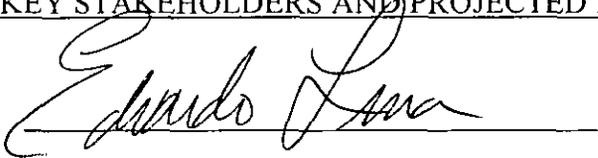
PREVIOUS COUNCIL and/or COMMITTEE ACTION:

On October 20, 2008 the Audit Committee approved a motion to forward to the City Council the Fraud Hotline Administration Plan

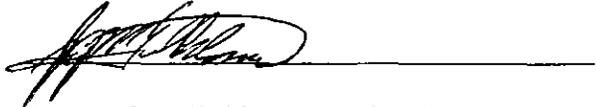
COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS: None

000333

KEY STAKEHOLDERS AND PROJECTED IMPACTS:



Office of the City Auditor



Deputy Chief/Chief Operating Officer

**Attachments**

Fraud Hotline Administration, Office of the City Auditor

RESOLUTION NUMBER R-\_\_\_\_\_

DATE OF FINAL PASSAGE \_\_\_\_\_

A RESOLUTION OF THE COUNCIL OF THE CITY OF SAN  
DIEGO APPROVING THE CITY'S FRAUD HOTLINE  
ADMINISTRATION PLAN.

WHEREAS, on June 13, 2008, the City Council passed Resolution R-303626 accepting a report entitled "Analysis and Recommendations for an Effective Internal Employee Hotline" [Hotline Report], prepared by Jefferson Wells, the Audit Committee's professional audit consultant, with certain modifications as specified in Resolution R-303626; and

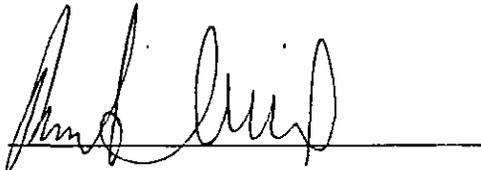
WHEREAS, the City Council directed the City's Auditor to prepare a hotline administration plan to the Audit Committee and, if approved by the Committee, to the City Council; and

WHEREAS, on October 20, 2008, the Office of the City Auditor presented a "Fraud Hotline Administration Plan" [Plan] to the Audit Committee and the Audit Committee approved the Plan and forwarded it to the City Council with the recommendation that the Plan be approved; NOW, THEREFORE,

BE IT RESOLVED, by the Council of the City of San Diego, that the Plan, on file with the City Clerk's office as document no. RR-\_\_\_\_\_, is hereby approved.

APPROVED: MICHAEL J. AGUIRRE, City Attorney

By



Brant C. Will  
Deputy City Attorney

BCW:jdf  
11/12/08  
Or.Dept:Auditor  
R-2009-644

000336

(R-2009-644)

I hereby certify that the foregoing Resolution was passed by the Council of the City of San Diego, at this meeting of \_\_\_\_\_.

ELIZABETH S. MALAND  
City Clerk

By \_\_\_\_\_  
Deputy City Clerk

Approved: \_\_\_\_\_  
(date)

\_\_\_\_\_  
JERRY SANDERS, Mayor

Vetoed: \_\_\_\_\_  
(date)

\_\_\_\_\_  
JERRY SANDERS, Mayor