

# FRAUD HOTLINE REPORT:

Tip alleged procurement and ethics violations within the Water Bureau



# F R A U D HOTLINE

February 2020

## SUMMARY

The Auditor’s Office found evidence of procurement and ethics violations in an investigation prompted by a tip alleging purchasing improprieties by the Water Bureau. Auditors referred findings and recommendations to Water Bureau management for further action. The Water Bureau determined that employee discipline was not warranted but agreed to implement other Auditor’s Office recommendations.

## TIP TO THE FRAUD HOTLINE

The Auditor’s Office operates a Fraud Hotline to receive tips about suspected fraud, waste, and abuse. A March 2019 tip alleged that Water Bureau employees made inappropriate equipment purchases, had financial interests in the outcome of those purchasing decisions, and bought unnecessary equipment that caused production issues in another bureau.

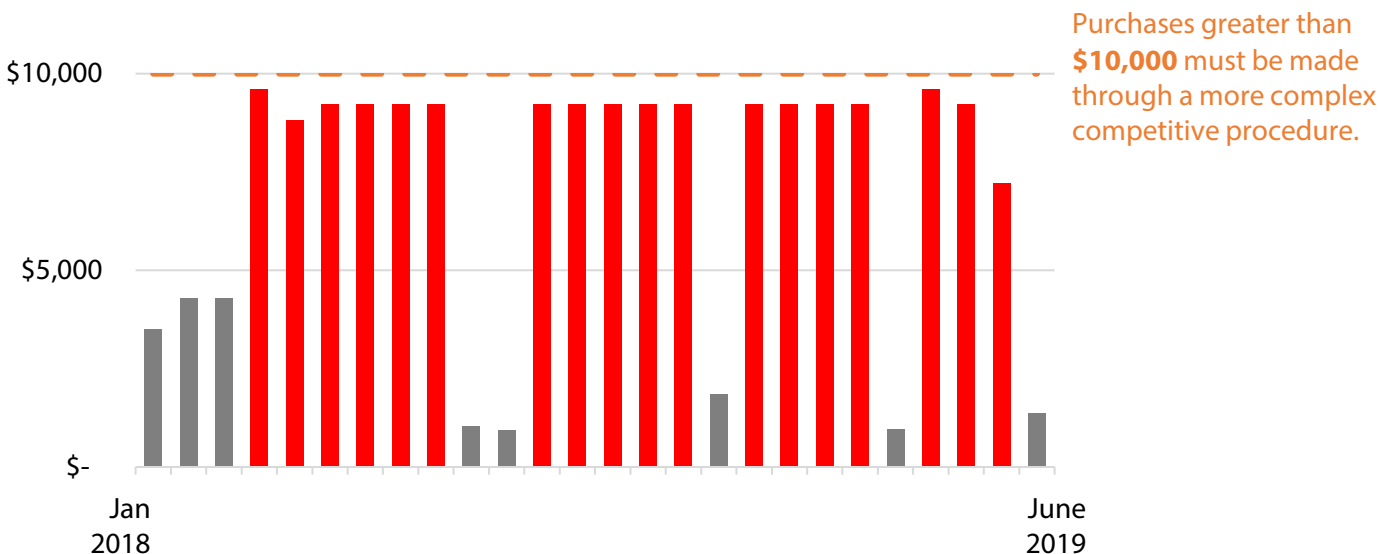
## INVESTIGATION FINDINGS

### Evidence indicated Water Bureau purchases violated State Law and City Code.

Purchasing records over an 18-month period ending June 2019 show that two Water Bureau programs frequently purchased water meter equipment from one vendor without a competitive contract. Purchases totaled **\$182,382**.

City and State procurement rules prohibit breaking purchases into smaller amounts to circumvent competitive procedures, which is known as “fragmenting.” Purchases exceeding \$10,000 must be made through a more complex competitive procedure, according to State Law and City Code.

Evidence showed Bureau staff made water meter equipment purchases just under the \$10,000 threshold 18 times from January 2018 to June 2019, amounting to more than \$160,000.



## **Relationships among two Water Bureau employees and a salesperson may be violating ethics and procurement rules.**

A Water Bureau supervisor purchased the equipment from a company that employed his manager's spouse. The manager oversaw and approved some of the transactions. For some of the purchases, the manager's spouse was the salesperson interacting with the Water Bureau. The manager's spouse receives commissions based on sales volume.

City rules require employees to withdraw from participating in decisions that affect their financial or personal interests and to disclose potential and actual conflicts of interest, in writing, to their supervisor and Bureau Director. The rules also require the supervisor or Bureau Director to acknowledge the conflict in writing, determine whether the conflict can be resolved, and approve action by the employee.

We found no evidence the manager disclosed in writing the potential conflict-of-interest and her financial interest in her spouse's sales to the Water Bureau. Evidence suggests the manager knew of disclosure requirements and complied with them five years ago when her spouse worked for a different company, because the City's outside financial auditors called attention to the issue in 2013. The Bureau did not subsequently put procedures in place to disclose conflicts.

The manager's spouse is a former Water Bureau employee, and the supervisor reported knowing the spouse for decades. On at least two occasions, the supervisor and the spouse shared information related to Bureau procurement decisions. The supervisor acknowledged informally sharing purchasing information with other vendors, which may have given selected vendors unfair access to the City's purchasing power.

## **Water Bureau equipment approval processes are unclear.**

The Water Bureau lacks a formal or consistent equipment approval and testing process for certain types of new equipment, which may have enabled some of the procurement violations. Inconsistent, informal, or unclear documentation and equipment approval procedures may cause delays and allow Water Bureau employees to circumvent City procurement requirements. Evidence showed the Water Bureau initiated a competitive contracting process for the water meter equipment in May 2019, after the Auditor's Office investigation began.

## **The Auditor's Office did not find evidence that the Water Bureau purchased equipment that was unnecessary or caused production issues for another bureau.**

## **OUR RECOMMENDATIONS**

The Auditor's Office made the following recommendations to the Water Bureau:

- 1. Investigate sequence of events and correct.** Determine the scope of the ethics and procurement violations and take appropriate corrective action, if needed.
- 2. Develop and implement sound procurement procedures.** Consult with the Office of Management and Finance to develop and enforce clear procurement procedures that meet the needs of Water Bureau staff and its customers and comply with State Law and City Code.
- 3. Implement a conflict-of-interest disclosure system and ensure regular training.** Require that all employees disclose all potential and actual conflicts-of-interest and provide updated, regular procurement training for employees involved in purchasing.

## **RESPONSE FROM THE WATER BUREAU**

The Water Bureau agreed to implement all the recommendations stemming from this report and conducted an employee investigation. The Bureau determined that employee discipline was not warranted.

