



# PASADENA

Invoice Audit Update  
Underground Utility Program

Michael J. Beck  
City Manager  
January 5, 2015



## Investigation Summary

Office of the City Manager

- Following up on questions by City Council Municipal Services Committee (MSC), Public Works staff identified questionable expenses in the Underground Utilities Fund in late May 2014
- Human Resources initiated preliminary investigation and confirmed potentially fraudulent transactions
- On behalf of City Manager, City Attorney requested assistance from Los Angeles County District Attorney Jackie Lacey on May 28<sup>th</sup>
- Public integrity Division of the LA DA's Office initiated their investigation in June 2014

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## Investigation Summary

Office of the City Manager

- City retained KPMG on June 16<sup>th</sup> to conduct forensic audit
- KPMG spent five months reviewing documents and analyzing data going back to 1998
- KPMG audit identified 296 potentially fraudulent invoices from four entities totaling approximately \$6.4 million in payments from the Underground Utilities Fund

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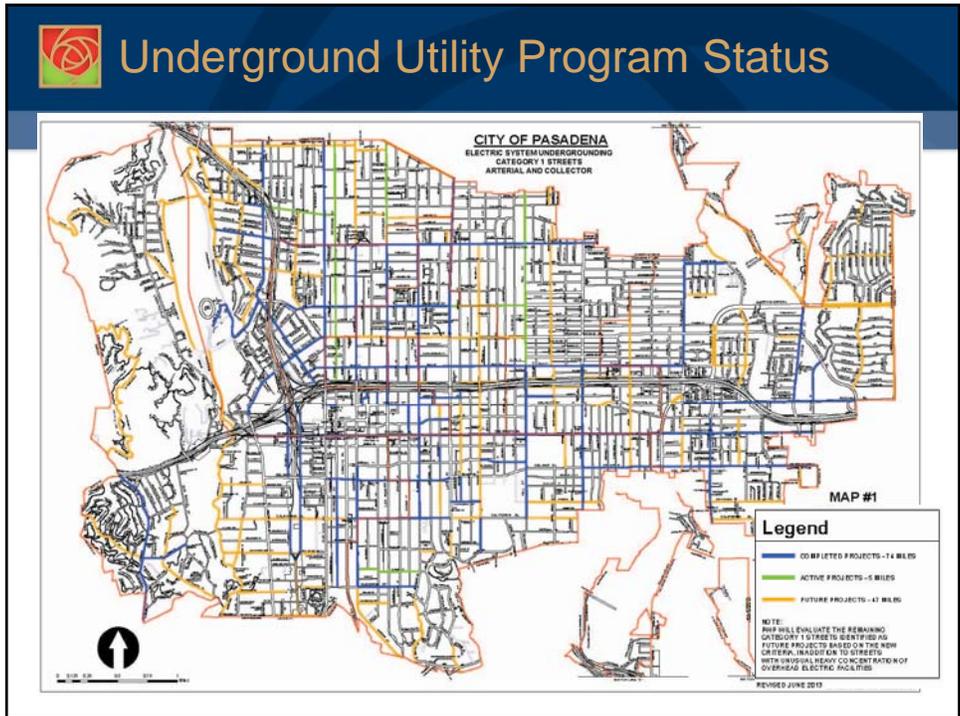
## Investigation Summary

Office of the City Manager

- The Fund covers costs to relocate overhead power lines underground
  - PWP bid joint trench contracts for electric and communications systems
  - PWP installed underground power cables and equipment and other utilities installed their cables and equipment
  - Historically, property owners were responsible for converting their overhead power connection to the new underground system and would receive reimbursement after the work was completed by their contractor
  - Active Fund with ongoing projects
- Revenues to the Fund come from an underground surtax paid by PWP electric customers, which averages approximately \$30 per year per homeowner

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## Investigation Summary

Office of the City Manager

- The alleged theft is believed to have occurred between 2003 to 2014
- Danny Wooten was responsible for managing the Underground Utility Program for Public Works and was employed with the City from July 2002 to July 2014 until dismissed for unrelated personnel issues
- Entities suspected to be associated with Mr. Wooten and the alleged theft are:
  - > Collins Electric
  - > Southern California Evangelical Jurisdiction (SCEJ)
  - > New Covenant Christian Fellowship Center (NCCF)
  - > Melody Jenkins

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## Investigation Summary

Office of the City Manager

- No evidence known at this time indicates other City employees being involved in the criminal action
- District Attorney's Office is lead agency on the criminal investigation, which is ongoing
- Preliminary personnel investigation resulted in four employees being placed on paid administrative leave pending completion of the personnel investigation and potential disciplinary action, which is ongoing

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## Investigation Summary

Office of the City Manager

- Findings
  - > Inadequate supervision of Mr. Wooten's activities and Underground Utility Fund charges
  - > Vendors were paid through a direct reimbursement process originally set up for property owners and they did not have Purchase Orders or Contracts as required by City policies
  - > Improper use and completion of Special Handling Request forms, including alleged forgery of signatures

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## Investigation Summary

Office of the City Manager

- Findings (continued):
  - > Chain of custody was not maintained with the Special Handling Request forms which enabled accused to modify the documents after he had received approvals
  - > Single person responsible for the entire Program circle
    - Manages Program and Fund
    - Authorizes payments charged to Fund
    - Prepares payment request
    - Receives check for disbursement
    - Reviews expense reports
  - > Insufficient review of vendor master list, which resulted in failure to receive proper W9 and the issuance of year-end 1099s

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## Measures Undertaken Prior to Theft

Office of the City Manager

- Executive management has been improving fiscal management and operational efficiencies for years
  - > Numerous financial and management audits completed, in progress, and planned
    - Appropriate corrective actions are pursued
  - > 24/7 Fraud Hotline established in October 2013
  - > Over \$6 million investment in new enterprise financial and personnel system that will improve accountability and reporting
    - New budget module launched in November 2014
    - Accounting and purchasing modules planned launch in July 2015
    - Personnel module planned launch January 2017

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## Actions in Response to Theft

Office of the City Manager

- City Council approved Internal Auditor position in City Manager's Office in August 2014 and recruitment is in final stages
- KPMG Audit makes 43 recommendations; all are accepted by management
- KPMG conducted accounts payable invoice payments review to identify other possible non-compliant transactions – to be presented to Audit Committee at January meeting

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## Actions in Response to Theft (Continued)

Office of the City Manager

- Public Works and Finance Directors developed work plans in response to theft and responsive to KPMG recommendations, many of which are already completed or underway

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## Next Steps

Office of the City Manager

- Complete personnel investigation with assistance from legal counsel within 60 days
- Seek civil remedies to recover funds
- Follow up with insurance carrier regarding theft claim – \$5 million limit
- Hire internal auditor
- Expand training and policy review across the organization

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## Next Steps

Office of the City Manager

- Implement KPMG recommendations for Public Works and Finance Departments as well as the work plans developed by those departments.
- Identify KPMG recommendations that can be applied citywide
- Reaffirm our values within our corporate culture
- Report back to City Council in 60 days

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