

# **CITY OF PASADENA**

**PUBLIC WORKS DEPARTMENT  
ENGINEERING DIVISION**

*UNDERGROUND UTILITY PROGRAM*

**REPORT MEMORANDUM**

November 11, 2014



## APPENDIX A

### TABLE OF CONTENTS

#### **I. Introduction**

- A. Scope
- B. Documents Relied On

#### **II. Executive Summary**

#### **III. Background**

- A. Discovery of Questionable Underground Utility Program Expenditures
- B. Public Works Department
- C. Underground Utility Program
- D. Utility Surtax

#### **IV. Observations and Findings**

- A. Questionable or Unauthorized Payments
- B. Bank Account Documents
- C. Circumvention of Practices and Controls
- D. Existence of Accomplices

#### **V. Details of the Investigation**

- A. Underground Utility Program Payment
- B. Special Handling Request Form
- C. Accounts Payable Procedures
- D. Danny Ray Wooten

#### **VI. Other Area of Review**

- A. Form 1099-MISC

#### **VII. Recommendations**

#### **VIII. Exhibits**

**City of Pasadena**  
**Investigation into Matters Relative to the Underground Utility Program**  
**as of November 11, 2014**

---

**I. INTRODUCTION****A. Scope**

KPMG was engaged by the Pasadena City Attorney's Office ("City Attorney") on behalf of the City Manager's Office ("City Manager") to assist in an internal investigation into suspected misappropriation and misuse of City funds with regards to the City's Street Lighting and Electric Undergrounding Program ("Underground Utility Program" or "UUP") and any related activities involving the UUP program manager, Danny Wooten ("D. Wooten"), an employee of the Department of Public Works, Engineering Division ("Public Works-Engineering"). The scope of our investigation included the following procedures: (i) review and analysis of expenditures charged to the Underground Utility Program to identify any improper or unauthorized transactions; (ii) review of electronic data files, including electronic mail, collected from D. Wooten's desktop computer and his network files from the City's network computer server; (iii) collection, review, and preservation of electronic data files of certain other City employees in the Public Works and Finance Departments that may have relevance to the matter; (iv) interviews with certain current and former City employees in connection with the matter being investigated, and (v) provide recommendations to strengthen and improve the policies, procedures, and internal controls currently in place over the City's Purchasing and Accounts Payable processes.

While the procedures performed by KPMG were designed to satisfy the requirements of the scope of our work they are not designed to detect all errors, irregularities, or fraudulent activity that may exist. The purpose of our work is to assist the City with its internal investigation into questionable or unauthorized payments related to the Underground Utility Program and any other unusual or improper financial activities involving D. Wooten.

**B. Documents Relied On**

Our work performed included review and evaluation of information, documents, and representations provided to us by City personnel or gathered by us through our independent research and considered relevant to this matter, which included, but was not limited to, the following:

Policies and Procedures

- City of Pasadena Purchasing Procedures Manual, (no date indicated);
- City of Pasadena Accounts Payable Procedures, Revised March 20, 2012;

Underground Utility Program Financial Documents, Information, and Data

- Accounts Payable Detail Data by Project from March 1997 through June 2014;
- Street Lighting and Electrical System Undergrounding, Adopted Capital Improvement Program Budgets, Fiscal Years 2003 through 2015;
- Vendor Invoices, Check Payments and Supporting Documents for Select Vendors;

City Payments

- Accounts Payable Payments Data from January 2007 through June 2014;
- Vendor List Data from January 2007 through June 2014;
- 1099-MISC Forms and Data from January 2006 through June 2014.

**City of Pasadena**  
**Investigation into Matters Relative to the Underground Utility Program**  
**as of November 11, 2014**

---

Bank Financial Documents

- Cancelled Bank Check Copies for Select Vendors;

Custodian Electronic Data

- Collected and Reviewed Electronic Data of the following employees in Public Works and Finance Departments<sup>1</sup>

*Public Works*



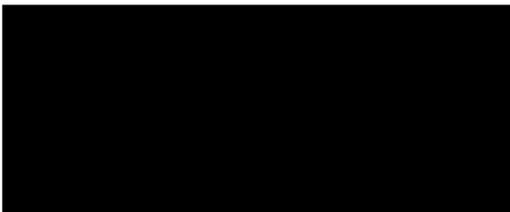
*Finance*



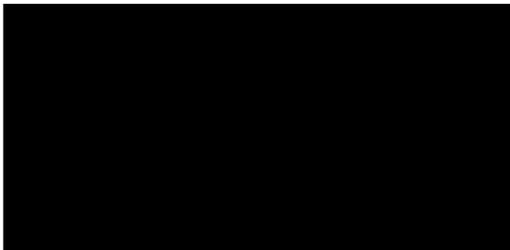
Employee Interviews

- Participated in confidential interviews with the following employees in the Public Works and Finance Departments:

*Public Works*



*Finance*



---

<sup>1</sup> Collected and preserved electronic data, comprised of emails, user network files, and imaged computer hard drives for a total of 20 custodians from the Public Works and Finance Departments. For a custodians list, see **(Exhibit 6)**.

<sup>2</sup> Interview with [REDACTED] was conducted by the City's Human Resources Department personnel via telephone, KPMG was not in attendance.

**City of Pasadena**  
**Investigation into Matters Relative to the Underground Utility Program**  
**as of November 11, 2014**

**II. EXECUTIVE SUMMARY**

KPMG was retained to assist the City in its internal investigation into suspected misappropriation and misuse of City funds related to the Underground Utility Program. Documents, records and other information reviewed indicate that D. Wooten engaged in improper actions and misused his position and authority at the City, as program manager of the Underground Utility Program (“UUP”), to execute questionable or unauthorized payments of City funds from the UUP to four specific vendors: 1) Collins Electric, 2) Southern California Evangelistic Jurisdiction (“SCEJ Center”), 3) New Covenant Christian Fellowship Center (“New Covenant Center”), and 4) Melody Jenkins (“M. Jenkins”), (collectively the “Four Vendors”). A total of 189 questionable or unauthorized check payments were issued to the Four Vendors totaling \$6,432,810.98, over a period of approximately 11 years from August 2003 through March 2014. Payments to the Four Vendors are summarized in the following:

Ref.	Name	No. of Invoices	No. of Check Payments <sup>3</sup>	Period Paid	Amount Paid
1	Collins Electric	163	113	8/2003 – 12/2013	\$3,543,359.00
2	SCEJ Center	98	56	3/2010 – 3/2014	2,132,656.00
3	New Covenant Center	33	19	12/2009 – 7/2012	712,810.49
4	M. Jenkins	2	1	6/2010	43,985.49
	<b>Total</b>	<b>296</b>	<b>189</b>		<b>\$6,432,810.98</b>

See (**Exhibit 1**) for a summary of payments to the Four Vendors related to the Underground Utility Program.

**(1) Collins Electric**

Questionable or unauthorized check payments to Collins Electric totaled \$3,543,359.00 (**Exhibit 2**).

Collins Electric is an electrical contractor with a business address at 483 Mountain View Street, Altadena, California 91001, located approximately four miles north of Pasadena City Hall.<sup>4</sup> The owner of Collins Electric is Tyrone Collins, an individual. The questionable or unauthorized payments to Collins Electric were for payments of invoices purportedly for electrical contractor labor and services in connection with undergrounding of private property overhead utility services to the City’s electrical underground system. There are a total of 163 Collins Electric invoices identified which were paid from Underground Utility Program funds over a period of approximately 10 years starting from August 2003 through December 2013. The relationship between Collins Electric and D. Wooten is undetermined. City personnel have speculated that Tyrone Collins and D. Wooten may have attended the same high school or the same church, which is unconfirmed.

<sup>3</sup> Represents the number of checks issued in payment of the vendor invoices. In many instances, two invoices were processed for payment on the same check voucher, therefore the total number of check payments is less than the total number of invoices paid.

<sup>4</sup> See (**Exhibit 17**) for contractor’s license information for Collins Electric.

**City of Pasadena**  
**Investigation into Matters Relative to the Underground Utility Program**  
**as of November 11, 2014**

---

**(2) Southern California Evangelistic Jurisdiction Center (“SCEJ Center”)**

Questionable or unauthorized check payments to SCEJ Center totaled \$2,132,656.00 (**Exhibit 3**).

SCEJ Center is a religious organization with a church property located at address 55 E. Villa Street, Pasadena, California 91103. SCEJ Center invoices show two Pasadena post office box mailing addresses: P.O. Box 17701, zip code 91104 and P.O. Box 4795, zip code 91107. According to the SCEJ Center website, D. Wooten serves as an administrative assistant to the SCEJ Center executive board and the board of superintendents.<sup>5</sup>

The questionable or unauthorized payments to SCEJ Center were for payments of invoices purportedly for electrical contractor labor and services in connection with undergrounding of private property overhead utility services to the City’s electrical underground system. There are a total of 98 SCEJ Center invoices identified which were paid from Underground Utility Program funds over a period of approximately 4 years starting from March 2010 through March 2014. There does not appear to be any valid business purpose for the SCEJ Center invoices. SCEJ Center is a religious organization. Their website does not reference any operations or services as an electrical contractor or provider of utility construction related services.

**(3) New Covenant Christian Fellowship Center (“New Covenant Center”)**

Questionable or unauthorized check payments to New Covenant Center totaled \$712,810.49 (**Exhibit 4**).

New Covenant Center is a religious organization with a property address at 2475 North Garey Avenue, Pomona, California 91767, located approximately 30 miles east of Pasadena City Hall. New Covenant Center invoices show a mailing address at P.O. Box 1042, Pasadena 91102. According to the New Covenant Center website, D. Wooten serves as the senior pastor at New Covenant Center. Further, the website’s history page cites New Covenant Center was established in October 2011 following completion of seven months of construction work at the church’s leased facilities in Pomona. The website cites funding for the construction work was raised by D. Wooten through an unidentified fund development project.<sup>6</sup>

There are a total of 33 New Covenant Center invoices identified which were paid from Underground Utility Program funds over a period of approximately 2½ years starting from December 2009 through July 2012. The questionable or unauthorized payments to New Covenant Center were for payments of invoices purportedly for electrical contractor labor and services in connection with undergrounding of private property overhead utility services to the City’s electrical underground system. There does not appear to be any valid business purpose for the New Covenant Center invoices. New Covenant Center is a religious organization and their website does not reference any operations or services as an electrical contractor or provider of utility construction related services.

---

<sup>5</sup> Source: <http://www.socalevangelistic.org/administration.html>. (**Exhibit 18**).

<sup>6</sup> Source: <http://www.newcofc.org/#!history/c8de>. (**Exhibit 19**).

**City of Pasadena**  
**Investigation into Matters Relative to the Underground Utility Program**  
**as of November 11, 2014**

---

**(4) Melody Jenkins (“M. Jenkins”)**

A questionable or unauthorized check payment was paid to an individual, M. Jenkins, in the total amount of \$43,985.49 in June 2010 (**Exhibit 5**).

M. Jenkins was a temporary employee with Public Works-Engineering on or around 2008 and provided administrative staff support services. M. Jenkins is also cited as Chancellor, Education Ministry on the New Covenant Center website. The questionable or unauthorized payment to M. Jenkins was for payment of two invoices purportedly for electrical contractor labor and services in connection with undergrounding of private property overhead utility services to the City’s electrical underground system. There does not appear to be any valid business purpose for the invoices from M. Jenkins. Her temporary employment with the City in 2008 was for administrative services unrelated to electrical contracting labor and services.

Based on the documents, data, and information reviewed, the questionable or unauthorized payments identified involved the actions of D. Wooten. The improper activities conducted by D. Wooten, resulting in the questionable or unauthorized payments to the Four Vendors, occurred over a span of approximately 11 years starting from August 2003 until the date D. Wooten was placed on administrative leave in March 18, 2014.<sup>7</sup> It was undetermined whether other City employees were accomplices who knowingly and intentionally worked with D. Wooten in perpetrating the fraudulent activities. Review of electronic data and interviews with certain employees from the Public Works and Finance Departments regarding their knowledge of the fraudulent activities did not identify or confirm the existence of City employee co-conspirators.

In considering the City’s Purchasing and Accounts Payable Procedures, we found the most significant issues giving rise to and providing opportunity for these unauthorized and improper payments to occur were the following:

- a) Unmonitored use of Special Handling Request Forms by D. Wooten which allowed him to circumvent Public Works-Engineering’s Finance and Management Services section to expedite the invoice payment requests and instruct the checks not be placed in the mail, but held at the Treasury division for pick-up by him, and
- b) Finance Department’s historical practice of processing UUP invoice payment requests as a “reimbursement” or refund, which allowed D. Wooten to circumvent the City’s policies and procedures regarding vendor procurement approvals and purchasing expenditure thresholds.<sup>8</sup>

---

<sup>7</sup> Per the City’s Human Resources Department, Danny Wooten was placed on a mandatory administrative leave of absence on March 18, 2014 pending the outcome of an administrative matter into charges [REDACTED] unrelated to this investigation. In July 2014, Danny Wooten’s employment with the City was terminated based on findings from the administrative matter.

<sup>8</sup> According to City of Pasadena Accounts Payable Procedures, Revised 03/20/12, page 4, procurement of goods or services over \$100 requires a purchase order, contract, or other agreement. Invoices over \$100 without a purchase order, contract, or other agreement requires Finance approval and City Department Head approval for payment. In addition, a signed memo

**City of Pasadena**  
**Investigation into Matters Relative to the Underground Utility Program**  
**as of November 11, 2014**

---

The City has referred this matter to the Los Angeles County, District Attorney's Office ("D.A's Office") for further investigation and potential criminal prosecution. The City was informed by the D.A's Office that bank statements and other documents show the bank accounts into which the City's checks were deposited or cashed are accounts affiliated with D. Wooten. The D.A's Office's preliminary review of the bank account documents show that check payments issued by the City to SCEJ Center and New Covenant Center were deposited into bank accounts held in the name of D. Wooten. In addition, check payments issued by the City to Collins Electric were deposited into a bank account held in the name of Collins Electric and checks were written and paid from that account to New Covenant Center, and cashier's checks were written and paid to Danny Wooten. The D.A's Office investigation is ongoing and findings from their investigation were pending as of the date of this report.

---

detailing the circumstances and requesting approval is required to be attached to the invoice and signed by the individual with authorized signature authority. Exceptions include: telephone, gas and electric bill, library books, Workers Compensation invoices, and refunds by various City departments. See **(Exhibit 48)** for Accounts Payable Procedures.

**City of Pasadena**  
**Investigation into Matters Relative to the Underground Utility Program**  
**as of November 11, 2014**

---

### **III. BACKGROUND**

#### **A. Discovery of Questionable Underground Utility Program Expenditures**

On or around May 2014, routine inquiry originated from a subcommittee, the Municipal Services Committee (“MSC”), regarding available funding in the Underground Utility Program. Specific inquiry was raised by the MSC regarding expenditures charged to the UUP under a Miscellaneous project number. In response to the inquiry, Public Works senior management reviewed UUP expenditures charged to the Miscellaneous project number<sup>9</sup> and became aware of questionable expenditures with a vendor, Collins Electric. At the time of the inquiry, D. Wooten was out on mandatory administrative leave for a matter unrelated to this investigation. After discovery of the questionable expenditures with Collins Electric, Public Works-Engineering management personnel referred the matter to the City’s Human Resources department (“HR”) for further review.

With the assistance of Public Works-Engineering management personnel, HR management personnel conducted a preliminary review and inquiry into the Underground Utility Program expenditures, and identified questionable payments to three vendors: Collins Electric, Southern California Evangelistic Jurisdiction, and New Covenant Christian Center. Further review by Public Works-Engineering management personnel identified a questionable payment to a fourth vendor, Melody Jenkins. The payments to these four vendors (the “Four Vendors”) involved the actions of D. Wooten in which he apparently received and approved the vendor invoices for payment, prepared the invoice payment requests, and instructed the printed check payments not to be mailed to the vendor address on file, but held for pick-up by him. For a summary of expenditures charged to the Underground Utility Program for Public Works-Engineering by project ID number, see **(Exhibit 7)**.

#### **B. Public Works Department**

For informational purposes, the following paragraphs provide a brief background of the Underground Utility Program and the administration and management of the program by Public Works-Engineering.

Public Works preserves and maintains the City’s infrastructure and natural resources for the benefit of its residents and the community. Public Works is comprised of six major divisions: 1) Building Systems and Fleet Management; 2) Construction; 3) Engineering; 4) Parks and Natural Resources; 5) Street Maintenance; and 6) Integrated Waste Management. Public Works manages the City’s Capital Improvement Program (“CIP”) which consists of projects aimed at improving the City’s public infrastructure including city streets, street lighting, traffic signals, parks, public buildings, technology, and

---

<sup>9</sup> The Underground Utility Program provides for the undergrounding of electrical facilities in conjunction with small projects at various locations throughout the City which are not part of an established underground utility district. Expenditures associated with these projects are charged to a UUP Miscellaneous project number. Miscellaneous project number 74569 was first created and received initial funding in fiscal year 1983. The project was segmented into five year increments starting in fiscal year 2011 with Miscellaneous project number 74480. A new five year phase of the Miscellaneous project will be created in fiscal year 2016. (Source: City of Pasadena Adopted Capital Improvements Program Budget, Fiscal Years 2015-2019). For a summary of expenditures charged to Miscellaneous project numbers 74569 and 74480, see **(Exhibits 8 and 9)**.

**City of Pasadena**  
**Investigation into Matters Relative to the Underground Utility Program**  
**as of November 11, 2014**

---

water and power. One such CIP project is the Underground Utility Program, a City wide initiative in which properties utilizing City and other local utility overhead power lines, including cable and telephone communication lines, are converted from overhead utility service to an underground electric system<sup>10</sup>.

### **C. Underground Utility Program**

The Underground Utility Program, which began in 1968, is a multi-year CIP project administered jointly by Public Works-Engineering and Pasadena Water and Power (“PWP”). Public Works-Engineering manages the overall undergrounding project including district establishment, utility coordination, resident notification, plan and specifications review, and utility easements. Pasadena Water and Power manages each undergrounding project by preparing civil and electric plans and specifications, managing contracts for joint trench work, coordinating right of way on private properties, and construction inspections. Under the program, the City’s streets are divided into 3 primary categories: 1) Arterial and Collector Streets; 2) Residential Streets; and 3) Rear Properties and Alleys. Priority for undergrounding is placed on Category 1–Arterial and Collector Streets, which are major corridor streets characterized by high traffic volume and heavily concentrated or deteriorated overhead utility lines.<sup>11</sup>

City streets designated for undergrounding are established into underground utility districts (“UUD”) in which street boundaries are delineated. The City is responsible for ensuring installation of the underground infrastructure, primary cables, transformers and other required facilities for each established underground utility district. Affected private property owners residing in an underground utility district have historically been required to underground their private property overhead facilities and install, at their own expense, the necessary conduits for utility services from their property line at the sidewalk, to the existing meter or designated service point. Upon completion of the conversion work, property owners were eligible to submit a completed utility rebate form to the City for reimbursement of the maximum rebate amount or the lesser of the actual costs of the work.<sup>12</sup> The rebate amount progressively increased from an initial amount of \$800 to the current reimbursement rebate of \$3,000.<sup>13</sup>

On or around 2010, the City implemented the Los Robles Pilot Program under which the City provided for the installation of necessary conduits, wiring and other materials for affected private property owners who resided in the established underground utility district of Los Robles Avenue UUD (04-1). These property owners were required to provide written authorization through a Right-of-Entry form for the

---

<sup>10</sup> Source: <http://www.cityofpasadena.net/PublicWorks/>.

<sup>11</sup> Memorandum City of Pasadena, Department of Public Works, to the Municipal Services Committee, from Siobhan Foster, Public Works Director, subject: Underground Utility Program, dated March 11, 2014.

<sup>12</sup> City of Pasadena, Electric System Undergrounding, Application for Utility Reimbursement, Revised 05/2011.

<sup>13</sup> On June 11, 1991, the City Council approved Ordinance No. 6433 to increase the utility reimbursement to property owners within an established underground utility district from \$800 to \$1,000. On October 27, 2003, the City Council approved Ordinance No. 6956 to increase the utility reimbursement from \$1,000 to \$2,000 (Agenda Report: An Ordinance Amending Section 13.14.110 of the PMC, Underground Utility Districts dated October 20, 2003). On September 27, 2010, the City Council approved Ordinance No.7198 which increased the utility reimbursement amount from \$2,000 to \$3,000 (Agenda Report: An Ordinance Amending Section 13.14.110 of the PMC, Underground Utility Districts dated August 9, 2010).

**City of Pasadena**  
**Investigation into Matters Relative to the Underground Utility Program**  
**as of November 11, 2014**

---

City's contractor to perform the work on their property.<sup>14</sup> Following the Los Robles Pilot Program, in May 2013, the City Council approved Amendment to Chapter 13.14 which provided two options within underground utility districts: 1) a property owner can provide a Right-of-Entry to the City and the City would install the conduits and other necessary materials to convert the property to underground utilities and pay for all costs of the work performed or 2) a property owner can have the work performed by a private contractor and submit a reimbursement to the City for the lesser of the rebate amount or actual costs incurred.<sup>15</sup>

#### **D. Utility Surtax**

The Underground Utility Program is funded by the Underground Utility Fund ("Underground Fund"), a utility surtax assessed on City residents based on electricity usage levels. The average surtax per resident is approximately \$30 annually from which the City generates approximately \$5.4 million annually in utility surtax revenues (surtax revenues plus investment earnings) which is collected through the utility billing process.<sup>16</sup>

The City's utility surtax provides funding for the undergrounding of overhead utility wires as it relates to existing power services. Other local utilities such as telephone and cable television are mandated to underground their overhead services along with the City through a process of joint trenching. All utilities share in the space and cost of the trench work based on the percent of usage.<sup>17</sup>

As of the beginning of fiscal year 2014, there was approximately \$45.2 million of available funding for the Underground Utility Program. According to the City, this surplus indicates that work on UUP projects has not kept up pace with revenues generated. By City estimates, the UUP has a projected program completion date of approximately 150 years. Over the past year, the Department of Public Works and Pasadena Water and Power have conducted review on the progress of the UUP and recommended the City Council consider implementing steps to sunset or modify the program, including ceasing or temporarily ceasing the collection of the underground surtax when sufficient revenue has been accumulated to fund active underground utility district projects and anticipated future projects.<sup>18</sup>

---

<sup>14</sup> PMC, Chapter 13.14, Section 13.14.110 (D), Public Works Pilot Program. Agenda Report: An Ordinance Amending Section 13.14.110 of the PMC, Underground Utility Districts dated August 9, 2010.

<sup>15</sup> Ordinance Fact Sheet: An Ordinance Amending Chapter 13.14 of the PMC dated May 20, 2013.

<sup>16</sup> Agenda Report: Review of Underground Utility Program, Department of Public Works/Pasadena Water & Power, dated July 2014.

<sup>17</sup> Ibid.

<sup>18</sup> Ibid.

**City of Pasadena**  
**Investigation into Matters Relative to the Underground Utility Program**  
**as of November 11, 2014**

**IV. OBSERVATIONS AND FINDINGS**

The findings presented in this report are based on the accounting documentation and information, and explanations and representations that have been provided to us. This includes review of underlying invoices and payments data and documents provided by the City, review of electronic data, including electronic email of certain employees in the Public Works and Finance departments, and interviews and discussions conducted with City employees with knowledge relevant to this matter. Our objective was to identify the existence of misappropriation or misuse of City funds indicative of fraudulent activity, determine the extent of any violations of City Purchasing and Accounts Payable policies and procedures, and if fraudulent activity has occurred, identify who were the individuals complicit in the fraudulent activity, to the extent possible. Based on the work performed, we determined the following with respect to the issues relevant in this matter.

**A. Questionable or Unauthorized Payments**

Questionable or unauthorized check payments were issued to the Four Vendors purportedly for electrical contractor labor and services for conversion of utility overhead services in connection with the City's Underground Utility Program. The questionable or unauthorized payments occurred over the course of approximately 11 years from August 2003 through March 2014. Total payments to the Four Vendors are summarized in the following:

Ref.	Name	No. of Invoices	No. of Payments	Period Paid	Amount Paid
1	Collins Electric	163	113	8/2003 – 12/2013	\$3,543,359.00
2	SCEJ Center	98	56	3/2010 – 3/2014	2,132,656.00
3	New Covenant Center	33	19	12/2009 – 7/2012	712,810.49
4	M. Jenkins	2	1	6/2010	43,985.49
	<b>Total</b>	<b>296</b>	<b>189</b>		<b>\$6,432,810.98</b>

**(1) Collins Electric**

One hundred sixty three (163) questionable or unauthorized invoices were paid to Collins Electric for a total of \$3,543,359.00 from 8/2003 through 12/2013.

Based on review of electronic data files collected from the user profile of D. Wooten, three (3) Microsoft Excel files were discovered in his network server user files which appear to be templates used to create invoices for Collins Electric. The file names are "Collins Electric.xls", "Hogan.xls", and "Proposal-COLLINS ELECTRIC.xls". According to the metadata<sup>19</sup> fields associated with these files, all three files show a content created date on 12/22/2003 and the "Collins Electric.xls" file shows the most recent date last saved on 12/11/2013. The metadata also showed the name of the author of the three files to be "Danny R. Wooten". For copies of the invoice templates see (**Exhibits**

<sup>19</sup> Metadata is structured information about an electronic file which is embedded in the file, but not normally visible when viewing a printed document or viewing on screen, it describes the characteristics, origins, usage and validity of other electronic files.

**City of Pasadena**  
**Investigation into Matters Relative to the Underground Utility Program**  
**as of November 11, 2014**

**20, 22 and 24).** For the actual invoice copies from Collins Electric bearing the same invoice numbers found on template files see (**Exhibits 21, 23, and 25 through 28**).

The payments to Collins Electric involved the actions of D. Wooten as summarized in the following:

- Approved the Collins Electric invoices as indicated by his signature on the approval line of the “PW Engineering” stamp marked on the invoices;
- Requested payment for each invoice as indicated by his signature on the “Requested By” line of the Special Handling Request Forms completed by him;
- Instructed the check payments for Collins Electric not be placed in the U.S. mail, but held at the Finance department for “pick-up” by him as indicated on the Special Handling Request Forms completed by him and bearing his signature.

The dates of the Collins Electric invoices and payments cover a period of approximately 10 years. We observed noticeable changes in the quality of the invoices and supporting documentation, such that the quality of the documents and the descriptive detail of the information provided on the documents deteriorated over time. It should be noted that physical hard copies of Collins Electric invoices dated from 2003 through 7/2004 were no longer available due to the length of time that had passed. Our review of Collins Electric invoices began with invoices dated 8/2004. Observations noted with regards to the Collins Electric invoices included the following:

Item	Date	COLLINS ELECTRIC – Red Flags
(a)	2006	<b>No purchase orders</b> – Starting in approximately 2006, purchase orders did not appear to be issued as no purchase order documents were attached to the invoices authorizing the procurement of services, and there were no purchase order numbers referenced on the invoices.
(b)	2006	<b>No property addresses</b> – Starting in approximately 2006, property addresses identifying the location where undergrounding utility work was presumably performed are not listed on the invoices. The invoice description does not provide street property addresses where work was performed.
(c)	2009	<b>No owner signature</b> – Starting with invoices dated in 3/2009, the signature of the owner of Collins Electric, Tyrone Collins, is no longer documented on the invoice. Prior to that date, the apparent signature of Tyrone Collins appears at the bottom left-hand-corner of the invoice.
(d)	2011	<b>Repeating invoice amounts</b> – Starting in 2011, Collins Electric invoices appear to have a noticeable repeating pattern of two invoices submitted together at regular intervals (i.e., monthly), one invoice in the amount of \$20,000 and another in the amount of \$23,750. An indication that previous invoices were most likely duplicated and re-submitted for payment while the invoice description and amount remained essentially unchanged.
(e)	2012 – 2014	<b>Charges to Future Projects</b> – Invoice amounts were charged to Underground Utility District (“UUD”) projects where electrical undergrounding work has not yet

**City of Pasadena**  
**Investigation into Matters Relative to the Underground Utility Program**  
**as of November 11, 2014**

Item	Date	COLLINS ELECTRIC – Red Flags
		<p>started, but is scheduled for a future date. Collins Electric invoices were charged to the following accounting project codes for UUDs that have not started electrical undergrounding work</p> <ul style="list-style-type: none"> <li>• \$43,750 charged to Alpine Street (project code 74801) scheduled to begin electrical undergrounding in fiscal year 2017; (<b>Exhibit 13</b>)</li> <li>• \$87,500 charged to Mountain Street (74909) scheduled for electrical undergrounding in fiscal year 2016; (<b>Exhibit 12</b>) and</li> <li>• \$175,000 charged to Raymond Avenue North (74490) scheduled for electrical undergrounding in fiscal year 2016 (<b>Exhibit 11</b>).</li> </ul>

**(2) Southern California Evangelistic Jurisdiction Center**

Ninety eight (98) questionable or unauthorized invoices were paid to SCEJ Center for a total of \$2,132,656.00 from March 2010 through March 2014.

Based on review of the electronic data files imaged from D. Wooten’s computer tower hard drive, a Microsoft Excel file was discovered with the file name “Invoice.xlsx”. The file identified appears to be a template used to create invoices for SCEJ Center. According to the metadata fields associated with the file, the content created date was on 7/27/2000 with a date last saved on 2/10/2014. The name of the author of the file is “Danny R. Wooten”. For a copy of the invoice template see (**Exhibit 29**). For the actual invoice copy from SCEJ Center bearing the same invoice number found on the template file see (**Exhibit 30**).

A review of the SCEJ Center invoices shows that all of the check payments to SCEJ Center involved the actions of D. Wooten in approving the vendor invoice, preparing the invoice payment request, and picking up the check payment. Observations noted regarding the SCEJ Center invoices included the following:

Item	Date	SCEJ CENTER – Red Flags
(a)	2010 - 2014	<b>No valid business purpose</b> – There does not appear to be a valid business purpose for the SCEJ Center invoices. SCEJ Center is a religious organization. Their website does not reference any operations or services as an electrical contractor or provider of utility construction related services <sup>20</sup> nor does SCEJ Center have an electrical contractor’s license on file in California. <sup>21</sup>
(b)	2010 - 2014	<b>No purchase orders</b> – Purchase orders did not appear to be issued as no purchase order documents were attached to the invoices authorizing the procurement of services, and there were no purchase order numbers referenced on the invoices.

<sup>20</sup> Source: <http://www.socalevangelistic.org/>.

<sup>21</sup> Source: Department of Consumer Affairs, Contractors State License Board, <https://www2.cslb.ca.gov/OnlineServices/CheckLicenseII/checklicense.aspx>

**City of Pasadena**  
**Investigation into Matters Relative to the Underground Utility Program**  
**as of November 11, 2014**

Item	Date	SCEJ CENTER – Red Flags
(c)	2010 - 2014	<b>No property addresses</b> – Property addresses identifying the location where electrical undergrounding work was presumably performed are not listed on the invoices. The invoice descriptions do not provide any street addresses to identify the location of where work was performed.
(d)	2010 - 2014	<b>Repeating invoice amounts</b> – SCEJ Center invoices have a noticeable repeating pattern of two invoices submitted together at regular intervals (i.e., monthly), one invoice in the amount of \$20,000 and another in the amount of \$23,750. An indication that previous invoices were most likely duplicated and re-submitted for payment while the invoice description and amount remained essentially unchanged. This same repeating pattern in the invoice amounts was evident in the Collins Electric invoices.
(e)	3/2010	<b>Payments for both electrical contractor services and private property reimbursement claim</b> – Payments to SCEJ Center were not only for labor and services billed as an electrical contractor for underground utility conversion work, but SCEJ Center was issued a payment of \$7,645 for a reimbursement claim as a private property owner. The reimbursement payment was the first check payment to SCEJ Center for costs of undergrounding utility conversion work and damage repair to a sprinkler system and water main line based on an invoice from High Voltage Electrical, a contractor located in Pomona, California. <sup>22</sup> A pdf file was identified in D. Wooten’s computer tower hard drive files which appears to be the High Voltage Electrical invoice. According to the metadata fields associated with the pdf file, the author of the file is “dwooten”.
(f)	10/2013 and 2/2014	<b>Altered invoice numbers</b> – a set of six invoices show the same invoice date of 10/21/2013 for a total aggregate amount of \$131,250. The invoice numbers on the 1 <sup>st</sup> and 2 <sup>nd</sup> invoices were typed, while the 3 <sup>rd</sup> thru 6 <sup>th</sup> invoices appear to be photocopies of the 1 <sup>st</sup> and 2 <sup>nd</sup> invoices. Invoice numbers appear manually altered and rewritten by hand and resubmitted as new invoices in subsequent months. Other than the invoice numbers, all other invoice information remained unchanged. The same pattern is seen with another set of six invoices dated 2/10/2014. The 3 <sup>rd</sup> thru 6 <sup>th</sup> invoices appear to be photocopies from the 1 <sup>st</sup> and 2 <sup>nd</sup> invoices with the invoice numbers altered and rewritten by hand and submitted for payment in subsequent months with all other information on the invoices unchanged. These 12 invoices showed the pattern of repeating invoice amounts of \$20,000 and \$23,750.
(g)	2011 – 2014	<b>Charges to Future Projects</b> – Invoices are charged to UUD projects where electrical undergrounding work has not yet started, but is scheduled for a future date. SCEJ Center invoices are charged to the following accounting project codes for UUDs that

<sup>22</sup> SCEJ Center reimbursement check payment no. 462065, dated 3/25/2010 in the amount of \$7,645. Invoice submitted as support for cost reimbursement claim was from High Voltage Electrical, invoice no. “REIMBURSEMENT”, dated 3/22/2010 for \$7,645. In addition, SCEJ Center’s church property located on 55 E. Villa Street, Pasadena is located in UUD (06-1) Raymond Avenue (Maple Street to North City Limits 74490) which has not undergone electrical underground construction, but is scheduled to start construction in fiscal year 2016. Based on the invoice, this expenditure was charged to Miscellaneous project number 74569 (**Exhibits 33 and 34**).

**City of Pasadena**  
**Investigation into Matters Relative to the Underground Utility Program**  
**as of November 11, 2014**

Item	Date	SCEJ CENTER – Red Flags
		<p>have not started electrical undergrounding work:</p> <ul style="list-style-type: none"> <li>• \$111,250 charged to Alpine Street (project code 74801) scheduled to begin electrical undergrounding in fiscal year 2016; <b>(Exhibit 13)</b></li> <li>• \$350,000 charged to Mountain Street (74909) scheduled for electrical undergrounding in fiscal year 2016; <b>(Exhibit 12)</b></li> <li>• \$787,495 charged to Raymond Avenue North (74490) scheduled for electrical undergrounding in fiscal year 2016, <b>(Exhibit 11)</b> and</li> <li>• \$262,500 charged to Howard Street (74485) scheduled for electrical undergrounding in fiscal year 2017 <b>(Exhibit 14)</b>.</li> </ul>
(h)	2010	<p><b>Multiple SCEJ entities</b> – The majority of invoices were issued by the entity “SCEJ Center”, but certain invoices are issued by other affiliated entities, namely SCEJ Youth Center, SCEJ Recovery Center, SCEJ Center Day Care, and SCEJ Center Transition House. For purposes of our investigation, invoices from SCEJ entities are collectively referred to as SCEJ Center. Each of the invoices reference the caption “<i>The Miracle Place of Second Chances</i>”, a phrase seemingly inconsistent with providing electrical contracting or other utility construction related services.</p>

### (3) New Covenant Christian Fellowship Center

Thirty three (33) questionable or unauthorized invoices were paid to New Covenant Center for a total of \$712,810.49 from December 2009 through July 2012.

Based on review of the electronic data files collected from the user profile of D. Wooten, a Microsoft Excel file was discovered in his network server files with the file name “NCCFC.xlsx”. The file identified appears to be a template used to create invoices for New Covenant Center. According to the metadata fields associated with the file, the content created date was on 7/18/2010 with a date last saved on 7/23/2012. The file had no author name indicated. For a copy of the invoice template see **(Exhibit 31)**. For the actual invoice copy from New Covenant Center bearing the same invoice number found on the template file see **(Exhibit 32)**.

A review of the New Covenant Center invoices, check requests, and other supporting documents shows the payments to New Covenant Center involved the actions of D. Wooten in approving the vendor invoice, preparing the check payment request, and picking up the check payment. Observations noted regarding the New Covenant Center invoices included the following:

Item	Date	NEW COVENANT CENTER – Red Flags
(a)	2009 – 2012	<p><b>No valid business purpose</b> – There does not appear to be a valid business purpose for the New Covenant Center invoices. New Covenant Center is a religious organization.</p>

**City of Pasadena**  
**Investigation into Matters Relative to the Underground Utility Program**  
**as of November 11, 2014**

Item	Date	NEW COVENANT CENTER – Red Flags
		Their website does not reference any operations or services as an electrical contractor or provider of utility construction related services <sup>23</sup> nor does New Covenant Center have an electrical contractor's license on file in California. <sup>24</sup>
(b)	2009 – 2012	<b>No purchase orders</b> – Purchase orders did not appear to be issued as no purchase order documents were attached to the invoices authorizing procurement of services, and there were no purchase order numbers referenced on the invoices.
(c)	2009 – 2012	<b>No property addresses</b> – Property addresses identifying the location where undergrounding work was presumably performed are not listed on the invoices. The invoice descriptions do not provide a listing of any street property addresses to identify the location of where work was performed.
(d)	12/2009	<b>Payment for private property reimbursement, but no Pasadena property address</b> – New Covenant Center does not have a property address located in Pasadena, however, the first check payment to New Covenant Center, in the amount of \$5,825 was for a private property reimbursement claim. The reimbursement payment was for underground utility conversion work and damage repair to a sprinkler system and underground water line at a residential property address 250 Rosita Lane, Pasadena, situated within the Avenue 64 underground utility district. <sup>25</sup> Based on the supporting invoice documentation provided, conversion work was invoiced by Anderson Pool & Spa, Inc. a vendor located in Pomona. The invoice was addressed to an individual, Don Wilson, with a mailing address at P.O. Box 1042 in Pasadena, which is a postal box associated with New Covenant Center and SCEJ Center. The check payment was originally addressed to payee Don Wilson at the P.O. Box 1042 mailing address, however, based on an email communication from D. Wooten dated 12/10/2009, D. Wooten instructed the Accounts Payable division to stop payment and reissue the check to payee New Covenant Center. <sup>26</sup> The connection between Don Wilson and D. Wooten is unknown.
(e)	2010 - 2012	<b>Repeating invoice amounts</b> – Invoices from New Covenant Center have a noticeable repeating pattern of two invoices submitted together at regular intervals (i.e., monthly), one invoice in the amount of \$20,000 and another in the amount of \$23,750. This same repeating pattern in the invoice amounts was evident in both the Collins Electric and SCEJ Center invoices.

<sup>23</sup> Source: <http://www.newcocfc.org/>.

<sup>24</sup> Source: Department of Consumer Affairs, Contractors State License Board, <https://www2.cslb.ca.gov/OnlineServices/CheckLicenseII/checklicense.aspx>

<sup>25</sup> Anderson Pools & Spa, invoice no. 50301, in the amount of \$5,825, (no invoice date, issued on or around 10/2009). The invoice was issued to Don Wilson and then re-issued on or around 12/2009 to New Covenant Center (NCCFC). Both invoices show the expenditure was charged to the Miscellaneous project code 74569, and not to UUD (96-1) Avenue 64 (Colorado Blvd to South City Limits) 74999 in which the property at 250 Rosita Lane is located (**Exhibit 35**).

<sup>26</sup> Email: from Danny Wooten, to Monique Autrey, cc: Jorge Miramontes, subject: RE: stop payment request, dated 12/10/2009 (**Exhibit 35**).

**City of Pasadena**  
**Investigation into Matters Relative to the Underground Utility Program**  
**as of November 11, 2014**

Item	Date	NEW COVENANT CENTER – Red Flags
(f)	2011 – 2012	<p><b>Charges to Future Projects</b> – Invoices are charged to UUD projects where electrical undergrounding work has not yet started, but is scheduled for a future date. New Covenant Center invoices are charged to the following accounting project codes for UUDs that have not started electrical undergrounding work:</p> <ul style="list-style-type: none"> <li>• \$131,250 charged to Mountain Street (74909) scheduled to begin electrical undergrounding work in fiscal year 2016; <b>(Exhibit 12)</b></li> <li>• \$464,250 charged to Raymond Avenue North (74490) scheduled for electrical undergrounding in fiscal year 2016, <b>(Exhibit 11)</b> and</li> <li>• \$43,750 charged to Howard Street (74485) scheduled for electrical undergrounding in fiscal year 2017 <b>(Exhibit 14)</b>.</li> </ul>
(g)	2009 – 2012	<p><b>References same electrical contractor used by SCEJ Center</b> – Invoices from New Covenant Center reference “High Voltage Electric” on the “Sales Rep” line. High Voltage Electrical, is the name of the electrical contractor whose invoice was submitted by SCEJ Center as support for the private property reimbursement claim of \$7,645.</p>
(h)	2009 – 2012	<p><b>Post Office Box mailing address affiliated with SCEJ Center</b> – The check payments to New Covenant Center are addressed to P.O. Box 1042 Pasadena 91109, however, based on the address shown on the New Covenant Center invoices, the zip code should be 91102. Furthermore, P.O. Box 1042, Pasadena 91102 is also a postal address affiliated with SCEJ Center and is listed on the SCEJ Center website as a contact address for inquiries regarding AIM (Auxiliaries In Ministry) Convention at <a href="http://aimscej.org/contact.htm">http://aimscej.org/contact.htm</a>. <b>(Exhibit 18)</b>.</p>
(i)	2010	<p><b>Multiple related entities</b> – A majority of New Covenant Center invoices are issued by the entity “NCCF Center”, but certain invoices are issued by other NCCF affiliated entities, namely NCCF Senior Center, NCCF Christian School, and NCCF Transition House, with no apparent known connection to electrical contracting or utility construction related services. For purposes of our investigation, invoices from NCCF entities are collectively referred to as New Covenant Center.</p>

**(4) Melody Jenkins**

Two (2) questionable or unauthorized invoices were paid to M. Jenkins, in the total amount of \$43,985.49 in June 2010.

The payment to M. Jenkins involved the actions of D. Wooten in approving the vendor invoices, preparing the invoice payment request, and picking up the check payment. The payment was for two invoices purportedly for electrical contractor labor and services in connection with undergrounding of private property overhead utility services to the City’s electrical underground system. One invoice in the amount of \$20,000 and a second invoice in the amount of \$23,985.49, for a total check payment to M. Jenkins of \$43,985.49. Observations noted regarding the M. Jenkins invoices included the following:

**City of Pasadena**  
**Investigation into Matters Relative to the Underground Utility Program**  
**as of November 11, 2014**

Item	Date	M. JENKINS – Red Flags
(a)	2010	<b>No valid business purpose</b> – There does not appear to be a valid business purpose for the M. Jenkins invoices. M. Jenkins was a temporary employee in Public Works-Engineering providing administrative clerical services on or around 2008. A search of the California Contractors State License Board showed that M. Jenkins does not have an electrical contractor’s license on file in California. <sup>27</sup>
(b)	2010	<b>No purchase orders</b> – Purchase orders did not appear to be issued as no purchase order documents were attached to the invoices authorizing procurement of services, and there were no purchase order numbers referenced on the invoices.
(c)	2010	<b>No property addresses</b> – Property addresses identifying the location where undergrounding work was presumably performed are not listed on the invoices. The invoice descriptions do not provide a listing of the street property addresses to identify the location of where work was performed.
(d)	2010	<b>Project Number and UUD Number Do Not Match</b> – Based on the invoices, the expenditures were charged to Miscellaneous project number 74569 which does not match the description written on the Special Handling Request Form which references underground conversion for UUD (05-2) (18-184 Raymond Avenue). Project number 74490 Raymond Avenue has not undergone electronic underground, but is scheduled for electrical construction in fiscal year 2016.
(e)	2010	<b>Invoice Identical to New Covenant Center</b> – Invoice no. MSJ-061110, dated June 14, 2010, in the amount of \$23,985.49 appears identical to an invoice from NCCF Senior Center dated a month earlier on May 24, 2010, invoice no. NCCF-05242010. The two invoices show exactly the same line item services in the same order, have the same total invoice dollar amount, provide the same line item descriptions, and have an identical invoice format. See (Exhibits 36 and 37).

In addition, based on review of the electronic data files imaged from D. Wooten’s computer tower hard drive, various files were identified in connection with M. Jenkins, including tax documents bearing her name, employment resumes for herself, and two other individuals with the last name Jenkins: George Jenkins and Tahya Jenkins, identified from tax records as a son and daughter of M. Jenkins.

#### **B. Bank Account Documents**

Based on the related investigation by the D.A’s Office, the City was informed that bank statements and documents for Collins Electric, SCEJ Center and New Covenant, show bank transactions and activity connected to D. Wooten. The City’s check payments to SCEJ and New Covenant were deposited into bank accounts held in the name of Danny Wooten. City check payments to Collins Electric were

<sup>27</sup> Source: Department of Consumer Affairs, Contractors State License Board, <https://www2.cslb.ca.gov/OnlineServices/CheckLicenseII/checklicense.aspx>

**City of Pasadena**  
**Investigation into Matters Relative to the Underground Utility Program**  
**as of November 11, 2014**

---

deposited into a bank account held in the name of Collins Electric, and from that account checks were written and paid to New Covenant Center and cashier's checks were written and paid to Danny Wooten.

**C. Circumvention of Practices and Controls**

During his employment as the UUP program manager with Public Works-Engineering, D. Wooten apparently circumvented the City's established policies, practices and controls allowing him to engage in a recurring and intentional practice of misappropriating City funds from the Underground Utility Program and disbursing those funds to third parties affiliated with him.

During our engagement, we considered the nature and cause of the questionable or unauthorized payments and improper payment practices involving D. Wooten. We also evaluated adherence to and effectiveness of policies, practices and internal controls then in place during the performance of our work. Our specific findings and recommendations are more fully described in the Recommendations section of this report. However, in general terms, we found the most significant matters giving rise to and providing opportunity for the unauthorized and improper payments to occur were:

Improper operation of internal controls involving the following:

- Acceptance of vendor invoices lacking sufficient information and/or documentation to support the services provided;
- Approval for payment of invoices without a purchase order, contract, or agreement to evidence authorization of procurement of services;
- Inadequate review and approval of invoice payment requests involving Special Handling Request Forms;
- Lack of segregation of duties in approving vendor invoices for payment, preparing invoice payment requests, and picking up check payments;
- Lack of written and documented policies and procedures in the disbursement of Underground Utility Program funds, specifically in regards to vendor invoice payments and private property reimbursements.

Insufficient oversight and monitoring of employee activities, particularly including the following:

- Repetitive actions by an employee that involved unusual or improper vendor invoice approval and payment practices inconsistent with existing policies and procedures;
- Excessive responsibility, control, and authority given to an employee perceived as being a trusted employee.
- Continued authority and responsibility given to an employee identified as having performance related issues and concerns.

**City of Pasadena**  
**Investigation into Matters Relative to the Underground Utility Program**  
**as of November 11, 2014**

---

**D. Existence of Accomplices**

Based on the documents, data, and information reviewed, the questionable or unauthorized payments identified involved the actions of D. Wooten. However, it was undetermined whether other City employees were accomplices who knowingly and intentionally worked with D. Wooten to perpetrate the fraudulent activity. Our review of electronic email data and interviews with certain Public Works and Finance department employees regarding their knowledge of the unauthorized transactions did not identify or confirm the existence City employee accomplices.

In determining whether D. Wooten may have received unauthorized assistance from any individual(s) in the Finance Department, including the Purchasing and Accounts Payable divisions, we reviewed the electronic data of invoice payments charged to the Underground Utility Program for any unusual patterns in the User IDs of the Accounts Payable personnel who processed the invoices. According to the Purchasing Administrator, Larry Hammond, currently two employees have responsibilities for processing invoice payment requests and the division of work is distributed based on the alphabet – the first half of the alphabet (A-K) is assigned to Monique Autrey, Accounts Payable Staff Assistant III, and the second half (L-Z) is assigned to Hasmick “Jasmine” Grigoryan, Accounts Payable Staff Assistant III. We performed a review of UUP invoice payments electronic data from January 2007 through June 2014 and observed the following:

- Identified four user ID names who processed invoices charged to the Underground Utility Program, these four users are: 1) HGrigoryan (Hasmick Grigoryan) 2) MAutrey (Monique Autrey), 3) JMiramontes (Jorge Miramontes) Accounts Payable Supervisor, and 4) FTran (Flo Tran) former Accounts Payable staff;
- There did not appear to be any noticeable division of invoices processed based on a distribution of the alphabet, all four User IDs appeared to have processed invoices with vendor names distributed across the alphabet;<sup>28</sup>
- There were noticeable spikes in the volume of invoices processed corresponding with vendor names starting with the letters “C”, “N”, and “S”; this was attributable to a relatively higher number of invoices processed for Collins Electric, New Covenant Center, and SCEJ Center;
- Of the four User IDs, we observed a noticeable higher volume of invoices were processed by User ID HGrigoryan (Hasmick Grigoryan) in comparison to the other three User IDs.<sup>29</sup> We also reviewed electronic data of all City payments from January 2007 through June 2014 and noticed a

---

<sup>28</sup> Based on the interview testimony of Jorge Miramontes, Special Handling Request Forms are processed on a priority basis by available Accounts Payable personnel staff, and therefore are not subject to assignment by an alphabetical distribution.

<sup>29</sup> Based on interview testimony of Hasmick Grigoryan and Monique Autrey, D. Wooten may have had preference to submit vendor invoice payment requests to Hasmick Grigoryan more often than to Monique Autrey. Both employees speculated that this preference may have been attributable to Hasmick Grigoryan being perceived as “nicer”.

**City of Pasadena**  
**Investigation into Matters Relative to the Underground Utility Program**  
**as of November 11, 2014**

---

higher volume of invoices were processed by User ID HGrigoryan than other users for the city-wide disbursements.

See (**Exhibit 16**) for a chart illustrating the volume of invoices processed by User ID name based on an alphabetical distribution by vendor name for invoices charged to the Underground Utility Program. Our review of the invoice payments and User ID electronic data was inconclusive in identifying possible accomplices.

As of the date of this report, D. Wooten has not been interviewed or questioned regarding his role or the role of other City employees that may have played a part in as an accomplice in carrying out the fraudulent activities. However, it appears highly likely from the documents and information reviewed that Tyrone Collins, owner of Collins Electric, and Melody Jenkins, former temporary City employee, acted in collusion with D. Wooten and are complicit in the fraudulent activities, as outside third parties.

**City of Pasadena**  
**Investigation into Matters Relative to the Underground Utility Program**  
**as of November 11, 2014**

**V. DETAILS OF THE INVESTIGATION**

**A. Underground Utility Program Payments**

The following sections provide additional information regarding expenditures charged to the Underground Utility Program and documents and data reviewed.

The City of Pasadena utilizes the Oracle PeopleSoft, Inc. financial software system (“PeopleSoft”) for its accounting and general ledger processes. The City first implemented PeopleSoft on our around November 1996 and is currently running PeopleSoft version 8.4. Financial information related to the Underground Utility Program, including expenditures and payments data, has been recorded in the PeopleSoft system starting in fiscal year 1998. The following is based on review of the expenditures and payments data available in the PeopleSoft system for the Underground Utility Program for Public Works-Engineering for fiscal years 1998 through 2014:

Description	No. of Vendor IDs	No. of Invoices	% of Invoices	Amount Paid	% of Amt Paid
Four Vendors	4	296	25.5%	\$6,432,810.98	66.8%
Other Vendors	49	265	22.8%	2,196,221.94	22.8%
Private Property Reimbursements	583	599	51.6%	1,001,400.25	10.4%
<b>Total Underground Utility Program-PWE</b>	<b>636</b>	<b>1,160</b>	<b>100.0%</b>	<b>\$9,630,433.17</b>	<b>100.0%</b>

See (**Exhibit 15**) for summary of total payments from Underground Utility Program funds for Public Works-Engineering projects starting from fiscal year 1998.<sup>30</sup>

**B Special Handling Request Form**

Based on review of invoice and payment documents and information obtained, it appears that payments to the Four Vendors were expedited by D. Wooten using a Special Handling Request Form (“SHR Form”). According to City policy and procedures, an invoice or payment request requiring a printed check payment that will not be mailed in the normal course of business requires attachment of an SHR Form. Generally, invoices or payment requests are processed by the Accounts Payable Division based on the FIFO (first-in, first-out) method, however, invoices accompanied by an SHR Form are processed with priority status.

An SHR Form is a non-numbered, pre-printed form, on gold-orange colored paper, used for the following purposes, as indicated on the form:

- Express Check/Same Day Check
- Next Day Payment

<sup>30</sup> Our work did not include review of expenditures and payments for Underground Utility Program costs incurred or charged by the Pasadena Water and Power Department.

**City of Pasadena  
Investigation into Matters Relative to the Underground Utility Program  
as of November 11, 2014**

- Pick-Up/Delivery
- Special Mailing

The SHR Forms submitted by D. Wooten were used by him to request either an Express Check/Same Day Check, or a Next Day Payment, with check Pick-Up.

An SHR Form requires the following signatures and approvals: <sup>31</sup>

- ✓ Requestor
- ✓ Department Head of the Requestor
- ✓ Purchasing Administrator
- ✓ Director of Finance, if the payment is requested the same day
- ✓ Treasury authorization, if the payment exceeds an amount of \$50,000
- ✓ Delivered to, if the check is to be picked-up

The following were observations noted regarding the SHR Forms relating to the Four Vendors:

<b>SPECIAL HANDLING REQUEST FORMS – Red Flags</b>		
<b>Item</b>	<b>Approvals</b>	<b>Description</b>
(a)	Requested By	<b>SHR Forms Submitted by D. Wooten</b> – SHR Forms reviewed for the Four Vendors were completed and submitted by D. Wooten as evidenced by his signature on the “Requested By:” line.
(b)	Department Head Approval	<p><b>Questionable Department Head Approval Signatures –</b></p> <p><b>Director</b> – For SHR Forms dated 4/2007 to 12/2010, the department head approval signature on the SHR Forms appears to be that of Martin Pastucha, then Director of Public Works. Martin Pastucha is no longer employed with the City, he was interviewed at this place of employment in Santa Monica on 10/8/2014. During Patsucha’s interview, he recalled signing a small number of SHR Forms. Based on the sample of the SHR Forms reviewed during his interview, he stated that some signatures appeared to be his, but not all signatures. He pointed out that certain signatures appeared to be exact duplicates of one another indicating the signatures may have been photocopies and not originals. He recalled Collins Electric being the name of a vendor associated with the Underground Utility Program, but he was not familiar with the names SCEJ Center, New Covenant Center, or Melody Jenkins.</p> <p><b>City Engineer</b> – For SHR Forms dated 4/2011 to 12/2013, the department head approval signature appears to that of Dan Rix, then City Engineer of Public Works-Engineering. Dan Rix retired from the City on 12/2013. He was interviewed at the City on 6/19/2014 and 9/29/2014. During his interviews he stated that he recalled</p>

<sup>31</sup> Starting on or around April 2007, the Special Handling Request Form was updated to include the following revisions a) required approval by the City Department Head of the requestor submitting the SHR Form, b) required approval by the Purchasing Administrator, and c) increased threshold for Treasury authorization from a dollar amount of \$5,000 to \$50,000.

**City of Pasadena**  
**Investigation into Matters Relative to the Underground Utility Program**  
**as of November 11, 2014**

<b>SPECIAL HANDLING REQUEST FORMS – Red Flags</b>		
<b>Item</b>	<b>Approvals</b>	<b>Description</b>
		<p>signing a small number of SHR Forms as a delegate for then Director, Martin Pastucha. However, based on the sample of SHR Forms reviewed during his interviews, he stated that certain signatures appear to be his, but not all signatures. He pointed out that when signing his name as a delegate for the Director, he would also write the words “for” next to his signature. He stated that he was familiar with the name Collins Electric as a vendor associated with the Underground Utility Program, but he was unfamiliar with the names SCEJ Center, New Covenant Center, or Melody Jenkins.</p> <p><b>Program Manager</b> – For SHR Forms dated 1/2014 to 3/2014, the department head approval signature is signed by D. Wooten. However, as a Management Analyst IV, D. Wooten does not have the authority level to sign on the Department Head Approval line. Five (5) SHR Forms were identified with D. Wooten’s signature on the department head approval line, for these 5 SHR Forms, D. Wooten has signed as the Requestor, Department Head Approver, and Recipient of the checks.<sup>32</sup></p>
(c)	Finance/Purchasing Administrator Approval	<p><b>Finance/Purchasing Administrator Approved Lesser Amounts</b> –</p> <p>For SHR Forms dated 8/2004 to 3/2014, the Purchasing Administrator Approval signature appears to one of several individuals in the Finance Department:</p> <ul style="list-style-type: none"> <li>• Steve Mermell, then Deputy Director of Finance</li> <li>• Vicken Erganian, Deputy Director Finance/Treasurer</li> <li>• Larry Hammond, Purchasing Administrator</li> <li>• Jean Luter, then Purchasing Management Analyst IV</li> <li>• Patty Romo, then Purchasing Management Analyst II</li> <li>• Antonio Watson, Purchasing Project Manager</li> </ul> <p>Interviews were conducted with Larry Hammond on 6/25/2014 and 9/10/2014, Antonio Watson on 10/9/2014, and HR conducted a telephone interview with Patty Romo on 9/26/2014.</p> <p>According to various interview accounts, Jean Luter, Patty Romo, and Antonio Watson served as signature delegates for Larry Hammond on occasions when he was out of the office.</p> <p>Larry Hammond, Antonio Watson, and Patty Romo recalled signing SHR Forms for payment requests for the Underground Utility Program. The SHR Forms and invoices were walked over to the Finance Department by D. Wooten. During Larry Hammond’s 9/10/2014 interview, he recalled that SHR Forms submitted by D. Wooten for signature were for lesser dollar amounts than the SHR Forms shown to him during his interview.</p>

<sup>32</sup> Special Handling Request Forms: SCEJ Center, dated 1/16/2014 for \$43,750; SCEJ Center, dated 2/11/2014 for \$43,750; SCEJ Center, dated 2/27/2014 for \$43,750; SCEJ Center, dated 3/6/2014 for \$20,000; and SCEJ Center, dated 3/6/2014 for \$23,750.

**City of Pasadena**  
**Investigation into Matters Relative to the Underground Utility Program**  
**as of November 11, 2014**

<b>SPECIAL HANDLING REQUEST FORMS – Red Flags</b>		
<b>Item</b>	<b>Approvals</b>	<b>Description</b>
		<p>During Antonio Watson’s interview, he recalled that the SHR Forms presented to him for signature were for lesser dollar amounts, for example \$3,750 and not \$43,750. Additionally, he recalled that only one invoice was attached to the SHR Form, not two or more.</p> <p>Patty Romo in her telephone interview with HR also stated that SHR Forms presented to her for signature were for lesser dollar amounts below \$25,000 and not more than one invoice was attached. Both Antonio Watson and Patty Romo stated that D. Wooten would wait for the SHR Form to be signed, once signed the SHR Form would be handed back to D. Wooten, who then presumably walked over and hand submitted the form to Accounts Payable.<sup>33</sup></p>
(d)	Delivered To	<p><b>Checks Picked Up by D. Wooten</b> – Check payments were picked up by D. Wooten as indicated by his signature on the “Delivered To:” line of the SHR Form, with the exception of SHR Form dated 5/22/2013, signed for by Rosa de la Torre, then Staff Assistant II Public Works-Engineering and administrative assistant to D. Wooten.</p>
(e)	Photocopied SHR Forms	<p><b>Submission of Photocopies, Not Original SHR Forms</b> – Invoice and payment documents maintained in the vendor files by the Finance department showed that certain SHR Forms were not issued on the standard orange-gold colored paper, but were photocopies submitted on plain white paper and processed for payment. For Collins Electric, five SHR Forms appeared to be part of a group of documents which were photocopied and re-submitted in later months with different invoices attached. SHR Form dated 6/2/09 in the amount of \$44,785 appears to be the original SHR Form submitted by D. Wooten. It is likely that after obtaining Department Head Approval and Purchasing Administrator approval, D. Wooten may have photocopied the SHR Form on plain white copy paper and re-submitted the form four more times in subsequent months, after changing the date and amount using white-out.<sup>34</sup> Hasmick Grigoryan in her 10/27/2014 interview, stated that there was a time when SHR Forms could be submitted via email and photocopies of SHR Forms were accepted and processed for payment.</p>

It appears that D. Wooten used SHR Forms to expedite processing of invoice payments to the Four Vendors, and in doing so, engaged in the following unauthorized actions:

<sup>33</sup> Review of the invoice templates identified from D. Wooten’s electronic files showed Excel files with three (3) worksheet tabs showing different invoice amounts: one in the amount of \$3,750, a second in the amount of \$20,000 and a third in the amount of \$23,750. Finance personnel recall the SHR Forms submitted by D. Wooten were for lesser amounts, for example, \$3,750, and only one invoice was attached.

<sup>34</sup> Special Handling Request Forms for Collins Electric: 1) dated 6/2/2009 for \$44,785 appears to be an original SHR Form. Photocopied SHR Forms appear to be the following: 2) dated 6/8/2009 for \$24,775, 3) dated 8/11/2009 for \$48,350, 4) dated 10/19/2009 for \$48,550, and 5) dated 11/23/2009 for \$49,560 – items 2) through 5) appear to be photocopies and were submitted on plain white copy paper for invoice payment processing.

**City of Pasadena**  
**Investigation into Matters Relative to the Underground Utility Program**  
**as of November 11, 2014**

---

- **Signed SHR Forms Without Signature Authority** – D. Wooten signed his own name on the Department Head Approval line when he apparently did not have the required authority level to sign on the “Department Head” line. This occurred starting with SHR Forms dated 1/2014, following Dan Rix’s retirement from the City in 12/2013;
- **Falsified SHR Form Department Head Signatures** – D. Wooten appears to have falsified or forged signatures on the Department Head Approval line for then Director, Martin Pastucha, and then City Engineer, Dan Rix, according to the separate interview testimonies of Martin Pastucha and Dan Rix;
- **Altered SHR Form Dollar Amounts** – D. Wooten appears to have manipulated and altered the written dollar amounts on the SHR Forms to show a higher dollar amount after Finance/Purchasing Administrator signature approval had been obtained; according to the separate interview testimonies of Antonio Watson and Patty Romo.
- **Submitted Photocopies of Previously Paid SHR Forms for Re-Payment** – D. Wooten appears to have photocopied original SHR Forms and resubmitted the form on regular white copy paper for payment in subsequent months, while noticeably altering the date and amount using white-out.

After obtaining SHR Form signature approval from Finance/Purchasing Administrator, D. Wooten would presumably submit the signed SHR Form and invoice(s) to Accounts Payable for invoice payment processing by walking over the SHR Form and handing it to the Accounts Payable staff.

### **C. Accounts Payable Procedures**

According to the City’s Accounts Payable Procedures,<sup>35</sup> each City department is responsible for reviewing, verifying and approving vendor invoices for appropriateness of the expenditure prior to submitting to Accounting Payable for payment, including the following procedures:

- Approval Authority – Obtaining authorized departmental approval certifying the goods or services invoiced are an appropriate expense for the City.
- Invoice Review – Verifying that goods or services invoiced have been received and the invoice pricing, quantity, extended amounts, item descriptions are correct;
- Purchase Order Verification – Ensuring that the goods or services invoiced are matched to the purchase order, contract, or other agreement which authorized the procurement, where applicable.
- Invoice Submission – Invoices submitted for payment are to be submitted separately. One invoice should not be attached to another.

---

<sup>35</sup> City of Pasadena Accounts Payable Procedures, Revised 03/20/12

**City of Pasadena**  
**Investigation into Matters Relative to the Underground Utility Program**  
**as of November 11, 2014**

---

Once invoices or payment requests are received by Accounts Payable from the City departments with all required approvals and account expense codings, the invoices will be reviewed and approved for payment processing by Accounts Payable.

SCEJ Center, New Covenant Center, and M. JENKINS

Based on review of the invoices and supporting documentation for payments to SCEJ Center, New Covenant Center, and M. Jenkins, it appears that D. Wooten failed to follow the City's Accounts Payable Procedures by 1) providing department approval for invoices that lacked sufficient description or detail to verify what services were provided and locations of property addresses where services were performed; 2) providing department approval for invoices with no matched purchase order, contract, or other agreement number authorizing the procurement of services, 3) providing account number expense codings containing project ID numbers inconsistent with the undergrounding utility district number referenced on the invoice or SHR Form, 4) attaching more than one invoice, in most instances two invoices, and in one instances three invoice, to a single Special Handling Request Form in excess of Purchasing expenditure thresholds, and 5) providing department head approval signature where authentication of the signature is questionable (i.e., forged signature) or inappropriately signed by him.

COLLINS ELECTRIC

Based on review of the invoices and supporting documentation for payments to Collins Electric, it appears that D. Wooten failed to consistently follow and apply the Accounts Payable Procedures required for acceptance, approval, and proper payment of vendor invoices. Unlike the invoices for SCEJ Center, New Covenant Center, and M. Jenkins which showed that D. Wooten altogether failed to follow established Accounts Payable Procedures, for Collins Electric the invoices and supporting documents appear to show a gradual deterioration in both the types of documentation attached and the descriptive detail provided. Specifically, the following was observed:

- 1) Purchase Order – Starting in 2006, no purchase order document is attached to the invoice, in its place is an internal department memorandum addressed to the Purchasing Department from Public Works requesting payment of the attached invoice(s). However, the memos are sporadic and are not found attached for all invoices. The attachment of a purchase order document or an internal memorandum in lieu of purchase order, appears indicative that D. Wooten was aware of the required Accounts Payable Procedures involved in the procurement of goods or services. He apparently followed these procedures to a limited extent in the earlier years of 2004 to 2005, by attaching a purchase order or internal department memorandum to the invoice, but then failed to consistently continue to apply the required procedures in subsequent years from 2006 through 2013.
- 2) Invoice – Invoices received by Public Works-Engineering are stamped on the face of the invoice with the “PW Engineering” stamp with the following information to be written in by hand:
  - P.O. #
  - ACCT. #
  - APPROVAL:

**City of Pasadena**  
**Investigation into Matters Relative to the Underground Utility Program**  
**as of November 11, 2014**

---

- AMOUNT:
- DATE:
- SENT TO FMS

Collins Electric invoices showed the PW Engineering stamp with certain information written by hand. All of the invoices reflected the signature of D. Wooten on the “APPROVAL:” line indicating that he received the invoice and wrote-in the handwritten information. The following information was noted as missing, inconsistent, or otherwise unusual:

- Starting with invoices dated 2006 through 2013, the “P.O. #” line is left blank indicating no purchase authorization was obtained.
- Starting with invoices dated mid-2006, invoice descriptions become increasingly vague. Numerous invoices list no property addresses to indicate where work was performed, with only a reference to the underground utility district number, district street name, or no reference all.
- Starting with invoices dated early 2009, the apparent signature of Tyrone Collins, owner of Collins Electric is no longer seen on the invoice. The “Authorized Signature” line is blank. Prior to that date, a signature presumed to be that of Tyrone Collins appears at the bottom left-hand-corner of the invoice.
- When property addresses are listed on the invoices, the same addresses are found listed on multiple invoices. For example, property addresses 1000 Burleigh and 1010 Burleigh were found on four separate invoices all referencing the same general description of services performed “Install utility conduits and pull boxes to remove overhead service drops...” with no explanation why electrical undergrounding work would be performed at the same address on four separate occasions.<sup>36</sup>
- Numerous invoices show inconsistencies between the account expense coding number handwritten on the “ACCT. #” line of the PW Engineering stamp and the underground utility district number/name (e.g. UUD 07-1/Wilson Avenue) reflected on the invoice or SHR Form. The last five digits of the account expense coding number designates the Underground Utility Program project number (e.g. 74800). On numerous invoices, the 5-digit project number handwritten on the Acct. # line does not match up with the underground utility district number or street name indicated in the invoice description or the handwritten description of the SHR Form.
- Numerous invoices dated 2012 through 2013 were charged to Underground Utility Program project numbers not currently in active status, where electrical underground conversion is scheduled to start at a future date of fiscal year 2015 or later. For example, four Collins Electric invoices<sup>37</sup> totaling \$87,500 were charged to UUD 10-1 Mountain Street, however, electrical

---

<sup>36</sup> Collins Electric invoice numbers: i) CE-0695, dated 11/18/2008 for \$22,385.00, ii) CE-0712, dated 3/4/2009 for \$23,565.00, iii) CE-720, dated 3/20/2009 for \$24,785.00, and iv) CE-0722, dated 3/20/2009 for \$20,000.

<sup>37</sup> Collins Electric invoice numbers: i) CE-1075, dated 7/18/2012, for \$20,000, ii) CE-1078, dated 7/18/2012, for \$23,750, iii) CE-1127, dated 2/28/2013, for \$20,000, and iv) CE-1129, dated 2/28/2013, for \$23,750.

**City of Pasadena**  
**Investigation into Matters Relative to the Underground Utility Program**  
**as of November 11, 2014**

---

system underground construction is not scheduled to begin for the Mountain Street district until fiscal year 2016.

- Starting with invoices dated in 2011, there is a noticeable repeating pattern of two invoices submitted at regular intervals (i.e., monthly), one invoice in the amount of \$20,000 and another in the amount of \$23,750. The checks are submitted together for a check payment in the recurring amount of \$43,750.
- Invoices apparently show a handwritten date on the “Sent to FMS” line of the PW Engineering stamp, however, it does not appear that invoices were routed to the Public Works-Engineering, Finance and Management Services (“FMS”) division prior to being submitted to the City Finance department for payment processing. An invoice received by FMS would be date and time stamped on the front of the invoice when received.<sup>38</sup> Invoices reviewed for the Four Vendors did not appear to reflect the FMS stamp.

**FINANCE DEPARTMENT HISTORICAL PRACTICE**

According to the interview testimony of the Finance Department personnel interviewed, payment requests for the Underground Utility Program are processed as reimbursements.<sup>39</sup> Under the City’s Accounts Payable Procedures, “refunds by various City departments,” do not require a purchase order, contract, or other agreement for payment processing. It appears that the Finance department personnel have followed a historical practice of processing Underground Utility Program invoice payment requests as reimbursements (i.e., refunds). The employees interviewed did not know how long this historical practice had been followed nor could they point to any written policies, procedures or other documents authorizing this historical practice.<sup>40</sup> However, the individuals interviewed acknowledged that under the City’s Accounts Payable Procedures, a valid purchase order or a memorandum in lieu of a purchase order, would normally be required for payment of a vendor invoice.

The Underground Utility Program has historically been a reimbursement program, whereby affected private property owners residing in an established underground utility, at their own expense, would be required to hire a contractor to perform the electrical underground conversion work on their private property, and submit a reimbursement claim for the lesser of the rebate amount or actual costs incurred. Valid UUP private property reimbursement claims have been, and continue to be processed by Accounts Payable as refund payments, which under the City’s Accounts Payable Procedures, do not require a purchase order, contract, or other agreement. However, as the UUP changed over time and the City

---

<sup>38</sup> Interview with Brenda-Harvey Williams, Finance and Management Services Administrator, on 9/25/2014. UUP invoices without a purchase requisition or purchase order and accompanied by a Special Handling Request Form were not be routed to FMS, but apparently sent directly to the City’s Finance Department for payment processing.

<sup>39</sup> Interviews conducted with Accounts Payable personnel: Jorge Miramontes, AP Supervisor, on 10/7/2014; Hasmick Grigoryan, AP Staff Assistant III on 9/26/2014 and 10/27/2014; and Monique Autrey, AP Staff Assistant III on 10/7/2014.

<sup>40</sup> Interviews with Larry Hammond, Purchasing Administrator; Jorge Miramontes, Accounts Payable Supervisor; and Hasmick Grigoryan, Accounts Payable Staff Assistant III.

**City of Pasadena**  
**Investigation into Matters Relative to the Underground Utility Program**  
**as of November 11, 2014**

became directly responsible for hiring electrical contractors and payment of their services, the historical practice of processing UUP payment requests as reimbursements was apparently carried over and applied to vendor invoices. Such practice allowed D. Wooten to circumvent the City's Purchasing and Accounts Payable Procedures by submitting invoices for payment which had not undergone the City's vendor procurement approval process nor met expenditure purchasing thresholds.

The City's Purchasing Procedures Manual outlines the following purchasing expenditure thresholds and contracting requirements:<sup>41</sup>

PURCHASES	REQUIREMENTS
Under \$3,000	One pricing quote is required and purchases may be made using a City Purchasing Card.
Over \$3,000 and less than \$25,000	Three quotes are required which may be obtained informally via phone, fax, e-mail, etc.
Over \$25,000	Subject to either competitive bidding or competitive selection which upon completion, requires contract approval by the appropriate signature authority. An exemption from competitive bidding or competitive selection may be granted under certain circumstances. <sup>42</sup>
CONTRACTS	
Under \$25,000	Requires a signed purchase order.
Over \$25,000 and less than \$75,000	Requires a signed memorandum from the City Manager or the Assistant City Manager.
Over \$75,000	Requires a City Council Agenda report certified by the City Clerk signifying its approval.

Based on review of the available invoice and payment documents for the Four Vendors, all invoice amounts were in the range of over \$3,000 and less than \$25,000, with the exception of one invoice from Collins Electric in the amount of \$38,675.<sup>43</sup> If each invoice were to be viewed as a separate purchasing transaction, a signed purchase order would be required for amounts less than \$25,000. If the vendor invoices from Collins Electric, SCEJ Center, and New Covenant Center were to be viewed in the aggregate for each vendor, then the total invoice amounts for each respective vendor would have exceeded \$75,000, and a signed contract or other agreements would be required for each vendor. However, with the exception of Collins Electric in the years 2004-2005, no apparent purchase order, contract, or other agreement documents were identified related to the invoices from the Four Vendors and

<sup>41</sup> City of Pasadena, Purchasing Procedures Manual, Department of Finance, Purchasing Division, (no dated indicated).

<sup>42</sup> Exemptions from competitive bidding or competitive selection: under \$25,000, exemption from the informal quote requirement requires submission of a Request for Exemption Form which requires approval by Purchasing prior to the issuance of a purchase order. Over \$25,000 and less than \$75,000 requires approval from the City Manager and concurrence of the Budget Administrator. Over \$75,000 requires City Council approval via an agenda report. (Per City of Pasadena, Purchasing Procedures Manual).

<sup>43</sup> Collins Electric invoice no. CE-0539, dated 7/27/2007 for \$38,675, charged to UUP Project ID Code 74999-Avenue 64. No attached purchase order document or purchase order number referenced.

**City of Pasadena  
Investigation into Matters Relative to the Underground Utility Program  
as of November 11, 2014**

---

there did not appear to be any documentation to indicate that exemption requests had been submitted or approved to waive these requirements.

**D. Danny Ray Wooten**

D. Wooten was hired by the City on July 1, 2002 as a Management Analyst in the Public Works, Engineering Division. His roles and duties included primary responsibilities for managing and administering Public Works-Engineering's portion of the Undergrounding Utility Program project activities. This included interacting with the community and public to notice underground district utility formation; coordinating and contracting with vendors for electrical underground utility services; and facilitating reimbursement claims from private property owners for costs of electrical undergrounding work on their private property.

Indications of Financial Pressures

The rationale or motivation for the questionable or unauthorized payments of Underground Utility Program funds by D. Wooten has not been determined and is unknown as of the date of this report. Based on review of D. Wooten's electronic data and email files, certain emails were identified which indicate possible concerns regarding D. Wooten's personal and/or church related finances which may be indicative of financial pressures.

- a) Loan Funding for New Covenant Center Church – An email communication dated April 27, 2011 was identified which indicated D. Wooten sought commercial loan funding for New Covenant Center in the amount of \$3,500,000 by submitting an initial application for a bank loan with Griffin Capital Funding in April 2011. The application was turned down by the lending institution on the basis that the church did not meet the minimum required time in business of three years (**Exhibit 38**).
- b) Bank Account Alert: Insufficient Funds – An email dated May 8, 2012 was forwarded to D. Wooten from his wife, Laventa Wooten, regarding a Bank of America alert email notification sent to her email address advising that her Prima Account was overdrawn. The bank account carried an insufficient fund balance to clear three transactions in the amounts of \$13.94, \$17.95 and \$35.00 on transaction date 5/7/2012 (**Exhibit 39**).
- c) Church Allegations Rebuttal Letter – In a letter dated January 3, 2013,<sup>44</sup> D. Wooten addresses allegations brought against him by anonymous accusers within his New Covenant Center church group. The allegations include charges of "Misappropriation of Funds". In the letter he writes:

*"Currently I am employed with the City of Pasadena for the last twelve years in the Department of Public Works, Engineering Division as a Program Manager of Underground Utilities. My responsibilities and annual salary with the City does not involve any grant-related funding...In*

---

<sup>44</sup> Letter by Elder Danny R. Wooten, Pastor, New Covenant Christian Fellowship COGIC, to Bishop Christopher E. Milton, Jurisdictional Prelate Southern California Evangelistic Jurisdiction, RE: Rebuttal Letter to False Allegations, dated January 3, 2013.

**City of Pasadena**  
**Investigation into Matters Relative to the Underground Utility Program**  
**as of November 11, 2014**

---

*addition, I currently serve as Pastor of New Covenant Christian Fellowship COGIC in Pomona, CA. Through my legally formed for profit corporation in the operation of Media Production, God has blessed my company to generate revenue through traveling the country with a theatrical production. The revenue of my company has been used to finance and manifest the vision of my local church, which resulted in five years of financial planning. As it stands currently, there are no grant-related funding associated with my church...Therefore, the allegation of misappropriation of grant funding is false in nature and is based on my accuser(s) trying to utilize their lack of knowledge of my background and expertise against me.” (Exhibit 40)*

d) Quiet Fire Productions, Inc. – According to the website, D. Wooten is the Chief Executive Officer of Quiet Fire Productions, a gospel production company which produced a gospel stage play entitled “Midnight Cry”.<sup>45</sup> Our review of D. Wooten’s electronic files identified the following emails with expense charges related to Quiet Fire Productions and Midnight Cry. How these expenses were paid or the source of the funding is unknown.

- i) Email dated 11/25/2013 from D. Wooten, subject: Proposed Itinerary–QFP (New York) lists a round trip flight itinerary for 75 passengers from Los Angeles to New York in connection with Quiet Fire Productions performance of Midnight Cry (Exhibit 41);
- ii) Email dated 6/11/2013 from D. Wooten, subject: MCRY Stipends, which lists stipend amounts with dollar totals of \$10,575, \$16,500 and \$21,150 next to a list of 26 individual first names (Exhibit 42);
- iii) Email dated 2/22/2012 from UPrinting to D. Wooten, itemizes an order summary in the amount \$2,642.65 for the purchase of business cards, brochures, high gloss pictures for project names: Midnight Cry 2010, 2011, and 2012 (Exhibit 43).

e) Possible Marital Indiscretion

Email communications dated February 2011 and April 2011 between D. Wooten and an individual, Theresa Lollis (a non-City of Pasadena employee), were identified which suggests a close social relationship between the two individuals. In an email dated April 4, 2011 between Theresa Lollis and D. Wooten, Lollis writes: “Happy Birthday Handsome. I wish I could be with you on your Birthday.” D. Wooten writes back: “Not doing anything so I will be at work.”<sup>46</sup> (Exhibit 44). In another related email dated April 4, 2011, Theresa Lollis writes: “Good Morning my boyfriend.” D. Wooten writes back: “What’s happening my girlfriend? I’m about to leave the office. I will call you on my cell.”<sup>47</sup> In 2011, D. Wooten was married to wife, Laventa Wooten, and is currently still married.

---

<sup>45</sup> <http://www.quietfirepro.com/#!chief-executive-officer/cyw4>.

<sup>46</sup> Email communication dated April 4, 2011 between Theresa Lollis and D. Wooten, subject: RE: I Love You. (Exhibit 44)

<sup>47</sup> Email communication dated April 4, 2011 between Theresa Lollis and D. Wooten, no subject. (Exhibit 44)

**City of Pasadena**  
**Investigation into Matters Relative to the Underground Utility Program**  
**as of November 11, 2014**

---

The above instances appear to be indicative of possible financial need or pressure, which may have been a contributing factor for the rationale or motivation underlying the improper financial activities and unauthorized payments of City funds apparently undertaken by D. Wooten.

f) Questionable Prior Employment History

An additional observation was made regarding the accuracy of D. Wooten's job employment application with the City, which may have been a contributing fraud risk factor in the hiring of D. Wooten. On D. Wooten's employment application with the City signed and dated on 3/28/2002, he provided a listing of his prior work history experience. Included on this listing was prior employment with KPMG Peat Marwick LLP as a Financial Analyst in Los Angeles, California from the dates of 6/1993 to 6/1994. On 7/10/2014 we inquired with KPMG's Corporate Human Resources department for employment verification on D. Wooten and were advised that Danny Ray Wooten was employed with KPMG Litigation Support in the Los Angeles office. However, there were inconsistencies noted suggesting the veracity of the information provided by D. Wooten on his job employment application may not have been accurate, including the following: D. Wooten was with KPMG for five (5) months from 2/1994 until 6/1994 and not one year, and his position title was Paraprofessional and not Financial Analyst (**Exhibit 45**).

**City of Pasadena**  
**Investigation into Matters Relative to the Underground Utility Program**  
**as of November 11, 2014**

---

**VI. OTHER AREA OF REVIEW**

**A. Form 1099-MISC**

A related area of concern was raised by City management regarding 1099-MISC Forms (“Form 1099s”) and whether vendors who received payments for services in connection with the UUP, were issued a Form 1099 by the City as required under Internal Revenue Service (“IRS”) rules and regulations.<sup>48</sup>

In addressing this area, we obtained an electronic data download of the City’s Form 1099-MISC data for the period from 1/1/2006 through 12/31/2006 and 1/1/2008 through 6/24/2014.<sup>49</sup> We performed data analysis on the 1099 data to determine whether there were instances when a vendor required a Form 1099-MISC, but none was issued by the City.

We determined that for the period from 1/1/2006 through 6/24/2014, there were a total of 298 unique vendor ID numbers with charges to the Underground Utility Program. Of that figure, 263 ID numbers were associated with private property reimbursement claims. After excluding private property reimbursements from the population under review as well as excluding vendors who received payments less than the Form 1099 required dollar amount threshold of \$600, we determined a total of 26 vendor ID numbers identified as commercial vendors. For the 26 vendor ID numbers, we conducted business name searches on the Secretary of State websites for California and Delaware and determined that 18 of the 26 vendor IDs were registered as C-corporations, and 1 vendor was a government agency, and thus presumably exempt from requiring a Form 1099-MISC. The remaining 7 vendors were identified as potentially requiring a Form 1099-MISC (**See Exhibit 46**):

No.	Vendor Name	Entity Type <sup>50</sup>	Service Type	1099 Issued (2006-2013)
1.	Collins Electric	Sole Ownership	Electrical Contractor	Yes
2.	Faultless Electric	Sole Ownership	Electrical Contractor	Yes
3.	Barsam, Robert E.	Independent Professional	Civil Engineer	Yes
4.	SCEJ Center	Unknown	Religious Entity	No
5.	New Covenant Center	Unknown	Religious Entity	No
6.	M. Jenkins	Unknown	Unknown	No
7.	Cobra Electric	Sole Ownership	Electrical Contractor	No

<sup>48</sup> The Internal Revenue Service requires that state and local governments issue Form 1099s to independent contractors and small businesses that provided certain services during the tax year. Government agencies are required to issue Form 1099s to any partnerships, sole proprietors, and limited liability companies for amounts paid for services that exceeded \$600. Corporations are exempt from Form 1099 reporting with the following exceptions: C-corporations that receive medical and health care payment and attorneys and lawyers that operate as corporations require Form 1099s.

<sup>49</sup> Form 1099-MISC electronic data was provided by the City’s IT Department for the period from 1/1/2006 through 12/31/2006 and 1/1/2008 through 6/21/2014. Electronic data for the year 2007 was not available.

<sup>50</sup> Entity type was determined based on a search by business name on i) the Secretary of State website for California (at <http://www.bpelsg.ca.gov/>) and for Delaware (at <https://delecorp.delaware.gov/tin/GINameSearch.jsp>). For electrical contractors, a search by business name was also conducted on California Department of Consumer Affairs, Contractors State License Board at (<https://delecorp.delaware.gov/tin/GINameSearch.jsp>).

**City of Pasadena**  
**Investigation into Matters Relative to the Underground Utility Program**  
**as of November 11, 2014**

---

Based on review of the City's Form 1099-MISC documents and data, it appears that seven (7) vendors may have required a Form 1099-MISC, but forms were only issued to three (3) of those vendors. The other four (4) vendors who were not issued a Form 1099-MISC included vendors relevant to this investigation, namely SCEJ Center, New Covenant Center, and M. Jenkins. Cobra Electric, an electrical contractor local to Pasadena and a sole proprietorship, was also identified as a vendor potentially requiring a Form 1099, but none was issued based on review of the City's Form 1099 data. These four vendors received over \$600 in payments during a tax year and did not appear to meet any exemption requirements, yet Forms 1099-MISC had not been issued.

During interview with the City's Purchasing Administrator, Larry Hammond, he stated that in general terms when a new vendor is set up in the City's financial system, the vendor's tax payer identification number ("TIN") or social security number ("SSN") information, obtained from the Vendor List Questionnaire (Form AA-1) or Form W-9 Form, is used to determine whether the vendor requires issuance of a Form 1099-MISC. We requested copies of the Forms AA-1 and W-9 for these four vendors: SCEJ Center, New Covenant Center, M. Jenkins, and Cobra Electric, and were informed by Larry Hammond that no forms were on file, as these vendors were originally set up in the City's financial system as vendor reimbursement requests and therefore, no Forms AA-1 or W-9 were obtained by the City. See **(Exhibit 47)** for a copy of Form AA-1 for Collins Electric.

IRS Penalties for Non-Issuance of Form 1099-MISC: Organizations that make payments of miscellaneous income over \$600 during a tax year to individuals or companies (excluding C-corporations) are required to issue the payee a Form 1099-MISC statement by the end (in most cases) of February of the year following the tax year in which the income was paid. If an organization fails to issue a Form 1099-MISC to a payee, the penalty against the organization can vary from \$30 to \$100 per form (\$500,000 maximum per year), depending on how long past the deadline the organization issues the form.<sup>51</sup> Additionally, although a non-profit church organization may be recognized as tax exempt, the organization may still be liable for tax on its unrelated business, and thus require a 1099 for tax reporting purposes.<sup>52</sup>

The City is averaging approximately over 850 Form 1099s annually. The proper identification of 1099 vendors and timely issuance of the 1099s by the City are essential in preventing penalties imposed by the IRS for non-issuance of 1099s to vendors.

---

<sup>51</sup> Source: Penalties for Not Filing a 1099-Misc IRS Form - TurboTax® Tax Tips & Videos. If a company intentionally disregards the requirement to provide a payee with a correct Form 1099-Misc statement, it is subject to a minimum penalty of \$250 per statement, with no maximum.

<sup>52</sup> Unrelated business income is income from a trade or business, regularly carried on, that is not substantially related to the charitable purpose that is the basis of the church's exemption. An exempt organization that has \$1,000 or more of gross income from an unrelated business must file IRS Form 990-T. (Source: <http://www.irs.gov/Charities-&-Non-Profits/Churches-&-Religious-Organizations/Unrelated-Business-Income>).

**City of Pasadena**  
**Investigation into Matters Relative to the Underground Utility Program**  
**as of November 11, 2014**

---

## **VII. RECOMMENDATIONS**

### **Opportunities for Operational Improvements**

During the performance of our work, we obtained City policies and procedures related to the scope of our work, focusing on the Finance Department, specifically Purchasing and Accounts Payable divisions, and reviewed the policies and procedures with regards to the design and effectiveness of internal controls and processes. As a result of our procedures, we provide the recommendations set forth below for the City's consideration in improving and strengthening the City's policies, processes and system of internal controls in the areas of the Underground Utility Program and Finance Department.

#### **A. Underground Utility Program**

Invoice and payment documents for expenditures charged to the Underground Utility Program, with regards to the Four Vendors, and testimony obtained from employees interviewed, indicate that D. Wooten performed Underground Utility Program activities with limited direct supervision or oversight from supervisory personnel (i.e., principal engineer, city engineer). The lack of effective regular monitoring of program activities and expenditures provided an opportunity for D. Wooten to engage in recurring unauthorized transactions and as a result, misappropriate City funds for a number of years, virtually undetected.

- **Prepare and establish written desk procedures:** The City should establish clearly delineated processes and procedures specific to the UUP, starting with written and documented desk procedures for the duties and responsibilities of the program manager as well as the designated program supervisor, where applicable. Written processes and procedures should ensure that employees are informed of and understand the specific roles and responsibilities required of them and the appropriate processes and procedures to be followed in the performance of their duties. Due to the long-term, multi-year timeline required to complete the UUP, written and documented processes and procedures, including detailed process narratives, are necessary in the accurate and consistent accounting, reporting, and reconciling of UUP expenditures.
- **Assign an additional employee to the UUP:** The City should consider assigning an individual (e.g., program analyst), to assist with the performance of UUP financial activities to ensure accuracy in accounting and segregation of duties. Duties would include assisting in monitoring, tracking, and reconciling program expenditures against the progress and completion of actual electrical undergrounding conversion work performed. The monitoring and reconciliation process should ensure that invoice amounts billed by vendors represent actual work performed for services rendered and can be verified – that work can be tracked and identified with a specific property address.
- **Segregate tasks and duties among employees:** The City should establish procedures to ensure UUP program activities are properly segregated among employees, and not concentrated in any one individual. For example, the program manager should not be allowed to approve vendor invoices, submit invoice payment requests, and pick up the printed checks. These duties should

**City of Pasadena**  
**Investigation into Matters Relative to the Underground Utility Program**  
**as of November 11, 2014**

---

be segregated to ensure no employee has the ability to authorize and approve payment of vendor invoices and also have custody of check payments.

- **Adhere to document chain of custody:** Invoices and other documents submitted for signature authorization should be directly routed to the next level for further approval or processing. There should be adherence to a chain of custody of the documents such as that approved documents are not handed back to the initiator or requestor where the documents may be subject to unauthorized changes or manipulation.
- **Monitor and reconcile private property reimbursements:** With regards to payment of reimbursement claims submitted by private property owners – the City should have procedures in place to identify all properties within the Underground Utility Program eligible for reimbursement and track property owners who have already received a reimbursement as well as the vendor who performed the work. Ensure that no properties are reimbursed more than once and no “double dipping” occurs where both the vendor and property owner both receive payment from the City.
- **Discontinue historical practice of submitting invoice payment requests as reimbursements:** Reiterate to Underground Utility Program employees and all Accounts Payable staff that vendors receiving direct payment from the City for work performed on a property are not to be processed as reimbursements, but rather as regular vendors that must go through the regular procurement process and be added to the Master Vendor List prior to receiving payment. Vendors may not bypass the regular procurement process by receiving payments as reimbursements (i.e., a purchase order or contract must be required prior to payment).

**B. Special Handling Requests**

Invoice and payment documents for the Four Vendors showed that D. Wooten used Special Handling Request Forms to expedite processing of invoice payment requests, when the nature of the services invoiced – electrical undergrounding conversion labor and services – did not appear to warrant expedited payment processing. Use of SHR Forms should be considered on an exception basis, however, D. Wooten’s repeated and unmonitored use of SHR Forms appeared to be the rule, and not the exception. City policies and procedures regarding use of SHR Forms should be revised.

- **Communicate purpose of Special Handling Request:** Conduct effective city-wide communication to re-emphasize and re-enforce the policy that use of Special Handling Request Forms should be limited to time-sensitive emergency payments and should not be used as the normal process for invoice payment.
- **Use only original SHR Forms for payment requests:** The City should ensure that invoice payment requests accompanied by an SHR Forms are submitted using only original SHR Forms and bearing original signature authorizations on the Department Head approval line. Payment requests should not be submitted by City department using photocopies or other reproduced documents and Finance should not accept non-original SHR Forms for payment processing.

**City of Pasadena**  
**Investigation into Matters Relative to the Underground Utility Program**  
**as of November 11, 2014**

---

- **Limit review and approval of SHR Forms:** The review and approval of Special Handling Request Forms should be limited to the City Department Head requesting payment and the Director of Finance. Such authority should not be delegated to others under normal circumstances, if possible.
- **Establish Dollar Amount Thresholds:** Special Handling Requests exceeding certain threshold amounts should be subjected to higher level review and approval before processing. For example, requests for payment of an amount \$25,000 and over should be reviewed and authorized by the Director of Finance; \$50,000 and over requires additional review and authorization by the Deputy Director Finance/Treasury; and \$75,000 and over requires additional review and approval by the City Manager or Assistant City Manager.
- **Track SHR Forms electronically in the system:** Track the use of Special Handling Requests electronically within the IT system and notate each payment that was processed using a Special Handling Request Form. Record supplemental authorization information such as the employee who submitted the request and the supervisor in the respective department who authorized the request. A reference field should be included in the tracking process to identify the City Department which submitted the SHR Form. Tracking of SHR Forms will help to facilitate future reviews.
- **Conduct regular reviews:** Finance should conduct periodic regular review of Special Handling Request Forms for any unusual trends such as high volumes from a specific department or employee, high volumes of payments to a specific vendor, repetitive dollar amounts, or spikes in use around certain timeframes. Follow up should be performed on any unusual or excessive activity identified.
- **Perform operational audit:** In addition to conducting periodic regular reviews of processed SHR Forms. We recommend the City perform an operational compliance audit of the SHR Form process to assess the process, procedures and actual practices. The audit should cover activity in recent fiscal years (i.e. the last 3 to 5 years) to determine unusual patterns or trends that may be indicative of fraudulent activity and to identify areas of potential internal control weaknesses.

**C. Vendor Master List**

During the performance our work, we inquired with Finance Department personnel regarding the existence and maintenance of the City's vendor master list. We were informed that the vendor master list represents a historical listing of vendors who have been issued payment by the City, and the listing is not used for any particular purpose nor updated on any regular basis.

A vendor master list, or vendor master file, is considered an integral part of an organization's Procurement and Account Payable processes and contains key information on vendors which facilitates the procurement of goods and services. The effective maintenance of a vendor master list is considered a best practice in preventing unauthorized or inappropriate activity, duplicate payments, and inefficiencies. In order to safeguard the City's resources over the procurement of goods or services, adequate preventive

**City of Pasadena**  
**Investigation into Matters Relative to the Underground Utility Program**  
**as of November 11, 2014**

---

internal controls should be in place over vendor validation, setup, modification, and maintenance, resulting in a valid and current master vendor list of approved vendors.

- **Create a valid Vendor Master List:** The City should create a valid vendor master list based on the vendor data and information maintained in the financial system and sourced during the vendor setup/procurement process. The Vendor Master List should serve as an approved vendor list or database from which the City can cross-reference to. The City's current vendor master list appears to be an accumulation of vendor names that have received payment from the City and would not be considered a reliable or adequate data source to support a vendor master list.
- **Restrict user access to the Vendor Master List:** Only select members of the Purchasing division should have authority and access to add/change/delete vendor information to/from the Vendor Master List. Additionally, username identifications must be used to uniquely identify the employee who added each vendor or made changes to the existing vendor information.
- **Require vetting process for new vendors:** The Vendor Master List should include only those vendors who have been vetted and put through the normal procurement process. Vendors may not be added via deviated methods. Vendors should be required to complete and submit a W-9 (Request for Taxpayer Identification Number (TIN)), a Vendor List Questionnaire (Form AA-1), or equivalent vendor application document prior to set-up in the system.
- **Additional required procedures for new vendor validation:** Vendors providing only a PO Box should be required to provide a physical street address. Procedures should be performed to validate the vendors address and phone number, (e.g., Better Business Bureau, State Contractors License Board, Secretary of State website, etc.). The information gathered to validate the vendor should be documented and maintained in the vendor's data file.
- **Cross-reference vendors to the Vendor Master List prior to payment:** Vendors should be checked against the Vendor Master List prior to payment processing to ensure the vendor has been set-up in the system and vetted through the procurement process. Payment requests for vendors not found on the Vendor Master List should be followed-up with the requesting City Department for reasons why payment is outside of established vendor procurement policy.
- **Update and maintain the Vendor Master List:** The Vendor Master List should be continually reviewed, updated, and cleaned-up of inactive suppliers or one-time vendors.

**D. Form 1099-MISC ("1099s")**

We found the City did not have written or documented procedures over the 1099 vendor identification and reporting process. Based on the City's current practice, the Purchasing division identifies a vendor's 1099 status in the initial vendor set-up phase based on the vendor information provided. When no W-9, AA-1 Form, or other equivalent document is submitted by the vendor, the vendor's 1099 status in the financial system defaults to "000" – indicating no 1099 reporting required. This was the case for SCEJ, New Covenant Center, and M. Jenkins, where no W-9 or AA-1 Form was submitted, and the lack of

**City of Pasadena**  
**Investigation into Matters Relative to the Underground Utility Program**  
**as of November 11, 2014**

---

vendor information resulted in a default designation in the system of no 1099 required. Any follow-up or updating of a vendor's 1099 status by Purchasing is limited to those instances when the City has been notified by the vendor that a 1099 is required and none was received.

In accordance with Internal Revenue Service ("IRS") rules and regulations, the City is required to report taxable income to vendors in amounts that exceed \$600. When vendors are setup in the financial system, a mechanism should be in place to determine whether or not each vendor requires a 1099 based upon the vendor's organizational structure (e.g., C-corporation, partnership, sole proprietorship, etc.).

- **Establish written procedures for 1099 reporting:** Create, maintain, and have readily available process narratives which provide a procedural walk-through of the 1099 process, including vendor identification, evaluation, and reporting. Clearly delineate which processes are the responsibility of the Purchasing division (including 1099 vendor identification) and which process should be handled by Accounts Payable division (including 1099 issuance and reporting).
- **Ensure 1099s vendors are set up in the system:** Ensure that 1099 vendors are setup correctly in the system to receive 1099 reporting. Care should be taken to properly evaluate the 1099 status for every vendor application at the time of set-up by referencing the applicant's W-9 form, Form AA-1 or vendor application document.
- **Require W-9 from all vendors:** Require all vendors to submit a W-9 or AA-1 Form with their vendor applications and verify the information submitted is accurate (e.g., using the IRS online verification system, contacting the vendor, etc.). Any vendors who fail to provide the required form or information should not be set-up in the system as an approved vendor. Requiring W-9s before vendor set-up can help to avoid year end 1099 problems.
- **Update and maintain vendor 1099 reporting status:** Ensure that a mechanism exists to update the vendor information in the system and the vendor's 1099 requirement status is periodically updated and kept current.
- **Perform reviews prior to annual reporting:** The status of each 1099 vendor should be reviewed every December prior any reporting to the IRS to ensure the completeness and accuracy of the 1099 reporting data.
- **Perform periodic audits:** Perform periodic audits to ensure the appropriateness and timeliness of 1099 reporting – vendors required to receive a 1099 should have been issued one.

#### **E. Purchase Orders**

The City has written and documented Purchasing policies and procedures regarding vendor procurement in which City departments are required to submit an authorized purchase requisition to request vendor procurement of goods or services. Once approved, a purchase requisition is processed to generate a purchase order contract with the specified vendor. The use of a purchase requisition/order system is considered to be a best practice in providing an audit trail to show the purchase of goods or services were

**City of Pasadena**  
**Investigation into Matters Relative to the Underground Utility Program**  
**as of November 11, 2014**

---

approved. According to the City Accounts Payable Procedures, procurement of goods or services without a purchase order, contract, or other agreement is not in conformance with City policy.

However, invoice documents for expenditures charged to the Underground Utility Program, with regards to the Four Vendors, and testimony obtained from employees interviewed, indicate that D. Wooten routinely submitted vendor invoices for payment which were not supported by a purchase order contract, or other agreement, yet the invoices were processed by Accounts Payable and the check payments issued. We found that the Finance Department followed a historical practice of processing UUP invoice payment requests as reimbursements (i.e. refunds) – although the invoice document was more consistent with vendor procurement than a refund claim. We strongly recommend this historical practice be discontinued.

- **Invoices should be matched to purchase orders:** The City should ensure that invoices are properly matched to the correct purchase orders and invoices that do not meet the City's policy requirements should not be processed for payment. Invoices over \$100 without purchase orders are in violation of the City's policies and procedures and may not be paid without a memo containing proper authorization.
- **Vendor must be processed through the purchasing function:** All vendors receiving payments from the City must go through the regular procurement process and comply with all purchasing policies and procedures, including expenditure thresholds and purchase requisition specifications. Specific to the Underground Utility Program, vendors may not bypass the procurement process by receiving payments as reimbursements.
- **Procurement through competitive process:** Whenever possible, procurement of goods or services should be made by a competitive bidding/lowest quote process, even when not expressly required, to ensure the most efficient use of City funds.
- **Segregation of duties:** The City should ensure that no employee should have complete control over the entire purchasing function. The responsibilities for purchasing, receiving, and approving payments for goods or services should be segregated and assigned among different employees. Currently, the Finance Department's Purchasing Administrator is head of the Purchasing and Accounts Payable divisions. In smaller organizations, it may not be feasible to separate Purchasing from Accounts Payable. However, as a best practice, Purchasing and Accounts Payable functions should operate separately from one another to ensure no one employee has conflicting duties and responsibilities.

**F. Accounts Payable Function**

Strong internal controls are essential to an effective Accounts Payable function. Internal controls which are poorly designed or easily circumvented creates an environment where fraud is easier to commit, duplicate payments increase, and the overall function is not cost-effective.

**City of Pasadena**  
**Investigation into Matters Relative to the Underground Utility Program**  
**as of November 11, 2014**

---

While the City has written and documented policy, procedures and controls for the Accounts Payable function, we found that the Accounts Payable staff supplemented established policy and procedures by following unwritten and informal historical practices which were inconsistent with current policy. Specially, Accounts Payable staff followed a historical practice of processing vendor invoices for Underground Utility Program charges as reimbursement claims, when documentation did not appear to support a reimbursement claim. In addition, Accounts Payable staff rely heavily on the City departments to provide properly completed and authorized invoice and payment request documents. We recommend Accounts Payable perform a more robust and diligent review of invoice payment requests submitted by City departments.

- **Validate payment request information prior to payment:** Accounts Payable staff should validate information on invoices prior to payment; such information includes purchase order numbers and amounts, service/item description, and vendor name, number, and address. Requests not properly completed or missing information should not be processed, but followed-up on with the requesting City Departments.
- **Document review and approval of payment requests:** Accounts Payable staff should provide evidence indicating formal review and approval processes have been performed on submitted payment requests via proper documentation such as memos, e-mail, and signatures. If exceptional circumstances arise that are outside the normal policies and procedures, documentation of approval from proper authorities must be attached. Verbal or oral agreements, authorizations, and understandings should not be accepted under normal circumstances.
- **Adhere to a chain of custody for invoice payment documents:** Accounts Payable should develop a closed-loop disbursement process within its own division. Invoices submitted for necessary Finance approval and signatures must subsequently be directly routed to Accounts Payable staff for processing without looping documents back to the City departments. Specifically, individuals submitting invoices may not have access to the invoices they submit until after disbursements have been processed and checks have been cut.
- **Accept only original documents with original signature authorizations:** Only invoices with documentation containing original wet signatures should be processed for payment. Invoice payment requests may not be processed based off of photocopies of originals nor should documentation containing white out be processed. Accounts Payable should strive to be diligent in examining invoice supporting documentation by checking for authorization signatures.
- **Implement additional internal controls over invoice process:** The City should develop embedded internal controls to ensure all invoices processed for payment are legitimate transactions. Examples of internal controls include:
  - Multi-levels of review to ensure adequate supervision of work performed
  - In-house quality control group that conducts testing on random sampling of processed payments

**City of Pasadena**  
**Investigation into Matters Relative to the Underground Utility Program**  
**as of November 11, 2014**

---

- Technology-assisted automated functions that prevents payments of invoices with mismatched, exhausted, and/or expired Purchase Orders, mismatched vendor names and IDs, unauthorized amount thresholds, etc.
- Proper segregation of duties between Purchasing and Accounts Payable functions
- Glaring discrepancies or suspicious activity with one invoice will trigger in-depth further review of all invoices submitted by the same employee or for the same vendor
- Maintain active list of vendors or employees involved with suspicious activities and take extra care when processing invoices related to these parties
- Employees should disclose, on an ongoing basis, any personal or financial relationships leading to potential conflicts of interest
- Internal audit function should maintain independence and ensure relationships with colleagues do not deter or inhibit them from performing their job duties

**G. Internal Audit Function**

In previous years, the City maintained a Finance Department, Internal Audit Unit. Currently, there is no city-wide Internal Audit Department or internal audit personnel on staff who perform internal audit functions in-house. As a cost-effective mechanism, the City contracts with outside accounting and auditing vendors to provide internal audit services on an as needed basis for its City departments. We recommend the role, responsibility, and authority of a city-wide Internal Audit Department be re-evaluated to ensure identified high risk areas are addressed and covered appropriately by audit and results reported timely to the City Manager's office.

- **Re-establish and Internal Audit Department:** The City should consider re-establishing an internal audit function, whether it is a complete internal audit department or an senior internal audit director who can provide oversight in coordinating and outsourcing audits to independent third party contractors. We were advised by the Human Resources Department that recent efforts have been underway to hire a senior internal audit director or equivalent.
- **Conduct surprise audits:** Department Heads should implement a process of surprise operational compliance audits in connection with the Internal Audit function. Surprise audits can be an important fraud prevention mechanism in deterring potential fraudulent employee behavior. Areas of focus in a surprise should include:
  - Accounts Payable: Audit for fictitious vendors, vendors should be researched to ensure that they exist and represent legitimate organization. Red flags include PO Box addresses, missing required vendor set-up documents, or missing vendor data in the system.

**City of Pasadena**  
**Investigation into Matters Relative to the Underground Utility Program**  
**as of November 11, 2014**

---

- Payroll: Audit for ghost employees on City payroll by reviewing payroll report or W-2s for any unfamiliar names to ensure individuals are actual employees.
- **Establish system of internal audit record keeping**: The City should establish a formal internal audit records keeping system and follow-up process. Departments found to be deficient in any areas or processes should be required to submit corrective action plans and additional internal audits may be scheduled as necessary.
- **Perform fraud risk assessments**: The City should perform periodic reviews to identify instances where circumvention of standard procedures could occur and evaluate whether mitigating controls exist and are effective. Key components to this step include mapping existing controls to prioritized fraud risks, assessing the degree to which particular fraud risks are mitigated by existing controls, and identifying what potential remediating controls are necessary, if any.
- **Establish investigation protocols and procedures**: In addition to the current HR Department function which investigates administrative matters, the City should consider designing and implementing an investigative process, specific to Internal Audit, to respond to allegations of fraud that includes the following elements:
  - Protocols for responding to initial allegations (e.g., decisions on internal and external notifications, selecting an unbiased and qualified internal or external investigation team, etc.);
  - Standard investigative procedures exist for those conducting the investigation (e.g., steps required to preserve attorney-client privilege, interviewing and other investigative techniques, documentation requirements, etc.); and
  - Protocols for reporting findings from the investigation.

#### **H. Personnel and Training Considerations**

- **Additional employee evaluations**: In addition to the annual performance review, consider conducting informal employee evaluations on a more frequent basis to evaluate employee responsibilities, background and qualifications relative to their job description. Determine if the employee is qualified to perform the job duties assigned and if the level of responsibilities is appropriate for the job description.
- **Enhance employee supervision and oversight requirements**: Establish effective employee supervision by maintaining adequate oversight of employees' tasks. Supervisors and managers should conduct independent and adequate review of employees' work and note regular deficiencies.
- **Conduct regular annual training programs**: Departments should conduct regular annual training programs for all employees to emphasize and communicate adherence to the City's

**City of Pasadena**  
**Investigation into Matters Relative to the Underground Utility Program**  
**as of November 11, 2014**

---

policies and procedures. Employees should be required to sign an acknowledgment accepting compliance of their jobs' roles and responsibilities with documentation maintained by the Human Resources department. Failure to comply will may result in disciplinary actions up to and including termination.

- **Endeavor to provide new hiring training and refresher training:** Provide new hire training programs to newly hired employees and refresher training programs to current employees on a periodic basis to communicate appropriate job responsibilities and process protocols according to the City's policies and procedures. Although training often times is conducted as on-the-job training, at no point should training be taught based on unwritten historical practices of the department which are inconsistent with the City's own policies and procedures.

**City Management Response**

City senior management informed us that policies, procedures and practices which were violated or determined inadequate will undergo in-depth review and evaluation. City senior management intends to improve, enhance, or replace such policies, procedures and practices currently in place with the expectation that such changes will prevent or detect the reoccurrence of potential fraudulent activities by City employees in the future. The City's assertions regarding these changes or modification are in progress, we have not performed any review or evaluation of the City's proposed changes.

We truly appreciate the time, effort, and assistance provided to us during the course of our work in this investigation matter, by the City's management and staff of the City Manager's Office, City Attorney, Human Resources, Finance, and Public Works Departments.