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Date: December 20, 2016
To: City Manager, Anthony Lyons
From: City Auditor, Carlos L. Holt
Subject: Hotline Complaint Message, CASE 2017-002

Source of Allegations

The City Auditor's Office received a hotline complaint submitted on December 9, 2016 via the *InTouch* third-party hotline; from an anonymous source.

Investigator Assigned

Carlos L. Holt, CPA, CFF, CIA, CFE, CGAP
Eileen Marzak, CPA, CFE

Purpose of Investigation

The purpose of this or any investigation is to determine the facts concerning allegations made by a complainant. For findings indicating possible fraud or other crimes, the matter would then be referred to the Gainesville Police Department (through the City Manager and in consultation with the City Attorney) or the State Attorney's Office. Findings of employee misconduct warranting possible corrective or disciplinary action would be forwarded to management, who is responsible for administering such actions. Findings of waste or lack of efficient or effective operations would also be referred to management.

Standards

We conducted the investigation and created the report using the standards of the Association of Certified Fraud Examiners (ACFE) as a guide. Both investigators are Certified Fraud Examiners (CFE).

Background

The Hippodrome Theater building is owned by the City of Gainesville. It is occupied by Hippodrome State Theater Inc., a Florida not-for-profit corporation, who uses it for theatrical productions for entertainment purposes. Hippodrome State Theater leases the building from the City of Gainesville, who also provides the theater company with grant funds. As per the contract between the City of Gainesville and Hippodrome State Theater, Article 10 – "Termination Prior to Expiration" lists five reasons that the LESSOR shall have the right to terminate the lease with reason A:5 being: "The failure of the LESSEE to abide by the terms of any law governing its business operations." The complainant alleged that employee wages were withheld by the

Hippodrome State Theater for health insurance premiums for a two month period but coverage was not provided to the employees.

Summary and Outcome of Investigation

After performing a thorough investigation of the above allegations, enough information was obtained to determine that the complainant was misinformed. Records from the insurance provider and the insurance agent clearly show that employees were covered by medical insurance for the two months cited. Thus, we were able to conclude that the allegation was **not substantiated**.

Allegation, Facts, Analysis and Conclusions

Allegation A

That Hippodrome State Theater Inc., who leases their building from the City of Gainesville, withheld wages out of employee paychecks during July and August of 2106 for health insurance but failed to provide any coverage for the employees.

Facts

- 1) The City of Gainesville owns a lot of 120' by 150' fronting on Southeast First Street, and containing a building known as "the Old Post Office Building" (now known as "The Hippodrome") and occupied by the Hippodrome State Theater since 1980.
- 2) Hippodrome State Theater is a not for profit Florida Corporation and produces live theater shows for citizens to attend. They have approximately ten employees.
- 3) Hippodrome State Theater leases the building from the City of Gainesville, Florida who also provides the theater company with multi-year grant funds.
- 4) As per the contract between the City of Gainesville and Hippodrome State Theater Article 10 – "Termination Prior to Expiration" lists five reasons that the LESSOR shall have the right to terminate the lease with reason A:5 being: "The failure of the LESSEE to abide by the terms of any law governing its business operations."
- 5) On December 9, 2016 an anonymous caller first contacted the City of Gainesville *InTouch* Fraud, Waste, and Abuse hotline with allegations that deductions from employee pay for Hippodrome employees were not used to purchase health insurance during July and August 2016 because the employees were not covered during this period. The complainant alleged that insurance fraud had been committed.
- 6) Records show that Hippodrome State Theater carried Blue Cross Blue Shield insurance during 2016 (group 16148).
- 7) *Florida Blue* invoices for Hippodrome State Theater July 2016 and August 2016 were for \$5,184 and \$4,561 respectively and covered 10 employees.
- 8) Hippodrome State Theater payroll records show that for the two month period \$1,371 was deducted from employee paychecks.
- 9) *Florida Blue* e-billing records obtained and provided by Insurance Agent Keith Lynn Hodge of Jonesville, Florida show that both the July 2016 and August 2016 invoices were paid as were all other invoices for calendar year 2016.

- 10) Insurance Agent Keith Lynn Hodge stated that Hippodrome State Theater has been a customer for many years and he recalls no instances of the health insurance lapsing. He further indicated that if Blue Cross Blue Shield receives payment late more than three times they require automatic payment through bank transfer and if one of those fails, then they generally cancel the policy.
- 11) Insurance Agent Keith Lynn Hodge stated that if employees mistakenly go for treatment out of network, they may have to pay full coverage for the medical services they obtained.

Analysis

No evidence of lapsed coverage or late payments was found regarding the Hippodrome and Blue Cross Blue Shield. It is unknown how the complainant came to believe this was the case. The insurance agent theorized that an employee may have mistakenly gone out of network and was then told by the health care provider that there was no insurance.

Conclusion

The allegation that Hippodrome State Theater, who leases their building from the City of Gainesville, withheld wages out of employee paychecks during July and August of 2106 but failed to provide any health insurance coverage for the employees was **unsubstantiated**.

End of Report

cc: Nicole Daenzer
City Attorney