



CITY AUDITOR'S OFFICE

FY 2018/19 Report on the City Auditor's Integrity Line

June 17, 2019

REPORT NO. 1915

CITY COUNCIL

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June 17, 2019

Honorable Mayor and Members of the City Council:

Enclosed is the *FY 2018/19 Report on the City Auditor's Integrity Line*, which was included on the Council-approved FY 2018/19 Audit Plan. The Integrity Line serves to provide City employees and the public with a method for reporting suspected fraud, waste or abuse of City resources.

During this fiscal year, we received eight hotline contacts. Two of these reports were appropriate for referral to other departments, including the City Attorney and the Police department. Including one contact from last year, two matters could not be substantiated, and two others did not merit action.

The Integrity Line did not result in any separate investigative reports being issued during FY 2018/19. However, three reported issues are still being reviewed to determine whether the information can be substantiated.

If you need additional information or have any questions, please contact me at (480) 312-7867.

Sincerely,

A handwritten signature in blue ink that reads "Sharron Walker".

Sharron E. Walker, CPA, CFE, CLEA
City Auditor

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BACKGROUND

The City Auditor’s Integrity Line, first included in the Council-approved FY 2014/15 Audit Plan, was established to provide the public and City employees a method for reporting suspected fraud, waste or abuse of City resources.

In July 2014, we established a phone number and an email account and created a web-based reporting form to receive information. In November 2014, the City’s Communications staff helped launch the Integrity Line by putting informational updates in the mid-November issues of the CityLine (employee news) and the Scottsdale Update (citizen newsletter).

City Auditor’s Integrity Line

(480) 312-8348

Audit@ScottsdaleAZ.gov

www.ScottsdaleAZ.gov,
search “Integrity Line form”

Concerns can be reported to the Integrity Line anonymously; however, contact information is encouraged in case further information is needed. To the extent allowed by law, the City Auditor’s Office will maintain confidentiality of all complaints, associated workpapers and other files.¹

Table 1 summarizes the guidance provided on types of concerns commonly investigated through an auditor-based hotline.

Table 1. Description of Fraud, Waste and Abuse

Description		Examples
Fraud	Intentional act or omission designed to deceive others and deprive the City of its resources or rights. These acts may be committed by persons who are internal or external to the City.	<ul style="list-style-type: none"> • Theft of City money, equipment or other assets • Use of City property for personal gain • Submitting invoices for fictitious goods or services • Falsifying records, such as timesheets or expense claims.
Waste	Intentional or unintentional careless expenditure or mismanagement of City resources. Waste may not involve private use or personal gain.	<ul style="list-style-type: none"> • Purchasing supplies, goods or services at inflated prices • Failure to reuse or recycle major resources • Making unnecessary purchases
Abuse	Behavior that is seriously deficient or improper when compared to behavior that a prudent person would consider reasonable and necessary in the circumstances. Abuse includes misusing one’s position or authority as a City employee.	<ul style="list-style-type: none"> • Unauthorized disclosure of confidential or proprietary information • Providing a benefit to someone for which they do not qualify • Directing staff to perform personal errands for a supervisor

SOURCE: www.ScottsdaleAZ.gov/auditor/Integrity-Line.

¹ Arizona Revised Statute §9.305(b) provides for confidentiality of audit files.

When concerns are reported, the source may not be able to prove that all elements have been met, such as an intentional act or omission, but should provide the details that led to the belief that they have occurred.

According to the Association of Certified Fraud Examiners, 40% of occupational fraud cases are detected through a tip, which is the most common detection method.² Also, the Association found that hotlines are an effective method of collecting tips. In organizations *with* hotlines, tips led to identifying 46% of frauds detected. In organizations *without* hotlines, 30% of detections resulted from tips. As a further sign of effectiveness, organizations *with* hotlines experienced frauds that were less costly and detected more quickly than in organizations *without* hotlines.

Occupational fraud is defined as the use of one’s occupation for personal enrichment through deliberate misuse or misapplication of the employer’s resources or assets.

Table 2 summarizes the Association’s analysis of case data studied.

Table 2. Median Loss and Duration Effect of a Hotline

	Hotline in Place	Hotline Not in Place	Percent Reduction
Median Loss	\$100,000	\$200,000	50%
Median Duration of Occurrence	12 months	24 months	50%

SOURCE: Report to the Nations on Occupational Fraud and Abuse: 2018 Global Fraud Study, Association of Certified Fraud Examiners.

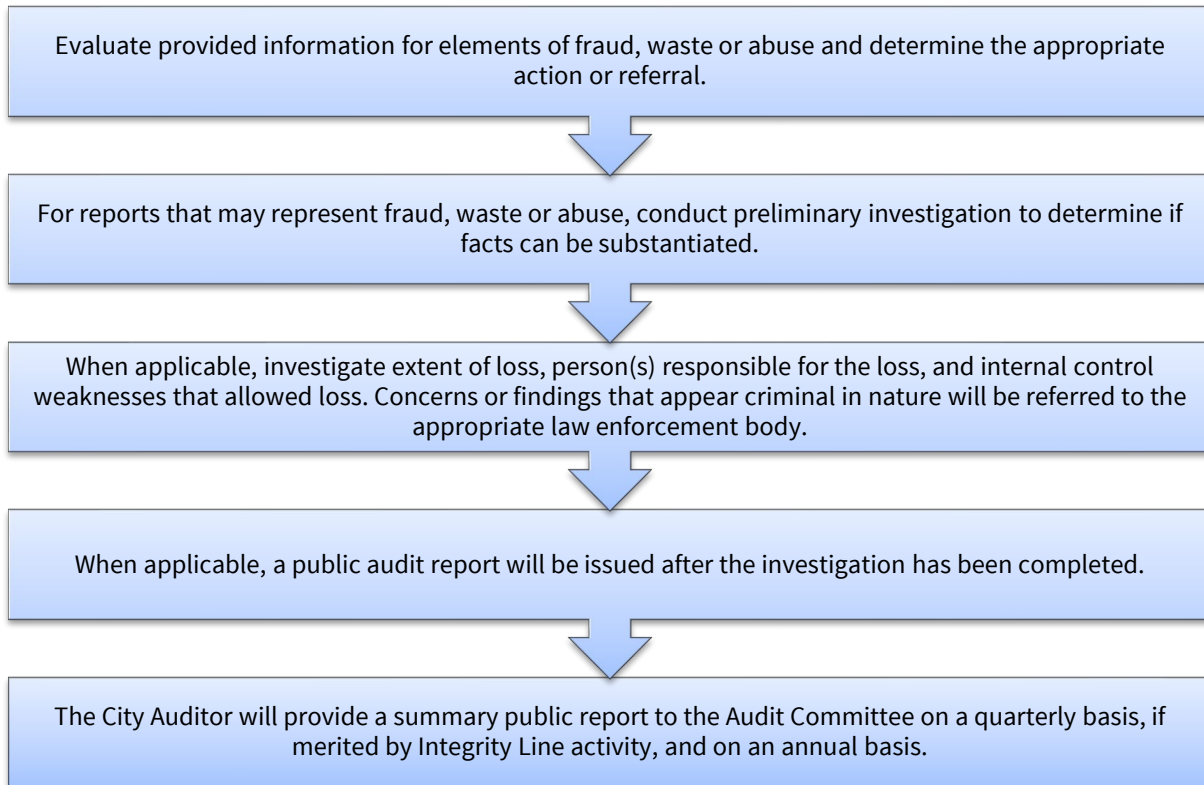
The benefits of having a hotline include the deterrence and detection of fraud, waste and abuse; improvement in controls, policies and procedures; and increased operational efficiencies.

Internal control audit recommendations are often seen as added “red tape” or too time-consuming. However, the Association’s report identifies internal control weaknesses as contributing to the fraudster’s ability to perpetrate the crime in 32% of frauds. In another 18%, the perpetrator had overridden intended controls to carry out the fraud. Effective internal controls provide the checks and balances needed to reduce the risk of such losses.

Figure 1 on page 3, illustrates the primary steps in the City Auditor’s Integrity Line complaint review process.

² Report to the Nations on Occupational Fraud and Abuse: 2018 Global Fraud Study, Association of Certified Fraud Examiners. Since 2002, the Association has performed this study by surveying its members biennially about certain characteristics of their cases. The study’s purpose is to analyze how occupational fraud occurs, how it is discovered and its financial impact.

Figure 1. Integrity Line Information Review Process



SOURCE: Summary of City Auditor’s Integrity Line procedures.

The Integrity Line page on the City’s website outlines examples of matters that should not be reported to the City Auditor’s Office, including:

- Complaints against private businesses, unless the issue involves City operations, resources or employees
- Disputes between individuals
- Potential fraud related to county, state or federal assistance programs unless the program is being operated by the City of Scottsdale
- Emergencies or other public safety concerns

Anyone with knowledge of potential fraud, waste or abuse of City resources may submit the information via the City’s website (search for “integrity line form” or “integrity line”), call (480) 312-8348 or email Audit@ScottsdaleAZ.gov.

RESULTS

In FY 2018/19, the Integrity Line received eight contacts, of which three are still being reviewed.

The web-based Integrity Line reporting form was again the primary contact method used this year. In prior years, email was also a primary method of contact, as shown in Table 3.

Table 3. Sources of Integrity Line Information

Source	FY 2014/15	FY 2015/16	FY 2016/17	FY 2017/18	FY 2018/19
Email	3	3	0	2	0
Phone	0	4	3	3	0
Web form	0	2	3	1	6 *
Mail	1	0	0	0	0
Referral/in-person	1	0	0	0	2
Audit	0	2	0	0	0
Total	5	11	6	6	8

* - Count excludes one web form containing random letters and characters. As well, FY 2017/18 classifications were corrected for an emailed form that was not submitted through the website.

SOURCE: Analysis of City Auditor's tracking database.

Table 4 on page 6 summarizes the disposition of Integrity Line contacts.

(continued on next page)

Table 4. Disposition of Integrity Line Information

Disposition	FY 2014/15	FY 2015/16 **	FY 2016/17	FY 2017/18	FY 2018/19
Open	0	0	0	1	3
Closed:					
Referral	2	6	4	3	2
Report *	1	1	0	0	0
Management Memo	1	0	1	1	0
Not Substantiated	0	1	1	0	2
No Action	1	3	0	1	2
Total	5	11	6	6	9

* - The Report category has been revised to only count separate reports (excluding the annual report).

** - FY 2015/16 dispositions have been updated for results determined after the prior year's report.

SOURCE: Analysis of City Auditor's tracking database

Three FY 2018/19 reported concerns are reflected as "Open." These matters are still being investigated to determine if the information can be substantiated.

Two reported concerns were referred to other departments for resolution. These included a potential ethics matter referred to and resolved by the City Attorney and Police department information provided for a misdirected identity theft report.

The "Not Substantiated" category represents information that was analyzed or researched but could not be substantiated. This count includes one matter that remained open from the prior fiscal year.

Two FY 2018/19 concerns are categorized as "No Action." This category represents reports that had insufficient information for analysis or that did not appear to be potential fraud, waste or abuse of City resources.

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The City Auditor's Office conducts audits to promote operational efficiency, effectiveness, accountability and integrity.