



CITY AUDITOR'S OFFICE

# FY 2014/15 Report on the City Auditor's Integrity Line

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June 15, 2015

REPORT NO. 1513

## CITY COUNCIL

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Guy Phillips  
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June 15, 2015

Honorable Mayor and Members of the City Council:

Enclosed is the *FY 2014/15 Report on the City Auditor's Integrity Line*, which was included on the Council-approved FY 2014/15 Audit Plan. The Integrity Line hotline serves to provide City employees and the public with a method for reporting suspected fraud, waste or abuse of City resources.

Since July 2014, we have received five tips as a result of establishing the Integrity Line. This report summarizes the results of information received and demonstrates the value of making a hotline available.

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". The signature is written in a cursive, flowing style.

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



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## BACKGROUND

The approved FY 2014/15 Audit Plan included establishing an Integrity Line hotline to provide the public and employees with a method for reporting suspected fraud, waste or abuse of City resources.

In July 2014, we began working with the City's Information Technology department to obtain a phone number, set up an email account and create a web-based 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 CityLine and Scottsdale Update.

### City Auditor's Integrity Line

*Phone:* (480) 312-8348

*Email:* [Audit@ScottsdaleAz.gov](mailto:Audit@ScottsdaleAz.gov)

*Online Form:*  
[scottsdaleaz.gov/department/City\\_Auditor/integrityform](http://scottsdaleaz.gov/department/City_Auditor/integrityform)

Complaints can be provided to the Integrity Line anonymously; however, contact information is encouraged in case further information is required. To the extent allowed by law, the City Auditor's Office will maintain confidentiality of all complaints, associated workpapers and other files.<sup>1</sup>

**Table 1. Description of Fraud, Waste and Abuse**

	Definition	Examples
<b>Fraud</b>	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"> <li>» Theft of City money, equipment or other assets</li> <li>» Use of City property for personal gain</li> <li>» Submitting invoices for fictitious goods or services</li> <li>» Falsifying records, such as timesheets or expense claims</li> </ul>
<b>Waste</b>	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"> <li>» Purchasing supplies, goods or services at inflated prices</li> <li>» Failure to reuse or recycle major resources</li> <li>» Making unnecessary purchases</li> </ul>
<b>Abuse</b>	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"> <li>» Unauthorized disclosure of confidential or proprietary information</li> <li>» Providing a benefit for someone for which they do not qualify</li> <li>» Directing staff to perform personal errands for a supervisor</li> </ul>

SOURCE: [www.scottsdaleaz.gov/departments/City\\_Auditor/integrityform](http://www.scottsdaleaz.gov/departments/City_Auditor/integrityform)

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

According to the Association of Certified Fraud Examiners, 40% of occupational fraud cases are detected by a tip, which is the most common detection method.<sup>2</sup> Also, the ACFE found that hotlines are an effective method of collecting tips. In organizations *with* hotlines, tips led to identifying more than half of frauds detected, while only about one-third of detections resulted from tips in organizations *without* hotlines. 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 illustrates the ACFE'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	\$168,000	40.5%
Median Duration	12 months	24 months	50%

SOURCE: *Report to the Nations on Occupational Fraud and Abuse: 2014 Global Fraud Study*, Association of Certified Fraud Examiners

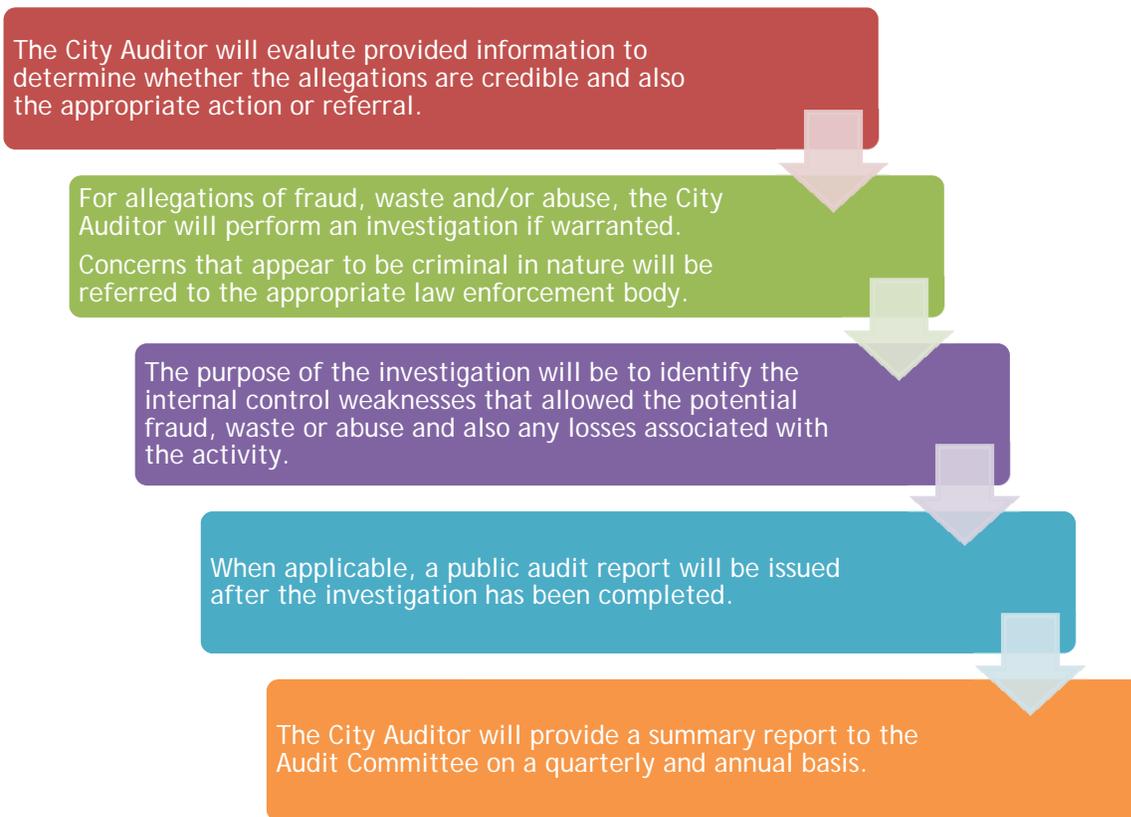
The benefits of having the Integrity Line include the deterrence of fraud, waste and abuse, which cannot be quantified.

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

<sup>2</sup> *Report to the Nations on Occupational Fraud and Abuse: 2014 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.

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Figure 1. Integrity Line complaint review process



SOURCE: City Auditor's Integrity Line procedures

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The Integrity Line page on the City's website outlines the types of complaints 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 or integrity form), call (480) 312-8348 or email [Audit@ScottsdaleAZ.gov](mailto:Audit@ScottsdaleAZ.gov).



## RESULTS

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### The Integrity Line received five unique reports in FY 2014/2015.

Of the five issues reported, one resulted in a public report, three were referred to appropriate City management, and one did not have enough information provided to pursue.

1. **Improper disposition of surplus property** – City Auditor Report 1513.01, *Controls Over Surplus Property Dispositions*, was completed and presented to the City Council Audit Committee in May 2015. The initial information provided was that specific items the Scottsdale Police Department's Property & Evidence Unit sent to the City's Warehouse for disposition were not properly auctioned and were taken for personal use. The City's Warehouse is within the Purchasing Department.

We confirmed that one of the items reported to us was not accounted for in Warehouse records. However, we could not determine whether there was personal use. We then expanded our review and found that several other individually significant items could not be traced to an auction or another disposition. We made several recommendations to improve accountability for surplus property dispositions.

The Purchasing Director generally agreed with the report recommendations to improve controls over surplus property dispositions. As a result of the review, the department has worked with Facilities Management to get a lockable cage built to secure items being held for auction. Certain high-value items were moved into a locked cage area monitored by a security camera. The implementation of other recommendations is planned to be completed by the end of 2015.

2. **Personal use of a City vehicle** – information was provided stating a City employee used a City vehicle for part of the commute between work and home. The marked City vehicle was being parked at a City location closer to the employee's home than the employee's regular worksite.

City records verified that the employee was authorized to use the City vehicle, and its designated parking location was at a location closer to the employee's home than the regular worksite. The parking location appeared to be approved as it was listed on the department's vehicle records.<sup>3</sup> However, the parking location benefits the employee, and the personal commuting miles were not being reported to Payroll for tax purposes as required by policy.

We recommended the City Manager review the applicable Administrative Regulation to clarify appropriate use of City vehicles and tax reporting requirements. In addition, we recommended that the appropriateness of this specific situation be reviewed, along with its tax implications.

The City Manager agreed. The AR is going to be reviewed and updated this summer, the supervisor and employee have been counseled, and the information has been

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<sup>3</sup> Administrative Regulation No. 125, *Authorization and Operation of City Owned and Leased Motor Vehicles* (last amended 7/25/2008), states "Employees are specifically prohibited from parking a City vehicle in *other than its approved location* in order to park closer to the employee's home." (italics added.)

forwarded to the City Treasurer for review of tax implications. The estimated completion date for these actions is September 1, 2015.

3. Two other general concerns that did not have fraud, waste or abuse implications were reported to management for proper disposition. These included:

- One inquiry asked why the City does not require horse owners to clean up after their horses when on the Greenbelt paths used by pedestrians, but does require dog owners to do so.

This issue was forwarded to the Parks, Recreation & Human Services Director, who responded that horses are not allowed in the Greenbelt. Scottsdale City Code §20-31 prohibits horses in City parks except on bridle paths, equestrian trails, or in equestrian areas that are designated by posted notices.<sup>4</sup>

However, the reporting individual provided a photograph of a City sign indicating that horses have the right of way, and further review confirmed these signs are in parks along the Greenbelt. The Parks, Recreation & Human Services Director noted when paths go close to or through parks, the multiuse path signs that have been posted result in an unexpected conflict with that ordinance. The Parks & Recreation Department will be working with the Transportation Department to address this situation.

- A concern related to alleged illegal activity at a particular location. This information was forwarded to the Police Chief, who responded that it was assigned for appropriate follow-up action.

4. The fifth comment generally alleged employee misconduct, but provided no details. The information was insufficient for any investigation.

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<sup>4</sup> Exceptions allowed are horses used by the Scottsdale Police Department or a city-permitted class or public event.



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**City Auditor's Office**

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[www.ScottsdaleAZ.gov/departments/City\\_Auditor](http://www.ScottsdaleAZ.gov/departments/City_Auditor)

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