



CITY AUDITOR'S OFFICE

FY 2021/22 Report on the City Auditor's Integrity Line

June 14, 2022

REPORT NO. 2211

CITY COUNCIL

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Vice Mayor Tom Durham

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June 14, 2022

Honorable Mayor and Members of the City Council:

Enclosed is the *FY 2021/22 Report on the City Auditor's Integrity Line*, which was included on the Council-approved FY 2021/22 Audit Plan. The Integrity Line serves to provide city employees and the public with a method to report suspected fraud, waste, or abuse of city resources.

During this fiscal year, we received ten Integrity Line contacts, with the majority coming through the City website Integrity Line form. While most reported concerns were referred to other appropriate departments, three others were reviewed but not substantiated.

The Integrity Line did not result in any separate investigative reports being issued this fiscal year.

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 City Auditor’s Integrity Line was established during FY 2014/15 to provide the public and city employees a method to report suspected fraud, waste, or abuse of city resources.

The Integrity Line comprises a phone number, email address and website form to provide multiple avenues of communicating issues to the City Auditor’s Office.

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

City Auditor’s Integrity Line

(480) 312-8348

Audit@ScottsdaleAZ.gov

www.ScottsdaleAZ.gov

search “Integrity Line form”

Table 1 summarizes the types of concerns commonly investigated through an auditor-based hotline. These do not include non-city matters or concerns that are more appropriately referred to other entities, such as to police, state, or federal agencies.

Table 1. Descriptions of fraud, waste, and abuse with examples.

	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

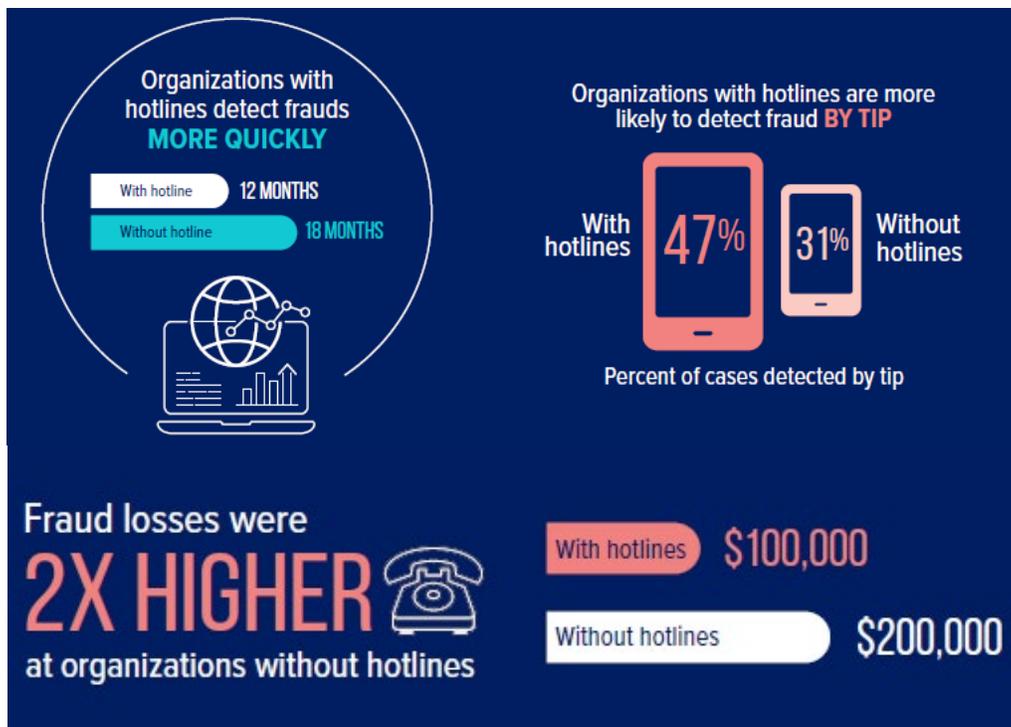
¹ Arizona Revised Statutes §9.305(b) provides for confidentiality of audit files.

While someone who has these concerns may not be able to prove that all elements have been met, such as an intentional act or omission, the available details that led to the belief of fraud, waste, or abuse should be provided.

According to the Association of Certified Fraud Examiners, 42% of occupational fraud cases are detected through a tip, a rate that is nearly three times the next highest method.² Also, the Association found that fraud reporting hotlines are an effective method of collecting tips. In organizations *with* hotlines, tips led to identifying 47% of the detected frauds. In organizations *without* hotlines, 31% 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.

Figure 1. ACFE study finds organizations with hotlines have lower losses and detect frauds more quickly.



SOURCE: *Occupational Fraud 2022: A Report to the Nations*. Copyright by the Association of Certified Fraud Examiners, Inc.

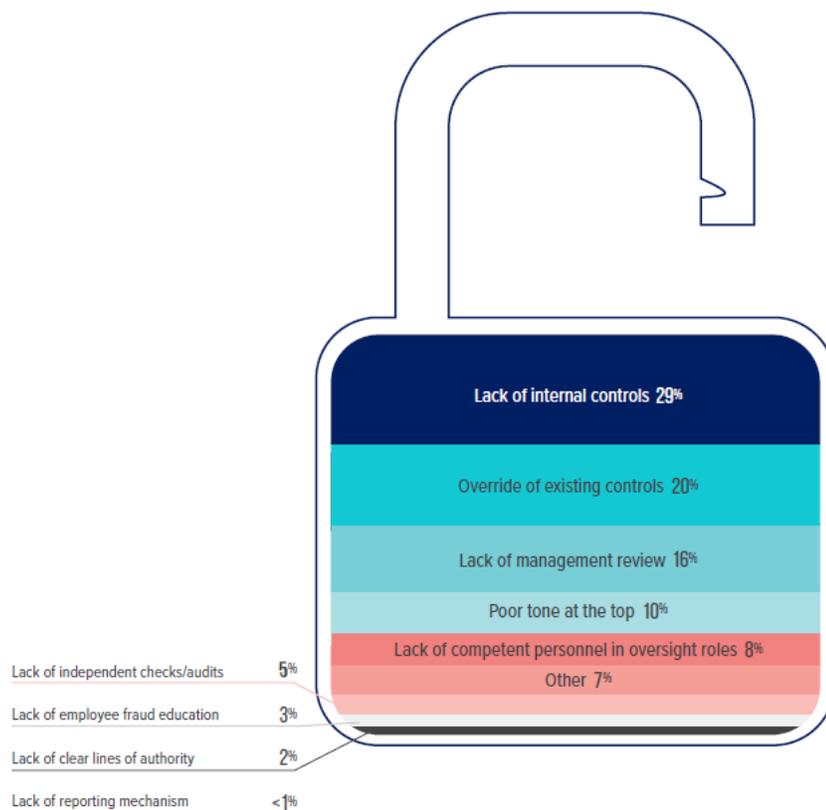
² *Occupational Fraud 2022: A Report to the Nations*. Copyright 2022 by the Association of Certified Fraud Examiners, Inc. Since 2002, the Association has performed this study by surveying its members biennially about certain characteristics of their cases. Analysis includes the costs, methods, perpetrators, and outcomes of reported cases.

Besides detection of fraud, waste, and abuse, reviewing concerns received via a hotline can identify areas for improved controls, policies and procedures and operational efficiencies.

While audit recommendations for internal control improvements may be viewed as “red tape” or too time-consuming, the Association identified the lack of internal controls and override of controls as the most frequently occurring elements in the analyzed fraud cases. Their results are illustrated in Figure 2.

Figure 2. Lack and override of internal controls were primary contributors in the studied occupational fraud cases.

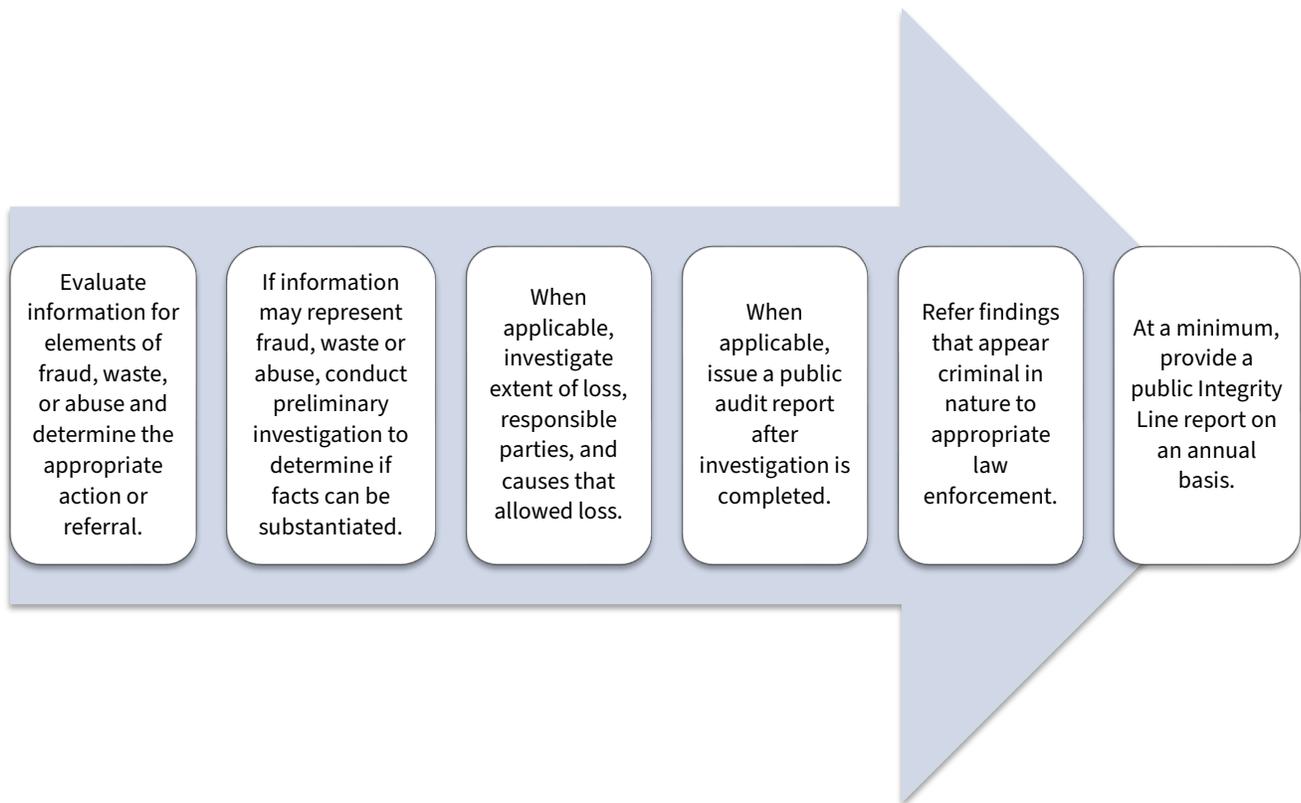
FIG. 29 WHAT ARE THE PRIMARY INTERNAL CONTROL WEAKNESSES THAT CONTRIBUTE TO OCCUPATIONAL FRAUD?



SOURCE: *Occupational Fraud 2022: A Report to the Nations*. Copyright by the Association of Certified Fraud Examiners, Inc.

After a concern is reported, the review process includes evaluation, preliminary investigation, and when applicable, an in-depth review and report, as summarized in Figure 3.

Figure 3. Integrity Line information review process.



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

The Integrity Line webpage provides 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 operated by the City of Scottsdale.
- Emergencies or other public safety concerns.

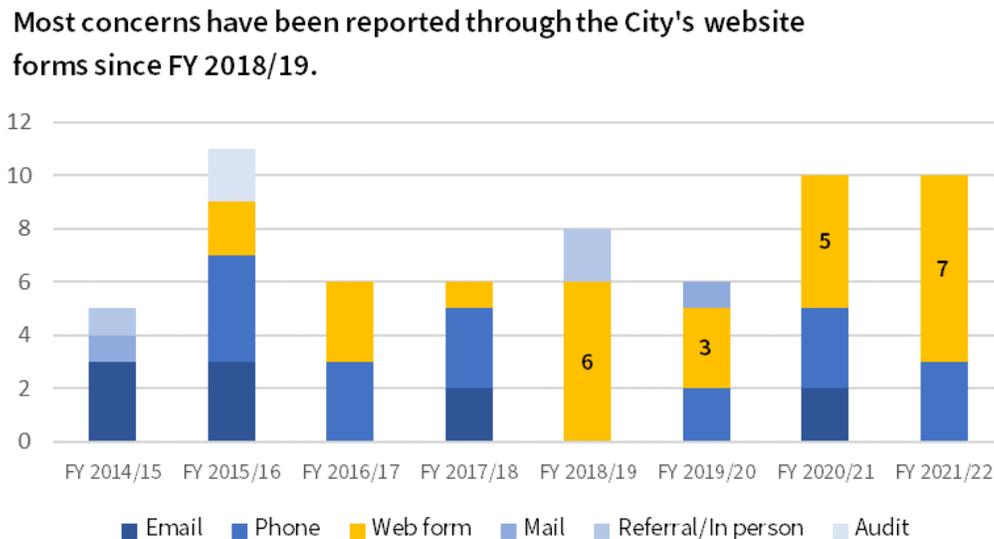
Anyone with knowledge of potential fraud, waste, or abuse of city resources may submit the information via the city of Scottsdale website (search for “integrity line form” or “integrity line”), call (480) 312-8348 or email Audit@ScottsdaleAZ.gov.

RESULTS

In FY 2021/22, the Integrity Line received ten new contacts, with most being referred to other departments.

For the past four years, the web-based Integrity Line reporting form has been the primary contact method used, as illustrated in Figure 4.

Figure 4. Integrity Line contact methods since inception.



SOURCE: Analysis of City Auditor's Integrity Line tracking database.

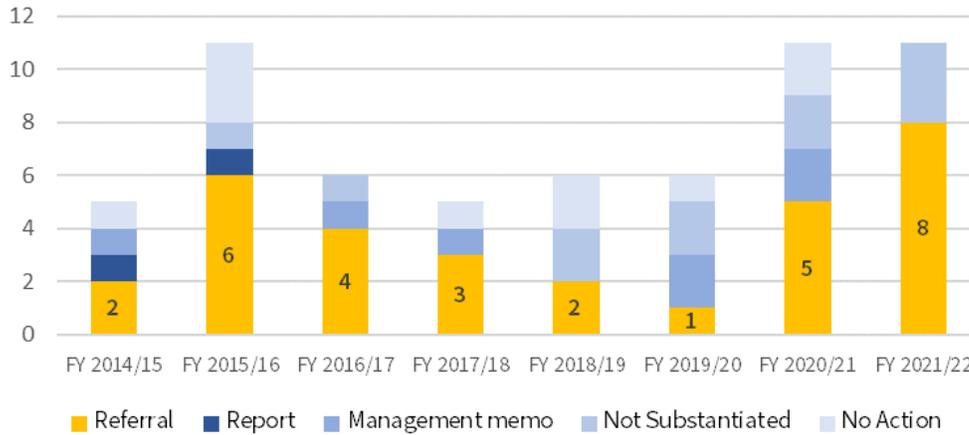
Interestingly, one of the seven FY 2021/22 web-based contacts used the online Audit Committee meeting comment form rather than the Integrity Line form.

Contact information is not consistently provided in the Integrity Line calls, webforms or other reporting methods. However, based on the reported information, members of the public initiated nine of the ten contacts. In FY 2021/22. Similarly, in the prior year, seven of the ten contacts appeared to be public concerns.

As illustrated in Figure 5 on page 6, most concerns have been resolved through referring them to the appropriate department.

Figure 5. Disposition of Integrity Line concerns since inception.

Most concerns have been resolved through referral to the appropriate department.



SOURCE: Analysis of City Auditor’s Integrity Line tracking database.

While in prior years, referrals were to a variety of departments, most in FY 2021/22 were forwarded to the Scottsdale Police Department. These referrals primarily comprised allegations of drug-related activities and potential fraud not involving city activities.

Of the two other FY 2021/22 matters, a concern of an employee using city time to further personal business was not substantiated. Based on review of travel, training, and certain publicly available state agency records, the reported concern was not validated. The second matter related to potential rental assistance fraud that could not be substantiated through city records of rental providers or subsidized tenants.

In addition, a list of concerns received in late FY 2020/21 was found to be unsubstantiated after review of the traffic ticket copies provided by the individual and the related City Court records.

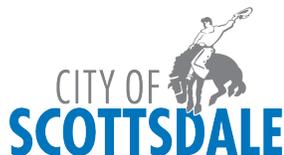
Availability of the Integrity Line phone number, email and web form provides an easily accessible way for employees or any member of the public to report concerns related to city operations.

City Auditor's Office

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Scottsdale, Arizona 85251

OFFICE (480) 312-7756
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www.ScottsdaleAZ.gov/auditor

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Vice Mayor Tom Durham
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City Auditor's Office

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Sharron Walker, City Auditor

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