



CITY AUDITOR'S OFFICE

# FY 2019/20 Report on the City Auditor's Integrity Line

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June 9, 2020

REPORT NO. 2012

## **CITY COUNCIL**

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June 9, 2020

Honorable Mayor and Members of the City Council:

Enclosed is the *FY 2019/20 Report on the City Auditor's Integrity Line*, which was included on the Council-approved FY 2019/20 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 six hotline contacts. Three of the six matters were reported using the online web form. In earlier years, more reports came via email or phone.

The Integrity Line did not result in any separate investigative reports being issued during FY 2019/20. However, an ethics issue referred to the City Manager for review in August 2019 resulted in staff discipline.

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.<sup>1</sup>

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"> <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>
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"> <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>
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"> <li>• Unauthorized disclosure of confidential or proprietary information</li> <li>• Providing a benefit to someone for which they do not qualify</li> <li>• Directing staff to perform personal errands for a supervisor</li> </ul>

**SOURCE:** [www.ScottsdaleAZ.gov/auditor/Integrity-Line](http://www.ScottsdaleAZ.gov/auditor/Integrity-Line).

<sup>1</sup> 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, 43% of occupational fraud cases are detected through a tip, which is the most common detection method.<sup>2</sup> Also, the Association found that hotlines are an effective method of collecting tips. In organizations *with* hotlines, tips led to identifying 49% 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.

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

**Table 2. Median Loss and Duration Effect of a Hotline**

	<b>Hotline in Place</b>	<b>Hotline Not in Place</b>	<b>Percent Reduction</b>
Median Loss	\$100,000	\$198,000	49.5%
Median Duration	12 months	18 months	33%

**SOURCE:** *Report to the Nations: 2020 Global Study on Occupational Fraud and Abuse*, 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.

Audit’s internal control recommendations are often seen as added “red tape” or too time-consuming. But the Association’s report identifies the lack of internal controls contributing to 32% of the occupational frauds studied. In another 18% of the cases, the perpetrator had overridden intended controls to carry out the fraud, and lack of management review contributed to another 18%. Effective internal controls, including management or supervisory review, provide the checks and balances needed to reduce the risk of such losses.

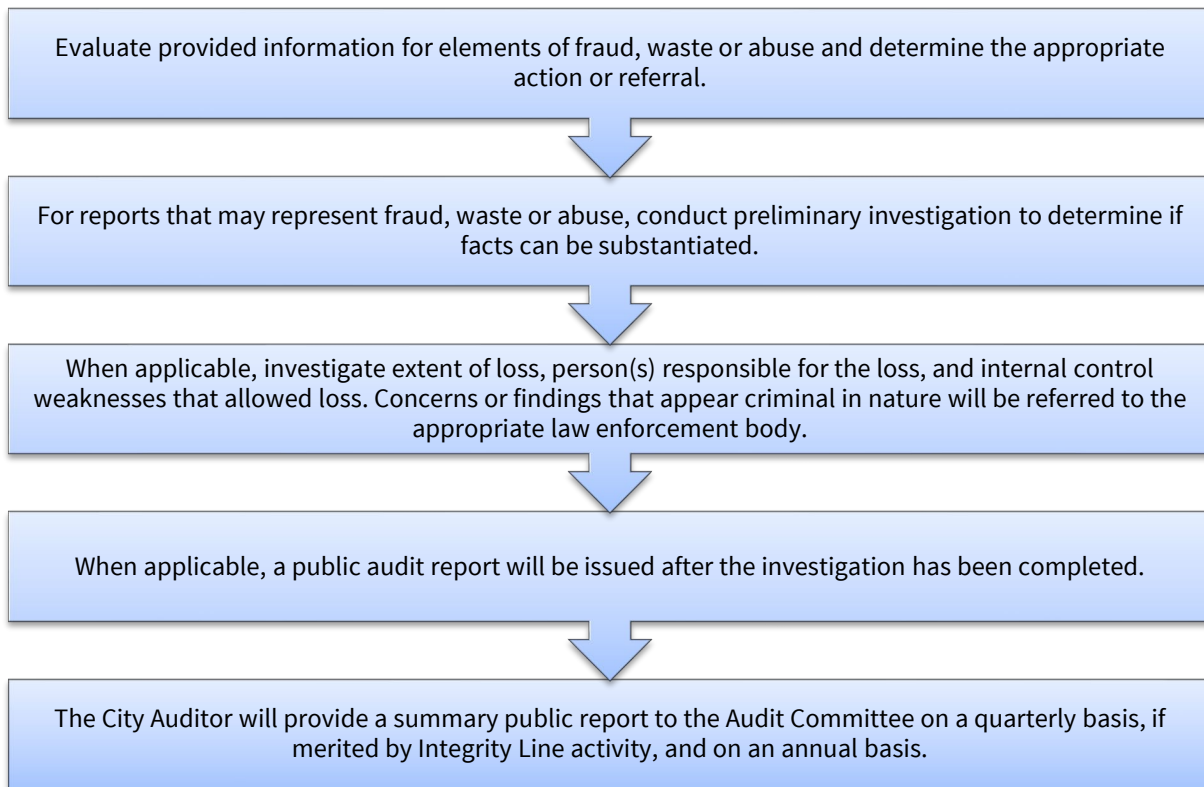
Figure 1 on page 3, illustrates the primary steps in the City Auditor’s Integrity Line complaint review.

<sup>2</sup> *Report to the Nations: 2020 Global Study on Occupational Fraud and Abuse*, 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 Information Review Process**



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

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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](mailto:Audit@ScottsdaleAZ.gov).

## RESULTS

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In FY 2019/20, the Integrity Line received six new contacts, primarily through the online web form.

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.

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**Table 3. Sources of Integrity Line Information**

Source	FY 2014/15	FY 2015/16	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20
Email	3	3	0	2	0	0
Phone	0	4	3	3	0	2
Web form	0	2	3	1	6 *	3
Mail	1	0	0	0	0	1
Referral/in-person	1	0	0	0	2	0
Audit	0	2	0	0	0	0
<b>Total</b>	<b>5</b>	<b>11</b>	<b>6</b>	<b>6</b>	<b>8</b>	<b>6</b>

\* - FY 2018/19 web form count excludes one that contained random letters and characters. As well, FY 2017/18 classifications were corrected for an emailed web form that was not submitted through the website.

**SOURCE:** Analysis of City Auditor's tracking database.

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Table 4 on page 5 summarizes the disposition of Integrity Line contacts.

*(continued on next page)*

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**Table 4. Disposition of Integrity Line Information**

Disposition	FY 2014/15	FY 2015/16 **	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20
Open	0	0	0	1	3	3
Closed:						
Referral	2	6	4	3	2	1
Report *	1	1	0	0	0	0
Management Memo	1	0	1	1	0	2
Not Substantiated	0	1	1	0	2	2
No Action	1	3	0	1	2	1
<b>Total</b>	<b>5</b>	<b>11</b>	<b>6</b>	<b>6</b>	<b>9</b>	<b>9</b>

\* - The Report category only counts separate reports (excluding the annual report).

\*\* - FY 2015/16 dispositions have been updated for results determined after the prior year's report but before June 30.

Note: The FY 2018/19 total includes closing the open item from FY 2017/18. Similarly, the FY 2019/20 total includes closing the three open items from FY 2018/19.

**SOURCE:** Analysis of City Auditor's tracking database

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Three FY 2019/20 reported concerns are reflected as "Open." These matters are still being investigated to determine if the information can be substantiated.

One reported fee concern was referred to Development Services for resolution. Two concerns related to the same employee were investigated and referred by a management memo – a time reporting issue and an ethics matter. Administrative Regulation 320, Ethical Standards, requires ethics complaints to be submitted to the Human Resources department and/or City Manager's office for review. These two matters were referred together to the City Manager's office with recommendations for resolution. Subsequently, a staff was dismissed and another retired.

The "Not Substantiated" category represents two concerns that could not be substantiated. We researched one, a purchasing card use concern. The Human Resources department also directly received and reviewed the second, which was related to workplace supervision issues.

One FY 2019/20 concern is categorized as "No Action." This concern referenced a private business matter and did not involve City resources. (The person reporting the concern did not provide contact information, so could not be referred to another agency for possible assistance.)

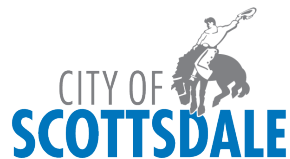
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The City Auditor's Office conducts audits to promote operational efficiency, effectiveness, accountability and integrity.