



CITY AUDITOR'S OFFICE

FY 2020/21 Report on the City Auditor's Integrity Line

June 11, 2021

REPORT NO. 2112

CITY COUNCIL

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Tammy Caputi

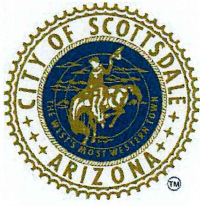
Tom Durham

Vice Mayor Betty Janik

Kathy Littlefield

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June 11, 2021

Honorable Mayor and Members of the City Council:

Enclosed is the *FY 2020/21 Report on the City Auditor's Integrity Line*, which was included on the Council-approved FY 2020/21 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 ten contacts to the Integrity Line. Five of these were reported using the online web form, while the other five came via the email address or dedicated phone number. Most concerns were resolved through referrals to appropriate departments; two matters remain pending as additional information is needed.

The Integrity Line did not result in any separate investigative reports being issued during FY 2020/21.

If you have questions regarding this report, please contact me at (480) 312-7867.

Sincerely,

A handwritten signature in blue ink that reads "Sharron Walker". The signature is fluid and cursive.

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 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, 43% 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 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 in Fraud Cases

	Hotline in Place	Hotline Not in Place	Percent Reduction
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 as the primary contributing factors:

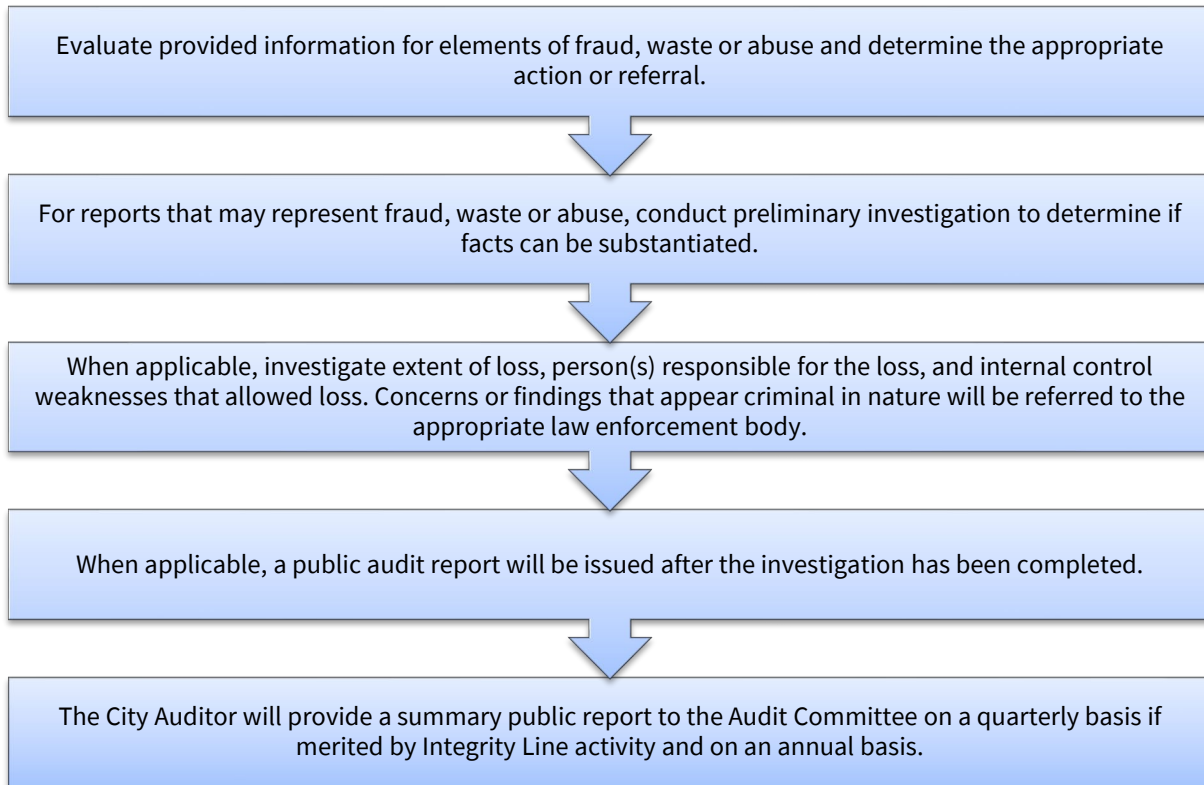
- The lack of internal controls contributed to 32% of these reported occupational frauds.
- The perpetrator was able to override the intended controls in another 18% of the cases.
- The lack of management review contributed to another 18%.

Effective internal controls, including management or supervisory review, provide the checks and balances needed to reduce the risk of losses due to fraud.

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

² *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.

Figure 1. Integrity Line Information Review Process



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

The City Auditor’s Integrity Line webpage 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 2020/21, the Integrity Line received ten 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.

Table 3. Methods of Integrity Line Contacts

Fiscal Year:	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Email	3	3	0	2	0	0	2
Phone	0	4	3	3	0	2	3
Web form	0	2	3	1	6 *	3	5
Mail	1	0	0	0	0	1	0
Referral/in-person	1	0	0	0	2	0	0
Audit	0	2	0	0	0	0	0
Total	5	11	6	6	8	6	10

* - FY 2018/19 web form count excludes one that contained random letters and characters. Also, 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.

Contact information is not consistently provided in the Integrity Line calls, webforms or other reporting methods. However, based on the reported information this fiscal year, members of the public initiated seven of the ten contacts. Due to the difficulty of determining information source, this analysis has not been included in prior years' reports.

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

(continued on next page)

Table 4. Disposition of Integrity Line Concerns

Fiscal Year:	2014/15	2015/16 **	2016/17	2017/18	2018/19	2019/20	2020/21
Open	0	0	0	1	3	3	2
Closed:							
Referral	2	6	4	3	2	1	5
Report *	1	1	0	0	0	0	0
Management Memo	1	0	1	1	0	2	2
Not Substantiated	0	1	1	0	2	2	2
No Action	1	3	0	1	2	1	2
Total	5	11	6	6	9	9	13

* - The Report category only counts separate Integrity Line or audit 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, 2016.

SOURCE: Analysis of City Auditor's tracking database

The two matters reflected as "Open" at the end of FY 2020/21 are still being investigated to determine if the information can be substantiated.

This year several matters were referred to other City departments that could more appropriately assist with their resolution. Revenue Recovery, Parks and Recreation, and others handled these concerns.

Two concerns related to employee performance, with one based on needing to better protect personally identifiable information and the other based on the timing of certain business transactions. These issues were verified and reported to management. Management responses indicate these matters are being appropriately addressed.

Two concerns could not be substantiated. One issue related to employee use of the bike storage room, which could not be verified based on keycard access records. The second matter related to an ineligible individual dissatisfied about not receiving City rental assistance.

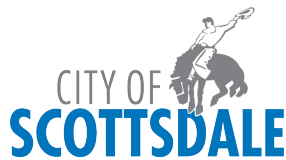
Two FY 2020/21 concerns are categorized as "No Action." These concerns related to non-City matters, one a Homeowners Association issue and the other a state agency fraud issue. The person reporting the HOA concern did not provide contact information, so could not be referred to other possible resources. The second individual's report stated they had already reported the fraudulent payment card to the affected state agency and a couple other appropriate resources.

City Auditor's Office

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www.ScottsdaleAZ.gov/auditor

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Councilmember Tom Durham
Councilwoman Solange Whitehead

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