



CITY AUDITOR'S OFFICE

FY 2022/23 Report on the City Auditor's Integrity Line

June 15, 2023

REPORT NO. 2310

CITY COUNCIL

Mayor David D. Ortega
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Tom Durham
Barry Graham
Betty Janik
Vice Mayor Kathy Littlefield
Solange Whitehead



June 15, 2023

Honorable Mayor and Members of the City Council:

Enclosed is the *FY 2022/23 Report on the City Auditor's Integrity Line*, which was included on the Council-approved FY 2022/23 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 21 Integrity Line contacts, with the majority coming through the City website Integrity Line form. While 11 reported concerns were referred to other appropriate departments, another 8 matters were reviewed. Of the reviewed concerns, 2 resulted in management memos for corrective actions and 6 others were not substantiated.

If you need additional information or have any questions, please contact me at (480) 312-7851.

Sincerely,

A handwritten signature in blue ink that reads "Lai Cluff".

Lai Cluff, CIA
Acting City Auditor

Integrity Line Team:

Sharron E. Walker, CPA, CFE – Audit Consultant

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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

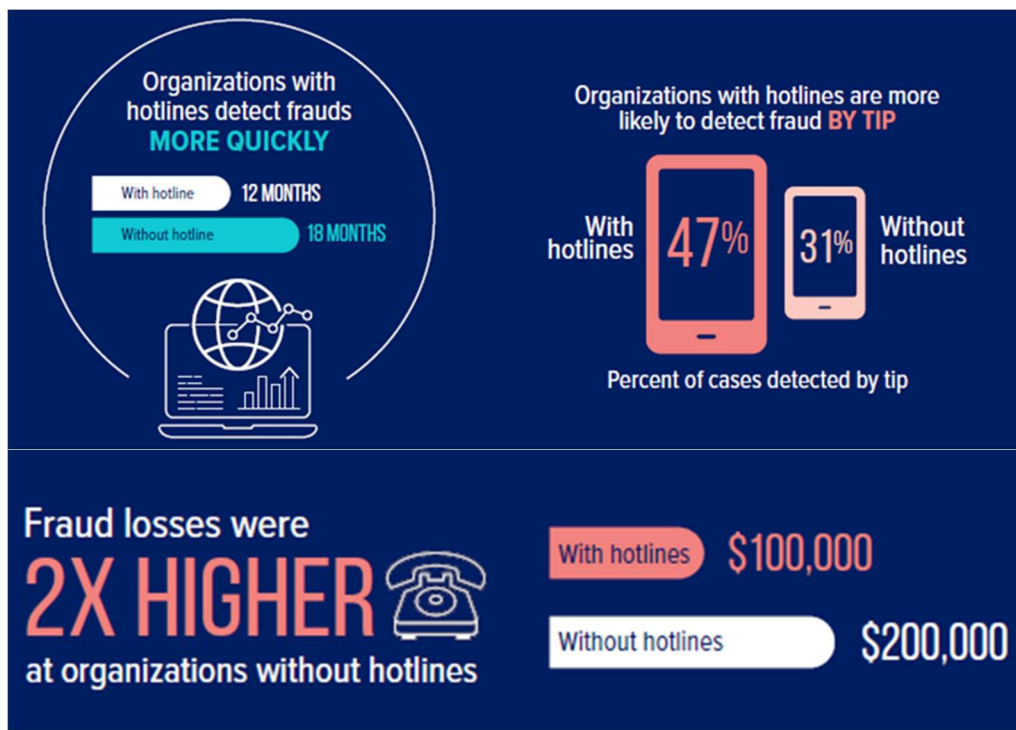
SOURCE: www.ScottsdaleAZ.gov/Integrity-Line

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.

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.

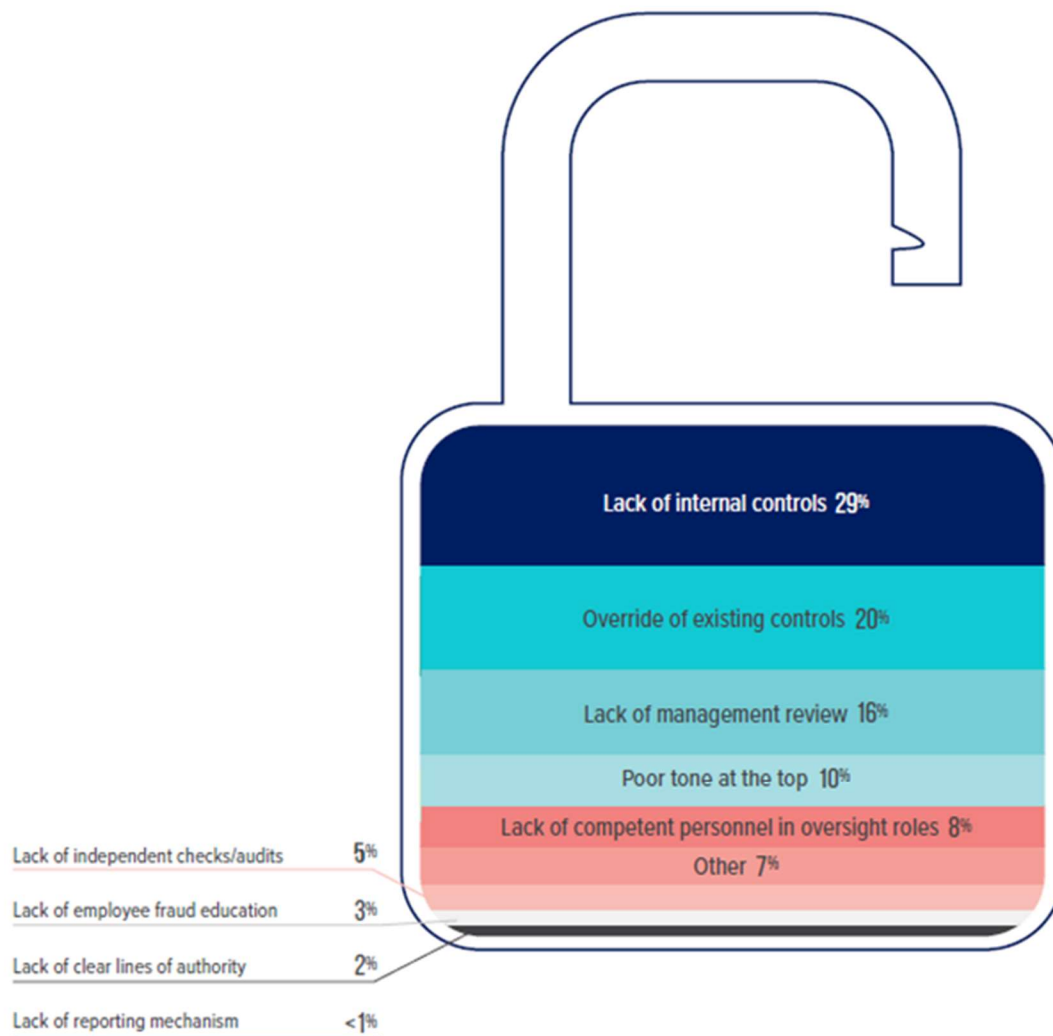
Besides detection of fraud, waste, and abuse, reviewing concerns received via a hotline can identify areas for improved controls, policies and procedures, and operational efficiencies.

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.

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.

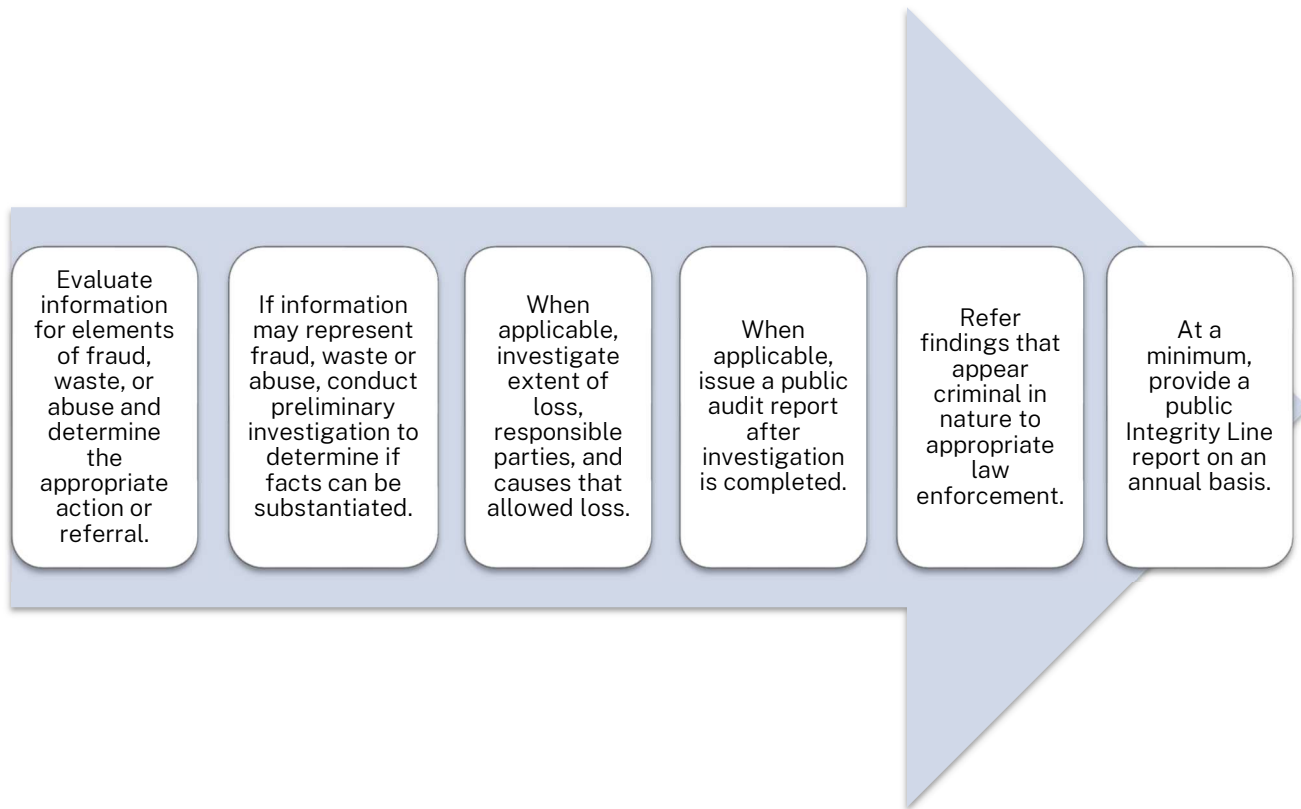
FIG. 29 WHAT ARE THE PRIMARY INTERNAL CONTROL WEAKNESSES THAT CONTRIBUTE TO OCCUPATIONAL FRAUD?



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 on page 4.

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.

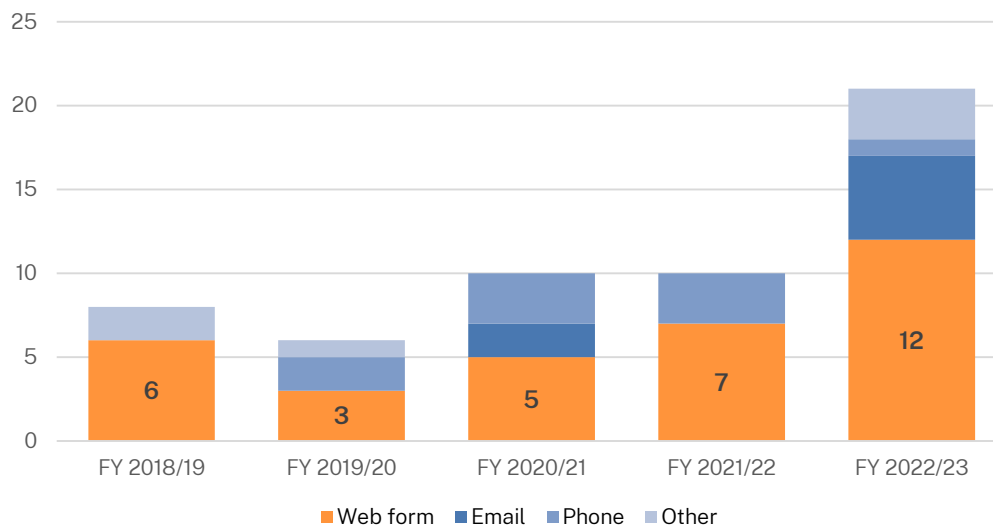
RESULTS

In FY 2022/23, the Integrity Line received 21 new contacts, with most being referred to other departments.

During the past five years, the web-based Integrity Line reporting form has been the primary contact method used, as illustrated in Figure 4. Email or phone calls have generally been the secondary methods of relaying concerns.

Figure 4. Integrity Line contact methods from FY 2018/19 through FY 2022/23.

Most concerns have been reported through the City's website forms since FY 2018/19.

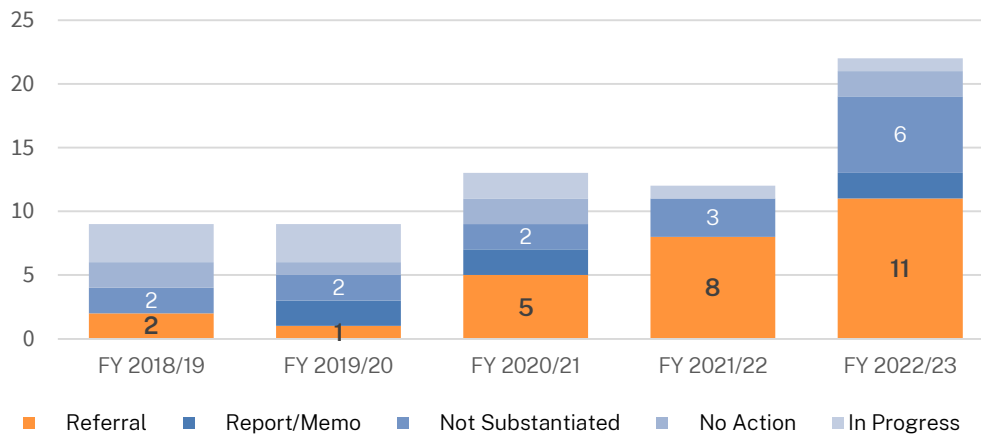


The significant increase in FY 2022/23 concerns primarily related to those more properly reported to the Scottsdale Police Department. Apparently, the public has often found the City Auditor's Integrity Line when searching on the city website seeking to report potential fraud to the Scottsdale Police Department. We refer these matters, such as potential identity theft or suspected drug activity, directly to the department. We also notify the reporting party of this referral when they have provided contact information.

As summarized in Figure 5 on page 6, besides the matters referred to the Police department, others have also been referred to the appropriate departments, for a total of 11 referrals. For example, a few matters related to and were referred to code enforcement, such as a blocked sidewalk or parking issues.

Figure 5. Disposition of Integrity Line concerns from FY 2018/19 through FY 2022/23.

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



Besides the departmental referrals, we looked further into a few of the reported concerns. These included the following:

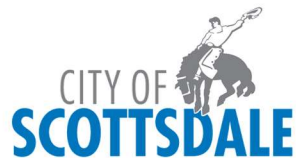
- A member of the public reported having observed a City vehicle at a community garden area on a couple days. The vehicle’s assigned driver name matched a garden plot assignment map. The city employee’s department assisted us with reviewing this vehicle’s location data for those two dates and over the previous couple months. The location data verified the vehicle was periodically at the garden location, which was outside the city limits. The supervisor stated he was unaware of the garden visits and had not authorized them. The department indicated this matter would be evaluated for disciplinary action, and they later informed us the employee subsequently retired.
- Anonymous concerns were reported about a supervisor’s excessive time off and break time during 2021 and 2022. However, our detailed review of timesheets and related departmental information did not substantiate the excessive leave concerns. Besides vacation and sick leave accruals, other supplemental forms of leave are available based on the circumstances. Further, the department’s internal review did not substantiate the concerns of excessive breaks or those related to supervision.
- The Accounting department contacted the City Auditor’s office regarding two small self-reported cash shortages in a park’s change funds. We reviewed the cash handling and accountability records and procedures and recommended improvements to assist in preventing or more timely detecting shortages.

City Auditor's Office

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www.ScottsdaleAZ.gov/auditor



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