

Assessment for Establishing a Whistleblower Hotline

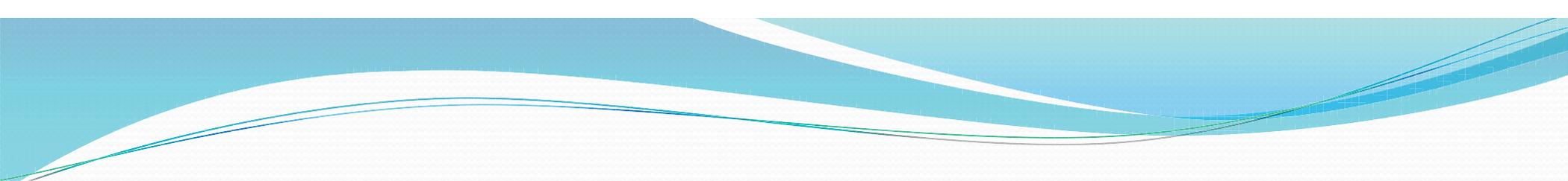
Office of the City Auditor

February, 2012



Background

- Audit completed under the City Auditor's 2011-12 Audit Plan
- The City does not have a whistleblower hotline
- Other large California cities including Long Beach, Los Angeles, Oakland, San Diego, and San Francisco have hotlines that target fraud, waste, and abuse
- State law went into effect in 2009 that enabled local government auditors to establish whistleblower hotlines and provide whistleblower protections



Background: The Association of Certified Fraud Examiners (ACFE) estimates that typical organizations lose 5 percent of annual revenues to fraud:

- Actual City loss unknown
- If City losses were in line with ACFE estimates for a typical organization, the loss to the General and enterprise funds would equal about \$30.3 million per year
- Having a Hotline in place has been shown to increase the number of fraud cases detected, and reduces the duration and associated losses of fraud

Audit Objective, Scope, and Methodology

Audit focused on hotline practices in general and at other cities in order to present possible options for creating a Sacramento City whistleblower hotline

We evaluated:

- State law related to hotlines
- Other cities' hotline information
- Studies related to fraud, waste, and abuse
- Employees' attitudes about the City's ethical climate and establishing a hotline

Finding 1: Establishing a whistleblower hotline could benefit the City by empowering employees to report fraud, waste, and abuse

- A whistleblower hotline can be an effective tool for detecting and preventing costly incidents of fraud, waste, and abuse
- Many City employees surveyed have encountered possible fraud, waste, or abuse
- California cities run whistleblower hotlines differently, but have similar goals
- Establishing and running a whistleblower hotline in Sacramento could cost more than \$200,000 per year, but could yield larger benefits

The ACFE recommends establishing hotlines as effective ways to detect and prevent fraud:

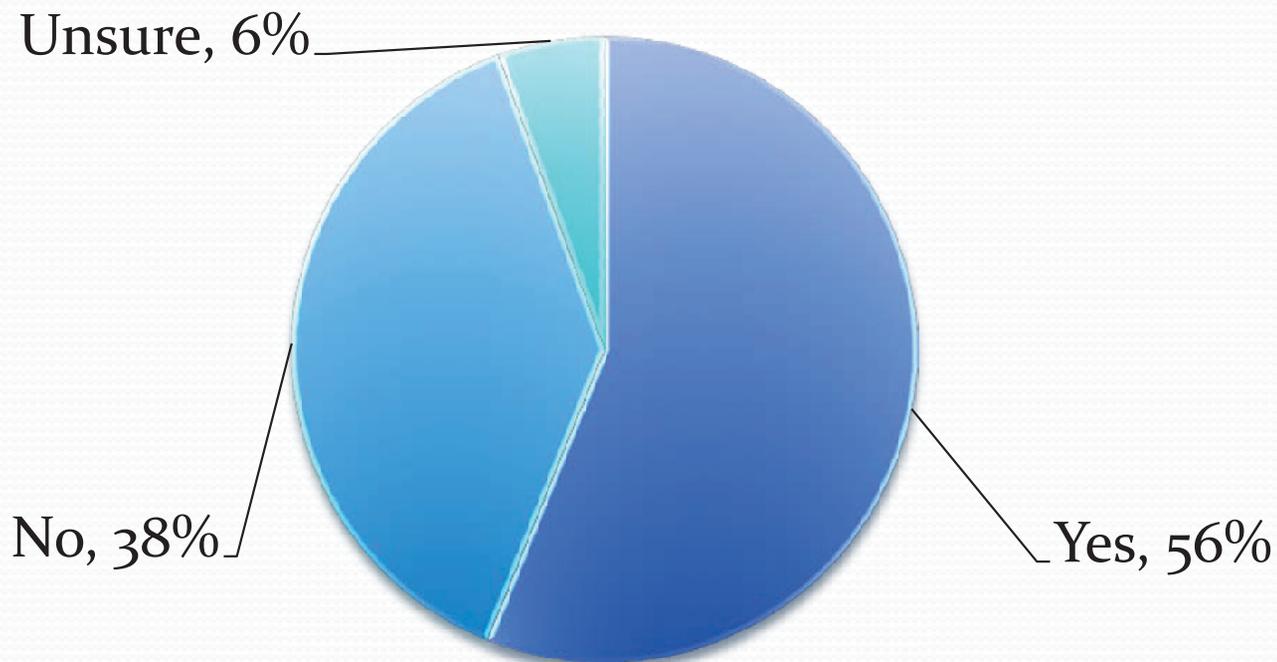
Main Ways Fraud Was Detected in the United States



- Median loss was \$100,000 for organizations with hotlines and \$245,000 for those without hotlines
- Duration of fraud activities was 35 percent less in cases in which organizations had hotlines

More than half of the 581 employees surveyed had a concern about fraud, waste, or abuse

During your career with the City, have you ever had a concern about fraud, waste, or abuse?



Many of the 326 who had concerns about fraud, waste, and abuse did not report their concerns

Did you report the concern? Select all that apply.	Response Count
<i>Not Reported:</i>	
Did not report because I did not know who to report concern to	66
Did not report because of fear of retaliation	125
Did not report for other reasons	67
<i>Reported:</i>	
Reported to my supervisor/manager	127
Reported to another supervisor/manager	38
Reported to executive management	35
Reported to law enforcement	6
Reported to union representative	18
Reported to other	31

Most employees said they would use or possibly use the whistleblower hotline

If you encounter City fraud, waste, or abuse in the future, would you call a Whistleblower Hotline that would allow you to provide information anonymously?

Answer Options	Response Percent	Response Count
Yes	41.5%	241
Possibly	33.9%	197
Unsure	12.4%	72
Probably Not	6.7%	39
No	5.5%	32

About 79 percent of the employees surveyed, said the City should have a code of ethics

- While City leaders have discussed establishing a code of ethics in the past, the City does not have one in place
- The Institute for Local Self Government encourages local governments to establish ethics codes

An ethics code “creates a set of aspirations for behavior, based on values associated with public service held by public servants and the communities they serve. The process of adopting and reviewing an agency’s ethics code enables agency officials to clarify these values and link them with standards of conduct.”

Source: Institute for Local Self Government’s *Developing a Local Agency Ethics Code: A Process-Oriented Guide*.

California cities with whistleblower hotlines

City Name	2010 Census	Runs a Hotline
Los Angeles	3,792,621	YES
San Diego	1,307,402	YES
San Jose	945,942	YES
San Francisco	805,235	YES
Fresno	494,665	NO
Sacramento	466,488	NO
Long Beach	462,257	YES
Oakland	390,724	YES

Where to locate the Whistleblower hotline

A city, county, or city and county auditor or controller who is appointed by, or is an employee of, a legislative body or the government agency that is governed by the city, county, or city and county, shall obtain approval of that legislative body or the government agency, as the case may be, prior to establishing the whistleblower hotline.

During the initial review of a call received pursuant to subdivision (a), the auditor or controller, or other appropriate governmental agency, shall hold in confidence information disclosed through the whistleblower hotline, including the identity of the caller disclosing the information and the parties identified by the caller.

Any investigative audit conducted pursuant to this subdivision shall be kept confidential, except to issue any report of an investigation that has been substantiated, or to release any findings resulting from a completed investigation that are deemed necessary to serve the interests of the public. In any event, the identity of the individual or individuals reporting the improper government activity, and the subject employee or employees shall be kept confidential.

Establishing and running a whistleblower hotline in Sacramento could cost more than \$200,000 per year, but could yield larger benefits

<i>Option One Expenses</i>	First Year Estimate
24-hour phone hotline, web intake, and case management system	\$ 9,120
One-time system deployment	\$ 2,000
Fraud Certification and Fraud Training	\$ 4,000
Total	\$ 15,120

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<i>Option 2 Expenses</i>	First Year Estimate
Personnel Expenses	
Fully-Loaded New Auditor Investigator Position and City Auditor Time	\$ 120,000
City Attorney Partial Position	\$ 85,000
Non-Personnel Expenses	
Fraud Training	\$ 1,000
Computer, recording device, equipment	\$ 3,000
24-hour phone hotline, web intake, and case management system	\$ 9,120
One-time system deployment	\$ 2,000
Total	\$ 220,120

<i>Option 2 Expenses</i>	First Year Estimate
Personnel Expenses	
Fully-Loaded New Auditor Investigator Position and City Auditor Time	\$ 120,000
Non-Personnel Expenses	
Fraud Training	\$ 1,000
Computer, recording device, equipment	\$ 3,000
24-hour phone hotline, web intake, and case management system	\$ 9,120
One-time system deployment	\$ 2,000
Total	\$ 135,120

Pilot Hotline

<i>Option One Expenses</i>	First Year Estimate
24-hour phone hotline, web intake, and case management system	\$ 9,120
One-time system deployment	\$ 2,000
Fraud Certification and Fraud Training	\$ 4,000
Total	\$ 15,120

Benefits could outweigh costs

Cost of fraud estimates based on percentages of General and enterprise funds revenue

Possible loss percentages	Loss amount due to fraud
1 Percent Loss	\$6,064,480
2 Percent Loss	\$12,128,960
3 Percent Loss	\$18,193,440
4 Percent Loss	\$24,257,920
5 Percent Loss	\$30,322,400

Provide employees a safe way to report fraud, waste, and abuse

Recommendations

1. Provide the City Auditor direction regarding establishing a City whistleblower hotline in Fiscal Year 2012-13.
2. If Council supports establishing a hotline, direct management to identify a funding source.
3. If Council supports establishing a hotline, direct the City Attorney's Office to draft a whistleblower resolution and non-retaliation resolution for adoption by Council.
4. Direct the City Attorney and City Manager to establish a Citywide Code of Ethics