



OFFICE OF THE
City Auditor

Hotline Activity Report

January to March 2007



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Hotline Activity Report – January to March 2007

1. Introduction

The City's Fraud and Misconduct Hotline was implemented on January 2, 2007. Section 27(2)(g) of Bylaw 12424, *City Auditor Bylaw*, requires the City Auditor to provide the Audit Committee with periodic reports related to the overall hotline activity. This is the first report to Audit Committee and it summarizes some general start-up information and the hotline activity from January 2 to March 31, 2007.

2. Background

In June 2006, Council approved City Policy C522, Fraud and Misconduct – Reporting, Investigation and Whistleblower Protection. This Policy incorporates a hotline as an additional channel for City employees to report suspected fraud and misconduct. The Office of the City Auditor (OCA) was appointed as an independent body to lead the implementation and operation of the hotline to ensure the required independence and objectivity.

In collaboration with the Law, Information Technology, and Communications Branches of Corporate Services, we identified the requirements of the hotline intake service contract, and worked with Materials Management to acquire an external service provider for the hotline intake function. An appropriate contract/agreement that protects the City's interests was executed. The service provider is responsible for providing, operating, and maintaining a hotline intake service and case management system that allows City employees to report suspicions of fraud and/or misconduct to the City. The service provider is not responsible for investigation of hotline reports submitted by employees. These are investigated by the OCA or the Administration, depending on the nature of the complaint.

From October to December 2006, we worked with the service provider to configure, personalize, test, and set up a hotline intake system that meets the City's requirements. We also developed guiding principles and a protocol in collaboration with Senior Management which establishes who will investigate complaints received from City employees and how referrals to other City resources will take place depending on the nature of the complaint.

In collaboration with the Communications Branch, we developed and executed a Communication Plan to promote the Fraud and Misconduct Hotline to City employees and provide relevant information. Communication products included a joint letter from the Mayor, City Manager and City Auditor to all City employees, with answers to frequently asked questions on the reverse side; a poster; an information kit for supervisors; City Link articles; and information on e-City and the OCA's web site.

3. Operation of the Hotline

The City's Fraud and Misconduct Hotline has been promoted as an additional channel for employees to report alleged fraud or misconduct anonymously (if desired) and confidentially. The hotline is available 24 hours a day, seven days a week, all year round. Employees can provide reports using an online web reporting service or through professionally trained live agents via a toll free telephone service.

The hotline intake system provides eight reporting categories (such as Theft, Embezzlement, Fraud, and Manipulation or Falsification of Data) that the OCA selected as applicable to the City. The reporters are asked to indicate the category that best represents or describes the nature of their complaint when providing reports to the hotline. Employees are also asked to answer additional questions to validate the information provided and gather pertinent information should an investigation be initiated. Automatic e-mail notifications immediately alert the OCA's authorized staff to newly submitted or updated reports that are stored on the service provider's Canadian-based secure servers. The security of the system was reviewed by a team of City staff from the OCA, Information Technology and Law Branches as well as staff with privacy expertise.

When reports are received, authorized OCA employees conduct a preliminary screening to determine the disposition of the report in accordance with the Protocol document prepared and maintained by the City Auditor and the City Manager. Depending on the nature of the complaints, we decide whether to investigate the reports or refer them to the City Manager or relevant City Boards or Authorities. The case management system provides a variety of summary and detailed reports to facilitate tracking and reporting.

To ensure that all alleged fraud and misconduct reports we receive through all methods are tracked, monitored and reported using a common system, we input reports received from employees via the City's e-mail, telephone, general mail, etc. into the hotline system with a unique identifier. This method also provides an effective quality assurance tool for us to ensure that the hotline system is operating as intended. All such reports have been included in our Hotline Activity Report to provide comprehensive information on our first quarter's fraud and misconduct activity.

4. Administration and Cost

Currently, existing internal resources administer the hotline in addition to their normal duties. Based on our current experience, additional resources will not be requested to administer the hotline in 2007. We will continue to monitor the volume of complaints received through the hotline and other sources, the effort required to investigate them, and the impact on our ability to meet our 2007 and future Annual Plans that are approved by Council.

A one-time set up cost of \$8,000 was incurred to execute the Communication Plan and complete a Privacy Impact Assessment on the hotline intake system. The annual operating cost of the hotline will range from \$18,000 to \$20,000, depending on the services required. We have been able to absorb this cost in our current budget.

5. Hotline Activity

From January 2 to March 31, 2007 we received 25 reports through the hotline, of which 13 (52%) were through live agents and 12 (48%) were through the online web service. In addition, four reports/complaints were received directly by us, one through a voice mail message, two via e-mails to our web site and one through an anonymous letter. A total of 29 reports/complaints were received and reviewed for the first quarter of 2007. Of these, 26 have been closed and three are pending investigation.

5.1. Disposition of Reports/Complaints

All 29 reports were screened by authorized OCA employees including the City Auditor to determine their disposition in accordance with the Protocol document and appropriate City Policies and Administrative Directives. No action was taken on some reports due to insufficient information despite our attempts to obtain this through the hotline system. The system's interactive dialogue capability allows us to pose additional questions within the security of the web application while maintaining the anonymity of the employee. Possible reasons for employees not providing the requested information are that they may not be checking the status of their report on the system, or they may not be able to substantiate their complaint and provide the required information. Some reports provided tips that we can use on future audits. These reports as well as those that did not have sufficient information to conduct an immediate investigation will be used in future audits to design tests that may lead to improved controls within City operations.

One report pertained to a City Board. This was referred to the Head of that organization for resolution in accordance with the Protocol document, and the employee who submitted the report was informed accordingly.

Some reports that pertained to operational matters were referred to the Administration for investigation through the City Manager, due to the nature of the complaints and the knowledge and expertise required. In these cases, departmental management was asked to report back to us on the resolution and any action taken. We reviewed the results of these investigations prior to closing the reports on the hotline system.

The remaining reports on fraud and misconduct were investigated by us in accordance with internal procedures and guidelines, as well as professional standards. These cases were reviewed in detail and evidence gathered to confirm or dispel the allegation reported. We also consulted with internal experts from the Law and Human Resources Branches, as well as appropriate departmental staff as required.

A number of reports received pertained to workplace issues that fall within the jurisdiction of the City Manager. In accordance with City Policy C522 and the Protocol document, these were referred to the City Manager for resolution, closed on the hotline system, and the employees who submitted the reports were informed accordingly. Our research indicates that when hotlines are implemented, employees who feel that their complaints to management have not resulted in appropriate action use it as an additional avenue to elevate their complaint. This goal has been achieved since we were able to refer them to the City Manager for resolution. We are also making continuous efforts to educate City employees to report workplace issues to their supervisors and other City resources. A hotline card was recently sent to all City employees providing the contact information for the hotline on one side and key messages such as what to report, how to report and what not to report on the reverse side.

We also have regular meetings with the City Manager and the Director of Corporate Security to evaluate the nature of the complaints received and whether any corporate action needs to be taken. This forum will assist us in the future to focus on common areas of concerns identified through a trend analysis of all complaints received. We also plan to use the Senior Management Team (SMT) Meetings forum to achieve this objective.

The following table summarizes the disposition of the 29 reports/complaints we received in the first quarter of 2007:

Disposition of Reports/Complaints – January 2 to March 31, 2007

Description	Number
No action taken (insufficient information, comments and inquiries on the hotline, follow-up on previously submitted report, etc.)	6
Tips provided that will be used in future audits and existing investigation	5
Referred to appropriate City Board or Authority	1
Referred to the City Manager (workplace issues, retaliation complaints, etc. that are outside the scope of the OCA	8
Reports/Complaints Investigated	
• by the OCA	6
• by the Administration	3
Total	29

5.2. Investigation of Reports/Complaints

Nine reports/complaints were investigated during the first quarter of 2007, six by the OCA and three by the Administration. All employees in the review and/or investigation of these allegations were required to maintain confidentiality and comply with the

Freedom of Information and Protection of Privacy Act (FOIP). Employees who submitted the reports through the hotline were given the opportunity to provide additional information during the investigation.

The following table provides an indication of the nature of alleged complaints investigated and their status:

Complaints Investigated – January 2 to March 31, 2007

Nature of Alleged Complaint	Investigated By	Source	Status
Completeness of financial reporting	OCA	Hotline – Live Agent	Closed
Public complaint about business licence process	OCA	E-mail to OCA	Closed
Not recording absences in payroll system	OCA	Hotline – Web	Closed
Unfair treatment and privacy breach	OCA	Hotline – Live Agent	Investigation in progress
Non-compliance with City Bylaw	OCA	E-mail to OCA	Closed
Excessive overtime recorded	OCA	Voice Mail to OCA	Investigation in progress
Personal business during office hours	Human Resources	Hotline – Web	Closed
Public tip on unauthorized solicitation of funds by an external organization (City employee was approached)	Corporate Security	Hotline – Live Agent	Closed
Privacy breach	Human Resources and Office of the City Clerk	Interdepartmental Mail	Investigation in progress

5.3. Outcome of the Investigations Completed

Of the six complaints that were investigated and closed, three allegations could not be substantiated and confirmed based on the analysis completed. Other than providing a response to the citizen who provided one of the tips and clarifying the City's process, no further action was taken on the three allegations.

The remaining three allegations were confirmed and resulted in the following outcomes:

- Action was taken by the appropriate department to ensure compliance with the Bylaw and a response was provided to the citizen who provided the tip.
- The employee in question was counselled on what was appropriate behaviour and what was not.
- Direct action could not be taken on the complaint due to lack of evidence at the time of investigation, but the tip was forwarded to the appropriate unit in Edmonton Police Service for information.

Even though no major irregularities have been uncovered as a result of the hotline activity to date, it should be noted that the hotline has been in existence only since January 2007. The fact that individuals took the time to submit 29 reports for investigation emphasizes their role in the prevention and detection of fraud and misconduct. In its 2004 and 2006 Reports to the Nation on Occupational Fraud and Abuse, the Association of Certified Fraud Examiners (ACFE) found that tips are the number one method of detecting fraud. Employees have been made aware of the hotline as an additional channel to report alleged fraud and misconduct, as well as what to report and how, if they witness or become aware of a potential fraud or misconduct.

Results from the three investigations in progress and other investigations initiated will be reported in our next hotline activity report. It should be noted that our practice is to share with members of Council the results of any fraudulent activity uncovered that results in our working with the Edmonton Police Service.

6. Sharing with other Organizations

We have been approached by a number of private and public sector organizations to share our experience on an integrated fraud and whistleblower policy and the operation of the hotline. Our reports on the City's Ethics Framework Evaluation, Hotline Evaluation – Leading Practice Review, City Policy C522 (Fraud and Misconduct – Reporting, Investigation and Whistleblower Protection) and Hotline Implementation are available on the City's website. We have received positive feedback from private and public sector organizations on the accessibility of this information so that organizations can learn from our efforts.

In addition, we participated in a panel discussion on Ethics in the Public Sector organized by the Edmonton chapter of The Institute of Public Administration of Canada (IPAC). The objective was to explore ethical challenges of public sector areas that deal with high profile and controversial issues, and we provided a City of Edmonton perspective. We were also invited to make a presentation to the CSU 52 Union Steward Seminar. This forum provided an opportunity to outline how the hotline system operates, provide clarifications and answer questions on the hotline process.

7. Conclusion

The first quarter's fraud and misconduct activity comprised of 29 reports/complaints, of which nine were investigated. Six of the nine complaints have been investigated and closed, and the remaining three investigations are in progress.

Through City Policy C522, the City has been able to offer more formal protection to employees who make disclosures. The hotline has provided an additional channel to employees to report allegations of fraud and misconduct for investigation. Although it comes with additional cost and some level of nuisance calls since employees using the hotline are allowed to remain anonymous, the benefits outweigh the costs and risks involved. The most cost-effective way to deal with fraud and misconduct involving City resources is to prevent it. The hotline's biggest benefit is that it serves as a deterrent to such activities taking place. We will continue to work with the Administration to implement an effective ongoing communication strategy that promotes the hotline as part of the City's overall program for encouraging ethical behaviour and preventing instances of fraud and misconduct.

We thank the City Manager and all individuals and groups that assisted us in investigating the reports/complaints for the period January to March 2007.