



## Legislation Text

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### Agenda Information Sheet

**DEPARTMENT:** Internal Audit

**CM/ ACM:** Mayor and Council

**Date:** May 2, 2017

#### **SUBJECT**

Receive a report, hold a discussion and give staff direction establishing an anonymous reporting mechanism as that relates to the duties of the City Auditor.

#### **BACKGROUND**

City Auditor broached the topic of an anonymous reporting mechanism to strengthen the City's antifraud program on March 28, 2017. At that time, the City Council instructed the City Auditor to bring this topic back as a Work Session item.

Currently, according to the Fraud Directive, employees who suspect fraud shall report it to their supervisor or can go outside the normal chain of command. That could include their department director, an Assistant City Manager, the City Manager or a member of the investigation committee.

Again, from the Fraud Directive, city employees who are contacted by citizens with evidence or written allegations of fraud shall immediately report it their department director, a member of the investigation committee, an Assistant City Manager or the City Manager.

According to the "Report to the Nations on Occupational Fraud and Abuse," put out by the Association of Certified Fraud Examiners, the most common detection method in their study was tips (39.1% of cases), but organizations that had reporting hotlines were much more likely to detect fraud through tips than organizations without hotlines (47.3% compared to 28.2%, respectively).

In a survey performed by the Association of Local Government Auditors when asked the question, "Do you have a fraud/waste/abuse hotline?" with 92 audit shops responding, 64% indicated "Yes." With 45 audit shops responding, 44% indicated the hotline was third party, staffed. The second highest response was 27% showing in house, dedicated staff.

If the City of Denton does not have an anonymous reporting mechanism we risk losing sources who are not comfortable revealing their identity.

#### **OPTIONS**

The options are as follows:

- 1) Continue not having an anonymous reporting mechanism.
- 2) Have an in-house anonymous reporting mechanism
- 3) Have an outsourced anonymous reporting mechanism

Additionally, the anonymous reporting mechanism can be applied to only Fraud, Waste and Abuse issues or also include Ethics, Compliance and HR complaints.

### **RECOMMENDATION**

Staff recommends to use the Lighthouse outsourced anonymous reporting mechanism.

### **ESTIMATED SCHEDULE OF PROJECT**

Staff recommends the minimum one year contract and then reassess the program.

### **PRIOR ACTION/REVIEW (Council, Boards, Commissions)**

The anonymous reporting mechanism was mentioned at the March 28, 2017 City Council Work Session.

### **FISCAL INFORMATION**

Outsourced vendors range from \$1,800 - \$4,000 annually.

### **BID INFORMATION**

City Auditor received three informal bids which are displayed in Exhibit 1

### **STRATEGIC PLAN RELATIONSHIP**

The City of Denton's Strategic Plan is an action-oriented road map that will help the City achieve its vision. The foundation for the plan is the five long-term Key Focus Areas (KFA): Organizational Excellence; Public Infrastructure; Economic Development; Safe, Livable, and Family-Friendly Community; and Sustainability and Environmental Stewardship. While individual items may support multiple KFAs, this specific City Council agenda item contributes most directly to the following KFA and goal:

**Related Key Focus Area: Organizational Excellence**

**Related Goal: 1.1 Manage financial resources in a responsible manner**

### **EXHIBITS**

Exhibit 1 - City Council Presentation

Exhibit 2 - Comparison Study

Respectfully submitted:

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