



CPAs & ADVISORS

CITY HOTLINE ANALYSIS

COOPER CITY, FLORIDA

Report #CA-01-22

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Presented By
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Certified Public Accountants

The Honorable Mayor and
Members of the City Commission
Cooper City, Florida

Pursuant to the detailed in the annual audit plan for the fiscal year ended September 30, 2022, I have conducted an analysis for the City Commission on ethics/fraud hotlines and their benefits.

After review of the information provided in this report, we request that the Commission present us with their recommendation on how they would like us to move forward in implementing a hotline.

Respectfully submitted,

A handwritten signature in blue ink that reads "Wm. Blend". The signature is written in a cursive style and is positioned above a horizontal blue line.

WILLIAM BLEND, CPA, CFE
City Commission Auditor

EXECUTIVE SUMMARY

Hotlines are one of the most effective tools organizations possess for detecting and preventing fraud. The term hotline includes various methods of communication such as email, text and web-based reporting in addition to or in place of the traditional phone call. Knowing the most common methods by which fraud is discovered is the foundation for effective detection of fraud. Despite the increasing number of advanced fraud detection techniques available to organizations, tips are still the most common way occupational fraud are discovered. According to the Association of Certified Fraud Examiners' *Occupational Fraud 2022: A Report to the Nations*, 42% of occupational fraud cases were uncovered by tips, which is nearly three times as many cases as the next most common detection method.

Because hotlines encourage and facilitate anonymous reporting, they are a proven fraud deterrent that can be successfully implemented without burdensome effort or expense. This report discusses techniques for developing an effective ethics hotline program by examining three critical stages: planning prior to launch, communicating to stakeholders about the hotline and reacting to hotline tips.

The most effective hotlines offer 24-hour, 365-day access. For the best results, and to simplify communication, organizations should provide a single mechanism for reporting all workplace issues. Reports should be disseminated quickly to designated parties. The hotline should also be promoted with educational materials directed to everyone in the organization, including employees and vendors. This helps maximize usage and create an ethical environment.

Using a centralized reporting mechanism, information should be disseminated to the most appropriate party, which likely includes Human Resources, the City Commission, and the City Attorney, among others. Dual dissemination of complaints related to fraud acts as a system of checks and balances by ensuring that no single person is in possession of this highly sensitive information. This protects the integrity of the reporting mechanism.

As shown in Exhibit 1, the cost of a hotline ranges from \$600 to \$11,000 per year. In providing direction to us, it will be important that the Commission also provide a budget amount for this important tool.

OVERVIEW

PLANNING A SUCCESSFUL HOTLINE PROGRAM

Starting the Process

Implementing a hotline may seem to be a simple endeavor but planning an effective reporting process can be quite complex. It must adequately protect the confidentiality of anonymous callers while providing quality information. A modern hotline program requires planning regarding how information is received, how information is distributed, and how records of complaints and investigations are maintained.

Depending on the size and complexity of an organization, it's often best to appoint a project leader who leads the implementation process. In order to create a program that meets the needs of the entire City, this project leader must involve representatives of several departments. The hotline implementation for a large, complex organization frequently includes Legal, Finance/Internal Audit, Human Resources, Risk Management, Information Technology (IT), and the members of the Commission. A group representing all operational areas typically meets several times to discuss the plan and anticipate any enhancements that would make the program more valuable. For example, if the organization is large enough to anticipate a steady stream of calls, Human Resources may have an existing case management system. Hotline data can easily be fed into an existing system. While this is a simple matter for the IT department, having this conversation early on ensures a smooth launch.

The most effective way to learn about issues like fraud is to provide employees, suppliers, and other stakeholders with a variety of methods for reporting their concerns about illegal or unethical behavior.

Interactive communication, like a face-to-face conversation or a hotline interview, generates more detailed information than one-way communication, like an anonymous note. While some individuals may feel comfortable coming forward through an open-door policy, others may not. The hesitation some employees feel about revealing their identity may be due to fears about potential retaliation for reporting a peer or manager. In these situations, the hotline interview is the best option for the organization because an interview conducted by an experienced interviewer results in the most actionable information possible.

The ultimate goal is to give employees, vendors and the public every possible means for coming forward, so they report information to executive management or to the City Commission, rather than turning to the media or other outlets that may cause unwarranted negative publicity to the City. The hotline will likely uncover more sensitive situations from employees than are reported face-to-face, but it is far better to learn about these situations from a hotline than from a headline.

Internal vs. External Reporting

Some organizations provide an internally answered hotline as an option for employees who are uncomfortable discussing issues face-to-face. Calls to the hotline are frequently routed to an employee somewhere in the organization, generally in Human Resources or Legal. This solution may seem attractive, but there are some weaknesses. If employees realize they are calling an internal number, they may be afraid their identity will be traced and may decide not to call. There are also operational issues, like the potential for inconsistent handling of sensitive calls and callers encountering voicemail. An anonymous caller is generally fearful and cautious about leaving a recorded message. If they do leave a message, it is likely to be brief, potentially lacking important details that enable the organization to investigate the allegation. An internal hotline also leaves the organization vulnerable to charges of covering up issues involving management. An external process provides greater safeguards of anonymity and avoids even the appearance of impropriety.

While there are costs associated with an external hotline, the financial investment is small in comparison to the potentially disastrous results of fraud that goes undiscovered. With the expertise, trained personnel, resources and technology already established to operate a hotline and conduct quality assurance, a professional hotline provider can usually provide these services for much less than it costs to implement them internally.

Making the decision early on about whether the hotline will be administered internally or externally is important, because it may influence aspects of the program. For example, the distribution process may require greater planning for an internal hotline.

Who Within the City Should “Own” the Hotline?

In any organization, there are several departments that should be interested in the ethics hotline, including Legal, Human Resources, Internal Audit, and Risk Management. Consider the interests of each department when planning the reporting process.

The City Attorney should also be aware of complaints that may result in legal action, such as those regarding discrimination, wrongful termination, or violations of regulatory standards.

Human Resources focuses on the lion’s share of issues reported via the hotline. Many of the calls may report unfair treatment, discrimination, harassment, substance abuse or concerns about City policies.

For this reason, some organizations choose to make Human Resources responsible for managing the hotline program and any hotline vendor relationship.

Both Human Resources and Legal need to be involved in organizing the hotline and formulating complaint report distribution rules in order to meet regulatory requirements and ensure that the right people receive information in a timely manner. Other departments are typically involved in developing the report distribution rules. This ensures that the appropriate departments learn about the issues concerning them.

Another department that needs to be involved early on in the planning of a hotline is IT. There may be a need to set up mailboxes or plan for data feeds if there is substantial call volume. Discussing these issues up front makes the entire process run more smoothly in the long run.

Dissemination of Information

One of the most important aspects of planning the hotline is deciding where to send information that is received. A system of rules must be developed to determine what happens to information upon completion of the call. As discussed previously, Human Resources typically receives the bulk of the complaints reported. One of the most important aspects of dissemination is planning for checks and balances. Dual dissemination can be a helpful practice for ensuring that complaints are not overlooked. A system of dual dissemination involves having an Ethics or Compliance Officer receive copies of all reports as a secondary layer of dissemination, beyond the report sent to the person responsible for investigation. For example, reports of harassment would be sent to Human Resources as the primary recipient of the information, with a copy to the Ethics Officer as the secondary recipient.

Dual dissemination acts as a protective device in case a report is sent to the accused party. If a report is received by only one person, and that person has a motive for preventing an investigation, the system is vulnerable.

Sample Report Distribution Structure

ISSUE	POTENTIAL RECIPIENTS
Employee Mistreatment	Human Resources, Ethics Officer
External Fraud	Internal Audit, Finance, Ethics Officer
Accounting Irregularities	External Auditors, Internal Audit, Ethics Officer
Workplace Violence	Legal, Human Resources
Employee Theft	Human Resources, Internal Audit, Ethics Officer

COMMUNICATION OF THE HOTLINE

Once the hotline processes are defined and operational details are in place, the communications plan begins. Hotline communications should be part of a broader program of defining the City's ethics policy and promoting ethical behavior in the workplace. Communications that promote ethics and encourage use of the hotline not only help detect issues but should also help prevent them by creating a culture of ethical behavior.

As with any communication that seeks to modify behavior, there are strategies that help ensure the program's success. Strategies to keep in mind while developing the communications plan include:

Top Down

Is the purpose of the program communicated and supported from the very top of the organization?

Visible support from management is crucial in any program seeking to modify employee behavior. If a program is seen as unimportant to top management, employees may disregard the communication.

Shared Understanding

Are the roles of each participant identified and understood?

If everyone does not have the same understanding of their role within the program, the program will not be effective.

Documentation

Is there a way to measure and document the program?

Documentation can help evaluate the causes of a program's success or weakness, and helps guide future decisions.

Forward Strategies

Is there a plan for evaluating and periodically redirecting the program?

Thinking ahead about the future direction of the program ensures its success.

Key Messages to Communicate

As mentioned previously, communication about the hotline should ideally help create and maintain an ethical workplace. A communications team that includes top management and the City Commission should be involved in developing an ongoing ethics communication campaign. An ethics communication campaign is essentially an advertising campaign that seeks to inspire a certain behavior within an audience.

As with any advertising campaign, the first step is deciding which behaviors are desired and the key messages that will help motivate these behaviors. Messages should include:

- Behaviors that are expected (i.e., conducting business in a legal and ethical manner)
- Behaviors that the agency does not condone (i.e., illegal and/or unethical behavior)
- What to do if you are aware of unacceptable activities. This aspect of communication must include information about all of the available avenues for reporting unacceptable behavior. This ensures people are aware of their options
- How to access the anonymous hotline
- What happens when you call the hotline

This communication should educate employees and motivate them to report their concerns. The message should be delivered through vehicles such as posters in break rooms, articles in employee newsletters and the City's intranet sites, as applicable. There is an added "soft benefit" to communication, it reinforces the employee's perception that the organization wants to know about illegal and unethical activities, and it helps an employee decide to make the call.

Although ethics can be a sensitive topic, an experienced hotline provider can assist the organization in developing effective messages and vehicles for launching the hotline. They can also develop an appropriate plan based on the unique needs of the organization.

Launching the Hotline

Like any new initiative, a hotline requires the proper launch in order to be truly successful. The initial communication to employees should include an announcement from top management about the program's goals and the reason for implementing it. This helps set the program's tone by indicating that top management truly supports it. Employees should be told that the organization is providing them with every opportunity to report problems, and the information they report will be sent to top management and/or to the City Commission. Information about the program should be posted on the organization's intranet site and in break rooms. It should also be introduced in face-to-face meetings wherever practical.

Every employee in the organization should receive an email announcing the program. New employees must receive this information as part of their orientation. Managers throughout the City should receive an implementation guide that informs them about the program, helps them encourage employees to use the hotline, and prepares them to handle questions employees might have.

Report Dissemination

Any professional hotline provider can set up dissemination rules that determine which individuals or groups receive each type of complaint. The hotline implementation team should periodically review the dissemination structure to ensure any changes within the City are reflected in the report dissemination rules.

Communication with Anonymous Callers

When dealing with an anonymous caller, the goal should be to get complete and accurate information during the interview. This is based on the assumption that there may never be an opportunity to add additional information. An anonymous hotline should, therefore, enable the caller to call back to offer additional information while maintaining anonymity. This is generally done by giving the caller a process to follow for calling back to answer more questions from the organization. The caller is given a unique code correlating to his/her report and is asked to call back after a pre-determined interval. This gives investigators a chance to review the information and formulate questions to ask the caller if he/she calls back as agreed. While the call-back process can enhance an investigation, roughly two-thirds of anonymous callers never call back, so the quality of every interview is of critical importance.

Investigation of Allegations

Having received an allegation, the next step is to determine how the allegation should be investigated. Personnel who receive reports generally have procedures in place to investigate incidents pertaining to them. These processes should be periodically reviewed with legal counsel to ensure they are appropriate and effective.

When investigating an incident based on a confidential hotline tip, it is important for the company not to reveal that it is reacting to a tip. Disclosing this information is a breach of confidentiality and may put the whistleblower at risk.

Tracking Complaints

A system database enables the City to document every complaint and then add information regarding the actions they have taken to investigate each allegation. The database should record the final disposition of the investigation and the nature of any discipline or other corrective action taken as a result of the complaint. This is another area in which a qualified third-party hotline provider can assist the organization by providing an established system for documenting investigative activities.

Tracking Complaints

Data regarding hotline calls should be summarized to assist management in discovering trends within the City. For example, if reporting reveals one type of issue is always the top concern, it points to a need for training or communication to address the situation.

Organizations should look for “hot spots” within the organization. Is there a department that seems to have more issues than others? If so, there are probably opportunities for employee training or increased management training to improve the situation. Conversely, there may be an issue with a location that is exceptionally quiet. Perhaps the hotline communication has not reached this group.

CONCLUSION

For many years, organizations have been using hotlines to detect theft and fraud with great success. A variety of business sectors have found hotlines to be critical tools in their efforts to uncover and manage a variety of unethical or illegal activities. And given the current trend toward outsourcing non-critical functions and the advice of the AICPA, it is logical that hotlines should be externally operated by a neutral, experienced organization.

Establishing an anonymous hotline gives corporations access to a powerful tool for detecting fraud and other harmful activities. It also assures the public that the City has made a long-term commitment to maintaining the highest standards of business conduct.

The Association of Certified Fraud Examiners’ *2022 Report to the Nation* suggests hotlines should be open to participants beyond the employee population in order to maximize results. By making hotlines available to vendors, contractors, and the general public, both the quantity and quality of reports would increase. Having these hotlines would also help to deter unethical or illegal activity and demonstrate the agency’s commitment to ethics.

Creating a successful hotline program involves thoughtful planning of the reporting process, the communications strategy and the back-end issues of investigation and data management.

Exhibit 1 shows the ranges of services offered, broken into broad categories, with entry-level cost estimates and hotline features. All organizations providing hotline services emphasized the need to contact them for more information on services, customization options, and pricing.

Exhibit 1

Basic Hotline Providers

Description	These providers include call centers and hotline providers
Tip Input	Phone, email, web
Training Availability	Ranges from none to web-based
Languages	English, Spanish, with translation services available
Availability	365/24/7
Sample Companies	AnswerNet; Fraud Hotline
Cost	Minimal annual fees range from \$600 to \$2,000

High-Level Hotline Providers

Description	These providers are ethics and compliance specialists providing customized services that include governance/ethics needs assessments, project plan proposal assistance, and implementation. Solutions include web- and cloud-based software
Tip Input	Phone, text, email, web, and mobile devices
Training Availability	On-boarding process includes training for implementation, strategy, system configuration, as well as ongoing system report
Languages	150+
Availability	365/24/7
Sample Companies	Navex Global; Convercent
Cost	Minimum annual fees range from \$2,500 to \$11,000