



**Request for City Council Committee Action
From the City Attorney's Office**

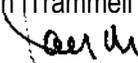
Date: September 21, 2006
To: Ways & Means/Budget Committee
Subject: Work group for ethics reporting line

Recommendation: That the City Council direct staff to implement a fraud and ethics reporting line using a third party vendor. Further that the City Council:

- Receive and file the Fraud/Ethics Reporting Line Committee report.
- Direct, under the auspices of the City Coordinator's Office, the selection of a vendor for a fraud and ethics reporting line using a competitive procurement process.
- Direct the City Coordinator's staff to make a recommendation about funding the fraud and ethics reporting line.
- Direct appropriate staff, as coordinated by the City Coordinator's Office, to implement the reporting line enterprise wide.
- Direct the City's Ethics Officer to provide semi-annual reports on the utilization of the fraud and ethics line to the Ways and Means/Budget Committee.

Previous Directives: Resolution establishing a committee to evaluate the best mechanism for employee reporting of ethics and fraud issues passed on July 21, 2006.

Prepared by: Susah Trammell Phone: 673-3230

Approved by: 
Jay M. Heffern
City Attorney

Presenter in Committee: Susan L. Trammell, Assistant City Attorney and Ethics Officer

Financial Impact (Check those that apply)

Other financial impact (Explain): A third party reporting line is anticipated to have a financial impact of less than \$10,000 per year. The council action requested will require future discussions about the funding of the third party reporting line.

Community Impact

City Goal(s):

- Build communities where all people feel safe and trust the City's public safety professionals and systems
- Strengthen City government management and enhance community engagement

Background/Supporting Information

On September 19, 2006, the Ethical Practices Board approved the attached report from the Fraud/Ethics Reporting Line Committee.

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TO: Ethical Practices Board

FROM: Fraud/Ethics Reporting Line Committee
Bob Bjorklund, Internal Audit
Patrick Born, Finance
Pam Capp, Business Information Services
Elizabeth Haugen, Communications Department
Karl Kaiser, Business Information Services
Jayne Baccus Khalifa, City Coordinator's Officer
Susan Trammell, Ethics Officer
Pamela Capp, Business Information Services
Miriam Vaughn Lee, Human Resources

DATE: September 18, 2006

RE: Recommendation for Establishment of Fraud/Ethics Reporting Line

MEMORANDUM

INTRODUCTION

As directed by the City Council, the Fraud/Ethics Reporting Line Committee ("Committee") was established to examine best practices for employee reporting of fraud and ethics violations. The committee met on July 28, 2006 and on September 11, 2006. The committee examined information from the American Institute of Certified Public Accountants ("AICPA") and the Association of Certified Fraud Examiners ("ACFE") as well as information provided by third party vendors.

RECOMMENDATION

The Committee recommends, based upon the work it conducted and the findings presented below, that the City implement a fraud and ethics reporting line using a third party vendor. The Committee further recommends that the Ethical Practices Board make the following City Council requests:

- Receive and file this Committee report.
- Direct, under the auspices of the City Coordinator's Office, the selection of a vendor for a fraud and ethics reporting line using a competitive procurement process.
- Direct the City Coordinator's staff to make a recommendation about funding the fraud and ethics reporting line.
- Direct appropriate staff, as coordinated by the City Coordinator's Office, to implement the reporting line enterprise wide.
- Direct the City's Ethics Officer to provide semi-annual reports on the utilization of the fraud and ethics line to the Ways and Means/Budget Committee.

FINDINGS

1. Best Practices

The committee finds that the AICPA and the ACFE report the following best practices for employee reporting of fraud and ethics violations:

- Enhancing confidentiality and neutrality through third-party providers
- Ensuring calls are answered by trained interviewers 24/7
- Implementing a follow up mechanism for anonymous callers
- Providing for documentation in a case management system
- Customized workflow geared towards the way the specific entity works
- Providing a secure environment (data encryption)
- Making communication easy
- Planning for checks & balances
- Including escalation criteria for identified high-risk situations
- Providing communication & education
- Providing follow up in a systematic manner
- Providing management reports on a routine basis
- Opening the reporting system to participants beyond the employee population
- Outsourcing non-critical functions

2. Advantages of a Third Party Vendor

The City, through various departments and through various methods, currently takes complaints falling under the auspices of fraud, ethics, and respect in the workplace.¹ In addition, the City's internal auditor has been considering using 311 as a formal means for employees to report suspected fraud.

Utilizing the best practices outlined by the AICPA and the ACFE as a guide, the Committee compared the City's current methods of taking complaints with both the City's 311 system and outside vendor systems. The Committee determined the third party vendors present both cost savings and service advantages over both the current systems and 311. The major advantages of third party vendors are 24/7 operation, specially trained interviewers, confidentiality and anonymity, reporting capabilities and cost. The comparison summary is attached to this report as Exhibit A.

Third party vendors generally have trained operators answering the telephones 24/7 and accommodate on-line complaints through their websites. Operators follow specific inquiry forms designed just for the client. Website complaint taking is interactive, prompting for additional information as the complainant describes his/her complaint.

Third party vendors can provide anonymity and confidentiality in reporting which is important in encouraging employees to come forward². The third party vendor systems will allow complainants to remain anonymous while continuing to communicate with the responsible City investigator handling the

¹ The Internal Auditor has previously received anonymous complaints of suspected fraud via telephone, notes under his office door and via U.S. mail.

² The University of Minnesota uses a third party vendor for its Ureport line. During the first year of use, 81% of reports through Ureport were anonymous reports.

complaint. This will permit the City to conduct better investigations and allow complainants to check their complaint's status and in the process learn that the City is both responsive and taking the report seriously.

Third party vendors charge for annual subscriptions to their services. The initial inquiries made as to pricing produced responses ranging from \$4,000 to \$10,000. The cost for utilizing 311 as a fraud and ethics reporting line would be expensive up front as additional software costing approximately \$30,000 would be needed for security purposes. Additional call takers would need to be hired to provide the service 24/7 and specialized training would be needed for all call takers. The City would incur ongoing expenses related to the additional call takers hired.

EXHIBIT A
Minneapolis Ethics Hotline Options Summary

	As Is	311	Third Party
Guaranteed Anonymity	No	No	Yes
24/7	No	No	Yes
Case Management	Variable	Yes	Yes
Centralized acceptance on a variety of issues	No	Yes	Yes
Anonymous follow Up for Complainants	Informal	TBD	Yes
Resolution Report	Variable	Yes	Yes
Management Reports	No	Yes	Yes
Universal Availability	No	No	Yes
Confidential Retention	Variable	No	Yes
Question Tailoring	Variable	Yes	Yes
Ethics Updates	No	No	Yes
Languages On staff	Variable	TBD	Yes
Language Translation	Variable	TBD	Yes
On-line statistics	No	No	Yes
Audit information	No	No	Yes
Follow up investigation questions	Variable	TBD	Yes
Additional hardware/software	Variable	Possible. See notes.	No
Government Plan	NA	NA	Yes
Education materials	No	No	Yes
Specially trained interviewers	Variable	No	Yes
Costs	<ul style="list-style-type: none"> ■ Out-of-pocket costs TBD. ■ Potential liability costs. 	TBD. Would include: <ul style="list-style-type: none"> ■ Training for call takers ■ Staffing ■ Security Module for Frontlink (\$30,000) 	<ul style="list-style-type: none"> ■ Annual subscription based on number of employees. (Estimate \$4,000-\$10,000 annually depending of scope of coverage.) ■ Negotiable
Notes:		<ul style="list-style-type: none"> ■ Any calls taken elsewhere in City using Frontlink software requires software on desktop & training ■ Reports require special software & training 	