



COUNTY OF SAN MATEO
Inter-Departmental Correspondence
Board of Supervisors



Date: February 4, 2013
Board Meeting Date: February 12, 2013
Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors

From: Supervisor Dave Pine
Supervisor Don Horsley

Subject: Enhanced Whistleblower Process and Ethics and Internal Controls Training and Related Appropriations Transfer Request (ATR)

RECOMMENDATION:

Adopt a Resolution authorizing an Appropriation Transfer Request in the amount of \$65,400 from Non-Departmental General Fund Reserves to Non-Departmental Services and Supplies to fund enhancements to the County's whistleblower process and employee training on ethics and internal controls. The funds will be transferred to an account to be used by the departments involved in these initiatives.

BACKGROUND:

It is incumbent upon public agencies to maintain the highest standards of ethical behavior and safeguard taxpayer dollars. Unfortunately, however, over the past 18 months at least six public agencies in San Mateo County have experienced employee fraud or embezzlement.

At the November 20, 2012 meeting of the Board, the following five initiatives were brought forward that were designed to strengthen the County's internal controls and fraud prevention practices.

1. Consolidation of all guidelines and procedures for the reporting of suspected fraud, waste, and abuse into a single web-based access point for employees.
2. Implementation of a third party toll free hotline for employees to provide an independent and confidential method to report suspected fraud, waste, and abuse.
3. Implementation of continuous required employee training concerning ethical behavior, identifying and reporting fraud, waste and abuse, and internal accounting control responsibilities.

4. Expansion of the Controller's Office use of analytic software that can identify unusual financial activities that may point to errors, fraud, non-compliance and internal control weaknesses.
5. A one-time independent evaluation of the Controller's Internal Audit Division to determine how to implement best practices for internal auditing.

At the Board meeting on November 20, 2012, Supervisors Pine and Horsley were requested to meet as an ad hoc sub-committee to further consider these five initiatives and then report back to the Board with their recommendations.

Supervisors Pine and Horsley met with the County Controller and the County Manager to review the proposed initiatives. It was agreed that the first three initiatives should be brought back to the Board for approval and funding, while initiatives 4 and 5 should be pursued by the Controller and funded through the Controller's Office budget.

DISCUSSION:

According to the 2012 Report to the Nation on Occupational Fraud and Abuse prepared by the Association of Certified Fraud Examiners, it is estimated that U.S. organizations lose, on average, 5% of their annual revenue to fraud. To reduce the risk of such material losses from fraud, waste and abuse at the County, the following three initiatives are proposed:

1. Consolidation of all guidelines and procedures for the reporting of suspected fraud, waste, and abuse into a single web-based access point for employees.

Currently the portal for employees to report concerns is difficult to find and does not contain background and reference information. The whistleblower web page should be easily accessible and provide links to the whistleblower ordinance, various training resources, and on-line reporting pages. Currently, employees can call the County Manager's Office, the Controller's Office or County Counsel, but they cannot provide a tip or lodge a complaint electronically via the web.

Estimated Cost: Up to \$5,000 one-time expense.

2. Implementation of a third party toll free hotline for county employees to provide an independent and confidential method to report suspected fraud, waste, and abuse.

In 2003, the Civil Grand Jury recommended that the Board establish a "whistleblower" process so that individuals could anonymously report inefficiencies and waste in government operations. In 2004, the Board enacted the "Whistleblower Ordinance" to establish a process for reporting improper governmental activity. In 2009, State law enhanced whistleblower protections and authorized local government auditors to establish whistleblower hotlines. Since then, numerous California cities and counties have implemented fraud hotlines using third party vendors (e.g. San Diego County, San Bernardino County, Kern County, Long Beach, Los Angeles, Oakland and Palo Alto).

According to the 2012 Report to the Nation on Occupational Fraud and Abuse, 43% of frauds are detected through tips with 50% of tips coming from employees. An anonymous third party hotline provides employees with a more prominent, accessible and confidential way to report activities of concern. Establishment of an anonymous hotline operated by a third party vendor increases the likelihood that fraud, waste and abuse will be reported as employees are often reluctant to report such behavior to management or human resources.

Estimated Cost: Up to \$15,000 annually.

3. Implementation of continuous required employee training concerning ethical behavior, identifying and reporting fraud, waste and abuse, and internal accounting control responsibilities.

It is of paramount importance for all employees to maintain a high standard of ethical behavior. Equally important is for employees to understand their role in the overall structure of internal controls. To this end, it is recommended that employee training on ethics and internal controls be expanded and enhanced.

The Human Resources Department proposes that a subcommittee be formed to review and identify the curriculum for Countywide internal controls and ethics training. The subcommittee will make recommendations to the Executive Council by July 2013.

The initial training proposal (subject to review and refinement by the subcommittee) has four components: (i) providing annual online ethics training for all employees; (ii) increasing the number of supervisors and managers participating in the ethics training course now offered as part of the Leadership and Supervisory Academy; (iii) training for fiscal employees on financial controls; and (iv) training for fiscal employees on cash handling, procurement, disbursement, grants, and internal controls.

For details further details on the proposed training, see Exhibit A.

Estimated Cost: Up to \$45,400 one-time cost and up to \$15,000 annually.

Approval of the above actions to enhance the County's whistleblower process and employee training on ethics and internal controls will contribute to the 2025 Shared Vision Collaborative Community goal by improving fiscal accountability.

FISCAL IMPACT:

The recommended initiatives require an estimated initial investment of up to \$65,400 for FY 2012-2013 consisting of \$50,400 in one-time costs and up to \$15,000 for the first year of the third party toll free hotline. This initial investment will be funded by a transfer from Non-Departmental General Fund Reserves to Non-Departmental Services and Supplies. On-going expenses in future fiscal years will total up to \$30,000 annually.

EXHIBIT A
Initiative Details
Ethics Training Details

Countywide Internal Controls & Ethics Training

The Human Resources Department proposes that a subcommittee be formed to review and identify the curriculum for the Countywide Ethics Training. The subcommittee will meet in early 2013 and make recommendations to Executive Council by July 2013. The initial training proposal (subject to review and refinement by the subcommittee) is as follows:

Type of Training	Description	Training Format	# of Employees	Estimated Costs
Annual Ethics Training for all employees (customized)	The mandatory online training program will be offered to all County employees. The training would provide an overview on ethics, including employee's responsibility for supporting ethical behavior, preventing, identifying and reporting fraud, and waste and abuse.	Online	Approximately 5,000 employees	\$20,000 one-time set up Note: The County will need technical expertise to prepare the training program. The development of the training could either be done in-house (ISD) or by consultants.
Instructor led training for Leadership, Supervisory Academies and Management Development Program	The County is a founding member of the Training Consortium for Public Agencies which offers a Leadership and Supervisory Academy to County employees and other public employees in the County. The Consortium currently provides an Ethics Training course, under its Leadership Academy curriculum, that covers the following topics: What Ethics means; Institutionalizing ethical behavior; The moral compass; Case studies; and Lessons learned. This course would be expanded to allow for additional participants.	In person	Approximately 30 – 50 supervisors and managers (3 sessions)	\$7,000 annual

EXHIBIT A
Ethics Training Details

Type of Training	Description	Training Format	# of Employees	Estimated Costs
<p>Training for fiscal employees on financial controls</p>	<p>The Government Finance Officers Association offers an online training course for finance professionals. The course includes lecture and exercises covering effective internal controls in the area of financial management to ensure compliance with established authoritative guidelines/policies. The course is designed for all financial professionals – either new to the field or journey level.</p> <p>It is anticipated that knowledge gained in this course will be shared with others, especially those that are not familiar with the topic.</p>	<p>Online</p>	<p>Approximately 40 employees</p>	<p>\$6,400 for existing employees and new hires as needed.</p> <p>(\$160 x 40 employees)</p> <p>Note: Another option would be to purchase GFOA publication on evaluating internal controls for managers. The cost would be \$28 x 45 employees = \$1,260. Publication covers: “control environment; risk monitoring and assessment; monitoring; evaluating controls over accounting and financial reporting; and preventing and detecting public sector fraud.” The County would also need a trainer to provide an overview of the materials at the cost of \$1,000. Total estimated costs total \$2,260.</p>

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Ethics Training Details

Type of Training	Description	Training Format	# of Employees	Estimated Costs
Training for fiscal employees on cash handling, procurement, disbursement, grants, internal controls	Fiscal officers will be provided with guidelines in processing financial transactions and internal controls to minimize risk. Key components will be incorporated into all IFAS courses taught by the Controller's Office, e.g., accounts payable.	In Person	Approximately 100 employees	<p>\$12,000 (\$10,000 one-time and \$2,000 ongoing)</p> <p>Note: Costs reduced to reflect expanded use of internal trainers.</p>
			Total Estimate	<p>\$45,400 one-time costs</p> <p>\$10,000 - \$15,000 ongoing depending on # of new hires</p>