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Office of Internal  
Auditing

David J. Bryant, CIA,  
CPA, CFE, CGFM, CGAP  
*Director*

Michèle A. Kiker, CFE,  
CGAP  
*Senior Auditor*

Justin B. Cook, CFE  
*Auditor*

Jeanne Pilgrim  
*Property Audit  
Specialist*

Jennifer Chinchar  
*Audit Administration  
Specialist*

75 N. Pace Blvd  
Room 403  
Pensacola, Florida  
32505

Call: 850-469-6272  
Fax: 850-469-6290

[http://escambia.k12.fl.us/  
iaudit](http://escambia.k12.fl.us/iaudit)

## Memorandum

TO: Malcolm Thomas, Superintendent

FROM: David J. Bryant, Director  
Office of Internal Auditing

DATE: March 11, 2013

SUBJECT: Florida School District Hotline Survey

We have completed our survey regarding Florida school district hotlines. This report contains the results of our research and analysis and our recommendations.

We were asked to perform research and analysis regarding the usage of employee/vendor/public hotlines and/or tip-lines utilized by other school districts in the state of Florida. We contacted all 67 school districts within the state and spoke with a variety of district personnel at each school district.

Several school districts were contacted multiple times for verification of the information obtained. Although we are comfortable with the findings resulting from our survey, it should be noted that differing school district personnel often provided conflicting responses with respect to their school district's hotline information. While every effort was made to obtain the most exact information, the results from this survey may not be 100 percent accurate.

Various questions were asked to each school district to obtain information as to whether each school district currently utilizes an employee/vendor/public hotline and/or tip-line. The following questions were asked to each school district:

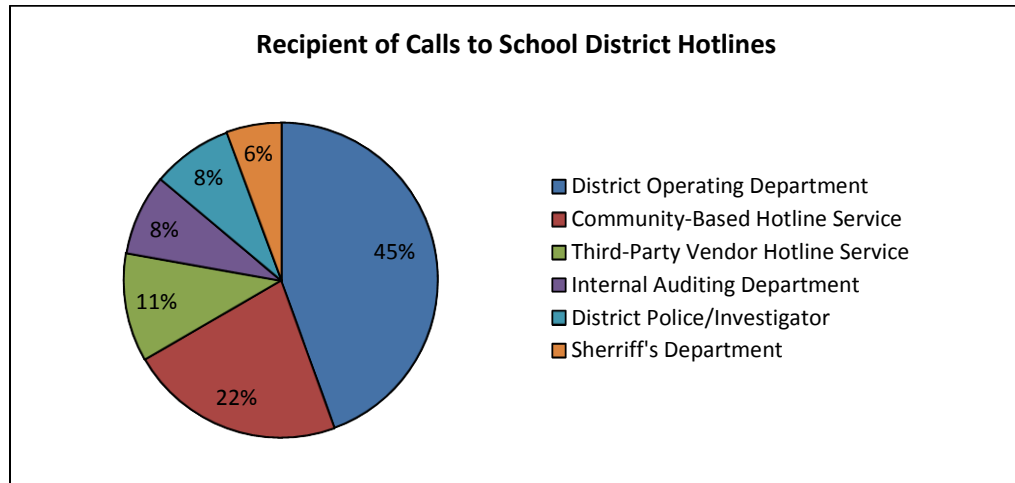
- Does your district have an employee/vendor/public hotline and/or tip-line?
- What is the phone number(s) to the hotline?
- Is the hotline for employee misconduct, fraud, bullying, harassment, general complaints, and/or cost savings recommendations, etc.?
- Who receives the calls? District, third party, or message?
- Can the callers leave complaints/tips anonymously or are they required to give their name?
- Is a log of the calls kept?
- Who receives notice of the complaints/tips/recommendations once filed?

We have maintained the individual district survey results in our records, and can provide copies for your staff if necessary.

### Survey Results

Of the 67 school districts in the state, 36 districts (54%) reported having some form of hotline at the time of this survey. It should be noted that the majority of the hotlines reported were being used for student related issues, such as bullying and/or harassment, rather than an employee-related hotline to report employee related misconduct such as fraud, waste, abuse, or theft.

For the school districts who reported having hotlines, the following chart provides a graphical display to illustrate the recipients of the calls received:



- Sixteen out of 36 (45%) hotlines reported have the calls going to various district operating departments, such as an Office of Professional Standards, Employee Relations Department, or Human Resources.
- Eight out of 36 (22%) hotlines reported have the calls going to community-based hotline services, such as Crime stoppers, Speak Out, and other community-based reporting hotlines.
- Four out of 36 (11%) hotlines reported have the calls going to third-party vendor hotline services.
- Three out of 36 (8%) hotlines reported have the calls going to the Internal Auditing Department.
- Three out of 36 (8%) hotlines reported have the calls going to the District Police/Investigator Department.
- Two out of 36 (6%) hotlines reported have the calls going to the Sherriff's Department.

**School Districts with a Third-Party Vendor Hotline Service**

At the time of the survey, four schools districts reported utilizing a third-party vendor service. One district, Monroe County, purchases services directly from the third-party vendor. The other three districts, Okeechobee, Suwannee, and Wakulla all utilize the same third-party vendor. These districts do not contract directly with the third-party vendor. In those cases, the cost for the hotline service is included as part of an insurance premium. Upon follow up with each of these school districts regarding the satisfaction of the services provided by the third-party vendors, it was noted that two school districts, Okeechobee & Suwannee counties, no longer are provided the employee hotline service through their insurance provider. It should also be noted that the School District of Palm Beach County is currently transitioning to a third-party vendor.

We asked each of the districts noted below to provide cost information on the expenses incurred to utilize a third-party vendor hotline service. The following cost information was obtained:

<u>School District</u>	<u>3<sup>rd</sup> Party Vendor</u>	<u>Annual Cost</u>
• Monroe County School District	Ethics Point	\$3,000
• Palm Beach County School District	Ethical Advocate	\$30,600
• Wakulla County School District	In2vate	Included in Premium*

\*There is no annual charge to the district for this service. The hotline service is provided through the district's insurance provider under the Employee Practices Liability Insurance (EPLI) coverage.

### **Estimated Costs for Escambia County School District (the District)**

We contacted a variety of vendors in an attempt to determine an estimate of implementing a hotline for the District. It appears most vendors charge an initial set-up fee and an annual fee based on the number of employees. Our efforts related to pricing were designed to give the District a rough idea of pricing. Should the District consider implementing a hotline, we encourage the District's purchasing agents to conduct research into existing state, local, or other contracts, and pricing.

We contacted the vendor, **In2vate**, to obtain information regarding the costs associated with having a hotline service provided by their company. The contact at In2vate stated typical costs for a full-service employee telephone hotline service are \$3 per each Full Time Employee (FTE). The contact also stated an online option is also available for \$.30/FTE. Using this information provided, a full-service telephone hotline service **would cost the District approximately \$16,500** per year for this vendor. If the District chose the online option only, it would cost the District approximately \$1,650 per year.

Regarding coverage through EPLI coverage, the contact at In2vate stated depending on whether we have EPLI coverage in our current insurance policy, some providers offer programs, such as the school district noted above, which cover the costs for the employee hotline service.

ECSD's Director of Risk Management stated the District does not currently purchase EPLI coverage. Per the Director, the State previously provided this coverage free of charge for educators, but has since dropped the plan. The Director further stated EPLI is a secondary coverage plan with a deductible, and the District has not had claims in this area that would justify the cost of the policy.

During our research, we contacted **NAVEX**, formerly Ethics Point, which is the third-party vendor utilized by Monroe County School District. The vendor offers a variety of packages for reporting, based on the number of reports received and/or the number of employees monitored. For unlimited reporting for 5,500 employees, we received a preliminary quote of \$1.20 per employee, which equals an annual fee of \$6,600. The initial set-up fee quoted was \$1,500, which makes the **total estimated first year cost \$8,100**.

We also contacted **The Network**, an additional third-party vendor which provides hotline reporting services. Just as the other vendors noted, The Network offers a variety of options for hotline services which are based on the number of employees monitored. For a hotline and web reporting package based on 5,500 employees for unlimited reporting, we received a rough quote of \$6,000 - \$7,500 annually, with one-time set-up fees of \$500 - \$2,500. The **total estimated first year cost for this option would be \$6,500 – \$10,000**.

The prices quoted above are based on hotlines designated for employee reporting. All vendors appeared to offer options which would allow for students, parents, vendors, members of the public, etc... to utilize the hotline, in addition to District employees. The annual cost of the hotline would increase if additional access were available. As our focus was on a hotline for employee reporting, we did not seek price information for these additional services.

### **Return on Investment**

Fraud hotlines have been shown to reduce fraud instances, but exact return on investments are difficult to determine. One measure is in the reduction in the size of fraud. Fraud losses tend to increase over time, so early detection is important. Hotlines help in early detection by providing an easy avenue for reporting. Our office has investigated numerous fraud complaints, which resulted in findings of zero loss to losses well in excess of that of the estimated annual cost of the hotline.

Our research has indicated the return on the investment comes in the form of instilling a "perception of detection" and other less easily quantifiable factors such as assuring accountability to taxpayers, promoting an ethical organizational culture, increasing employee morale, and protecting the reputation of the District.

We followed up with each of the school districts noted above as having a third-party provided hotline to ask their opinion of the hotline service. We asked each district if they were satisfied with the service provided and if they felt the benefit is worth the cost of utilizing a third-party vendor to provide such services. Each district indicated they are satisfied with the performance and services provided by the third-party vendor, and felt the cost was justified.

No follow up was performed with the Palm Beach County School District. They are in the process of transitioning to the third-party vendor and were not be able to provide feedback at this time regarding the satisfaction of the services provided.

### **Governing Laws, Policies, and Contracts**

There are many laws, policies, and contracts that could potentially govern the operation of a hotline. The District has established a written Code of Ethics (the Code) to help guide employee conduct. Included in the Code are instructions for reporting improper conduct, both to a supervisor and through a hotline. The Code requires the complainant to provide their name. The hotline provided in the Code is directed to a member of the Human Resources Department.

The Florida Whistleblower Act (Florida Statutes: §112.3187-112.31895) provides certain protections for an employee against adverse action for reporting or disclosing potential fraud, waste, abuse, or other acts, including acts reported through hotlines. The statutes also provide for the confidentiality of the information provided, and prohibit disclosing the identity of the complainant, except under certain explicit circumstances.

The Master Contract between the School District of Escambia County, Florida and the Union of Escambia Education Staff Professionals, FEA, NEA, AFT requires, "When the School District receives a complaint about an employee that may involve discipline, the District shall notify the employee of the nature and source of the complaint."

**It appears there may be some conflict between the varying policies, contracts and statutes which govern the reporting of potential violations, and the identity of the complainants.**

### **Previous Recommendations and Authoritative Guidance**

On April 27, 2007, we issued the report on our review of the District's governance policies and ethical culture. The review included a survey of District employees on the effectiveness of the District's ethics policies and reporting mechanisms, including the hotline. The report included detailed survey results and recommendations related to detection of fraud through exit interviews and a hotline independent of any District operating department. The report is available on our website for your review.

The Florida Legislature's Office of Program Policy Analysis and Government Accountability (OPPAGA) and the Florida Auditor General have established the Best Financial Management Practices for Florida School Districts. In the area of Cost Control Systems, these Best Financial Management Practices recommend that, "Management has developed and distributed written procedure for critical accounting processes and promotes ethical management practices." To demonstrate compliance, districts should have "established written procedures that provide for confidential reporting of suspected improprieties."

The February 2013 issue of *The American School Board Journal* contains an article titled "Everybody Knows", by Charles K. Trainor, CIA, CFE. The article explains management's and the school board's role in establishing policies that provide for employee education, anonymous tip hotlines, and exit interviews to help districts find fraud and waste in an effort to save money and other resources. Mr. Trainor discusses the merits of anonymous hotlines and provides examples of school district frauds reported through established anonymous hotlines. We can provide the article for your review.

Tips remain the most prevalent method of initial detection of fraud schemes. The Association of Certified Fraud Examiners tracks thousands of frauds each year, and every two years reports the statistical data from its research. In the 2012 Annual Report to the Nations, **the ACFE reported that 43.3% of occupational frauds were detected through tips**, up from 40.2% in 2010. This percentage is more than the next two detection methods combined (management review – 14.6% and internal audit – 14.4%).

### **Recommendations**

**We recommend** the District implement a hotline for anonymous reporting of fraud, waste, abuse, and/or theft, which is routed directly to a third-party vendor. The cost is minimal. Although the number of districts having external hotlines is currently in the minority, **we consider such a hotline to be a best practice.**

**We recommend** the District determine the applicable laws, rules, regulations, policies, and best practices which could affect the operation of a hotline operated by a third-party vendor.

**We recommend** the District explore any available programs under potential EPLI coverage which might cover a portion, if not all, of the costs of an employee reporting hotline. The District should consider this added benefit upon deciding whether or not to purchase an EPLI policy.

**We recommend** the District address any conflicting language between the Master Contract, the Code of Ethics, and Florida Statutes, with regards to the reporting of potential violations, the identity of the complainant, and the confidentiality of any details or materials provided.

We hope you find the above information useful. We would be happy to share the details of our research with you or your staff. Please do not hesitate to contact our office should you have any questions or require additional information.

DJB/jbc

### Audit Team

Justin Cook, Internal Auditor – Office of Internal Auditing

Brad Reedy, Audit Intern – Office of Internal Auditing

- c: School Board Members
- Audit Committee
- Norm Ross, Deputy Superintendent
- Dr. Alan Scott, Assistant Superintendent for Human Resource Services