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**Audit Report**

**CITYWIDE ETHICS AUDIT**

**November 2002**

**Office of the City Auditor  
Austin, Texas**

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On November 19, 2002, the Office of the City Auditor presented this report to the City Council Audit and Finance Committee. The Committee accepted the audit report.

This report is available in our office or at our website, <http://www.ci.austin.tx.us/auditor>, in pdf format. You may also request additional hard copies through the website or by email at [oca\\_auditor@ci.austin.tx.us](mailto:oca_auditor@ci.austin.tx.us). Please request Audit No. AU02302.



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# City of Austin

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November 19, 2002

To: Mayor and Council Members

From: Stephen L. Morgan

Subject: Citywide Ethics Audit Report

Attached is our report on Citywide Ethics. Our objectives in this audit were to:

- Identify financial and administrative impacts associated with a strong ethical climate,
- Assess Citywide ethics management, and
- Assess the prevalence of ethical climate factors and outcomes within City departments.

In general, we found that decentralization of ethics management without centralized monitoring has created a very uneven ethical climate across City departments. We also found that by strengthening the climate overall, the City would experience some financial and administrative benefits, including:

- A lower number and cost of successful legal claims,
- Lower turnover and sick leave usage,
- Fewer lost time injuries,
- Fewer customer complaints, and
- Higher quality service delivery.

Other organizations are currently using a best practices ethics management model that can be implemented in the City of Austin without incurring additional up-front administrative costs. We have made one recommendation that addresses a need for a comprehensive and systematic approach to building a uniformly strong ethical organization. Management has concurred with our recommendation.

We appreciate the cooperation we have received from the City Manager's Office and department directors throughout the City.

Stephen L. Morgan, CIA, CGAP, CFE, CGFM  
City Auditor

## **CITYWIDE ETHICS COUNCIL SUMMARY**

This report presents findings and recommendations from our audit of Citywide ethics.

**Currently the ethical climate varies widely across City departments.**

The City's *Listening to the Workforce* survey contains 15 questions related to ethical climate factors and outcomes, with standard deviations on positive responses from 6.6 to 10 percent, where two percent is a desired standard deviation. Examples of this variation across departments in the proportion of positive responses include:

- Variation in employees reporting that quick and decisive action will be taken if wrongdoing is discovered ranges from a high of 79 percent to a low of 29 percent.
- Variation in employees' perception that managers follow laws and policies ranges from a high of almost 84 percent to a low of 46 percent.
- Variation in employees' perception that they can report any unethical behavior without fear of retaliation ranges from around 63 percent in the high department to 34 percent in the lowest.

**A more uniformly strong ethical climate would be likely to result in financial and administrative benefits to the City.** Benefits associated with a strong ethical climate include:

- Lower number and cost of successful legal claims against the City;
- Fewer complaints from the public and higher perceived quality of service delivery;
- Fewer lost time injuries and less sick leave usage; and
- Stronger commitment to the City by its employees.

**We have most of the elements that the City would need for a comprehensive ethics management framework in place; however, the additional elements the City needs can be implemented without requiring additional resources up front.** Elements that the City needs fall under these categories:

- Corporate oversight;
- Consistent enforcement of standards;
- Additional policies and procedures;
- Stronger communication; and
- Broader response when misconduct occurs.





**ACTION SUMMARY  
CITYWIDE ETHICS**



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Rec. #	Recommendation Text	Management Concurrence	Proposed Implementation Date
01.	The City Manager should adopt and implement a best practice ethics management model that at a minimum addresses the seven requirements of the Federal Sentencing Guidelines for Organizations.	Concur	Planned



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## **BACKGROUND**

The City of Austin aspires to be the most livable community in the nation. Integrity is a core value of City government, a value essential to maintaining public confidence, conducting City business properly, and making the City's vision a reality.

Fostering integrity in City government goes beyond obvious concerns with preventing fraud and abuse by individuals. Research studies consistently find that many ethical problems found in the workplace are organizational in nature. They often have their roots in work pressures that lead people to cut corners and in the development of informal group norms and practices that are contrary to formal rules and procedures.

### **Ethics management is a systematic and conscious effort to promote ethical organizations.**

Managing ethics in the workplace involves identifying and prioritizing values to guide behaviors, and establishing associated policies and procedures to achieve desired outcomes. Standards in public service are defined and maintained through ethics management, which includes the rules, controls, and conditions that set boundaries on behavior and provide incentives for high standards of conduct. Systematic ethics management includes strategic activities coordinated to prevent, detect, and intervene in cases of employee misconduct.

Corporate ethics management activities provide authority for and substance to standards of conduct and the consequences for violating them. Employees are provided guidance and direction for conduct through accountability mechanisms, codes of conduct, training, and conditions of employment. Management commitment to an ethics program is usually expressed through rhetoric, demonstrated through setting an example, and supported by allocating adequate resources to a sustained organizational commitment to encourage an ethical corporate culture.

Formally managing ethics as a program allows an organization to:

- establish organizational roles to manage ethics;
- schedule ongoing assessments of ethics performance and requirements;
- establish required operating values and behaviors;
- develop awareness and sensitivity to ethical issues;
- integrate ethical guidelines into decision making; and
- structure mechanisms for resolving ethical dilemmas.

An ethics program may at first actually increase the number of ethical issues to be dealt with because people are more sensitive to their occurrence.

**All organizations both public and private, including municipalities, are vulnerable to the risks of employee misconduct.**

According to national surveys, employees are observing a high level of illegal and unethical conduct on the job, and public employees express the most negative observations about the incidence of problems in the workplace. Improper employee conduct is one of the greatest risks to success in an organization.

**In 2001, public employees were the most likely of all industry groups to know of an ethical or legal violation in their organization; however, they may also be more sensitized to ethics concerns.**

National surveys show that employees are aware of legal and ethical problems in their organizations. Sexual harassment, lying on reports, conflicts of interest, theft, lying to supervisors, improper use of company resources, unfair treatment of employees and discrimination are behaviors employees report seeing in their organizations. In the *2001 National Employee Benchmark Study* conducted by Walker Information, the public sector scored below other industries for two key integrity measures – senior leadership integrity and the prevalence of ethics problems.

Other low ethical scores for the public sector were in its:

- commitment to ethics being communicated to employees,
- pressure to cut corners on ethical issues, and
- dealing fairly with identified ethics problems.

Some researchers have suggested that public employees may be more sensitized to and concerned about the ethical dimensions of their organizations, and therefore their perceptions may be more severe than those of the private sector.

Nevertheless, the public administration research warns that as public agencies have increased the outsourcing of functions, decentralized management, and increased outcome orientation, a failure to integrate ethics (or integrity) structures within the new system may have occurred. Researchers have also found that public agencies need a strategy to maintain common standards and values, thereby enhancing coherence

in a decentralized public management environment where fragmentation is a risk. Furthermore, additional autonomy in the public sector requires stricter accountability to ensure organizational objectives are met.

**Improper employee conduct is one of the greatest risks to success in an organization.** An organization may experience serious harm as a result of failure to manage this risk. Nationally, organizations stand to lose \$4,500 per employee in 2002 as a result of occupational fraud and abuse. In addition, for a public entity, loss of constituent support due to scandal could result in trouble passing bond elections and obtaining other support from citizens.

**High quality information on best practices in ethics management, as well as implementation aids are widely available.**

There are known practices that can increase an organization's success at managing the risks and costs from employee misconduct. The International City/County Management Association (ICMA) and the American Society of Public Administration (ASPA) support public sector ethics management through publications, training, and codes of ethics. The federal government, recognizing the organizational root of employee misconduct, has established guidelines that encourage organizations to adopt formal ethics and legal compliance management programs. The Institute of Internal Auditors (IIA) suggests the use of the Federal Sentencing Guidelines for Organizations as a benchmark for evaluating ethics and legal compliance programs.

**The International City/County Management Association and the American Society of Public Administration support public sector ethics management through publications and training.**

- ICMA's journal *Public Management* features articles on a variety of critical local government management issues, including ethics, written by practitioners, academics, consultants, and experts in different fields.
- ICMA's *Ethics in Action Training Package* is designed to help local government leaders and staff explore ethics issues together. Using case studies, exercises, real local government examples, and lectures, the training package addresses how all staff can make ethical decisions all the time and how to build and maintain an ethical local government.

- ASPA published *Professional Standards and Ethics: A Workbook for Public Administration* in 1979.
- Subsequently, ASPA created a code of ethics for public administrators with a set of implementation guidelines.
- In 1996, ASPA and the Council of State Governments began publication of *Public Integrity*, a quarterly journal, with articles focused exclusively on administrative ethics in the public sector.
- Also, the ASPA sponsors a quarterly newsletter, *Ethics Today*, and *ETHTALK*, an electronic discussion list.

**The federal government has established guidelines that encourage organizations to adopt formal ethics and legal compliance management programs.** The City of Austin receives federal monies for grants and direct services, and is subject to numerous federal regulations, including the random drug testing of employees with commercial drivers licenses to the maintenance of air quality standards. All cities receiving federal funds face a risk from noncompliance with federal laws and subsequent fines and penalties that could be mitigated by conforming to standards from the Federal Sentencing Guidelines for Organizations (Guidelines).

These Guidelines recognize the organizational and managerial roots of employee misconduct and base fines partly on the extent to which organizations have taken steps to prevent misconduct and legal noncompliance. Since November 1991, these Guidelines have governed the sentencing of organizations in the federal courts. The most prominent feature of these Guidelines is their provision for more lenient sentencing if, at the time of an offense, an organization had implemented an “effective program to prevent and detect violations of the law.”

Sanctions such as fines and probation for organizations convicted of wrongdoing can vary dramatically. Sanctions are based both on the degree of management cooperation in reporting and investigating corporate misdeeds and on whether or not the organization had implemented a legal compliance program. The Justice Department has also announced similar guidelines so that, for example, organizations with in-place environmental compliance audits that promptly report violations will qualify for “prosecution leniency.”

**The Institute of Internal Auditors (IIA) suggests the use of the Federal Sentencing Guidelines for Organizations as criteria for evaluating ethics and legal compliance programs.** The Federal

Sentencing Guidelines provide criteria for evaluating ethics and legal compliance programs by defining seven minimum requirements of an effective program to prevent and detect violations. The requirements are:

- Establish compliance standards and procedures to be followed by employees and other agents that are reasonably capable of reducing the prospect of criminal conduct.
- Assign specific individual(s) within high-level personnel of the organization overall responsibility to oversee compliance with standards and procedures.
- Use due care not to delegate substantial discretionary authority to individuals whom the organization knows, or should know, have a propensity to engage in illegal activity.
- Take steps to communicate effectively the organization's standards and procedures to employees and other agents, e.g., by requiring participation in training programs or by disseminating publications that explain in a practical manner what is required.
- Take reasonable steps to achieve compliance with standards, e.g., by utilizing monitoring and auditing systems reasonably designed to detect criminal conduct by employees and other agents and by having in place and publicizing a reporting system whereby employees and other agents can report criminal conduct by others within the organization without fear of retribution.
- Consistently enforce standards through appropriate disciplinary mechanisms, including, as appropriate, discipline of individuals responsible for the failure to detect an offense. Adequate discipline of individuals responsible for an offense is a necessary component of enforcement; however, the form of discipline that will be appropriate will be case specific.
- After an offense has been detected, take reasonable steps to respond appropriately to the offense and to prevent further similar offenses — including any necessary modifications to the organization's program to prevent and detect violations of law.

Benefits may accrue for organizations effectively implementing the requirements of the Federal Sentencing Guidelines, such as:

- fine minimization,
- avoiding criminal prosecution,

- improved settlement negotiations with the government, and
- better employee morale.

## **OBJECTIVES, SCOPE, AND METHODOLOGY**

### **Objectives**

The audit addressed these objectives:

- Identify financial and administrative impacts from ethical climate factors and ethics management.
- Assess the Citywide ethics management strategy as a control to mitigate risks from unethical and illegal behavior.
- Assess the prevalence throughout City departments of selected ethical climate factors and outcomes.

### **Scope and Methodology**

#### **Objective 1 – Identify Financial and Administrative Impacts**

We utilized information from the Office of the City Auditor (OCA) report *Ethics in the City, A Headlights Report to the City Manager* (April 2000) showing correlations between the ethical climate in departments and financial and administrative benefits to the City. OCA examined the relationship between six indicators of the ethical climate in different City departments and several financial and administrative measures potentially affected by ethical problems.

On each of the indicators of the ethical climate of City departments, we divided the departments into two groups — those who scored in the top half of the indicator and those who scored in the bottom half. Information used to gauge financial and administrative benefits was collected from various sources dated between 1996 and 2000. For a detailed description of data collection and analysis methods, see Appendix B.

#### **Objective 2 – Assess Citywide Ethics Management**

The scope for objective 2 includes Citywide ethics activities in place in FY 01, along with any corporate level guidance for departmental efforts. Our testing of controls also included structures that were in place prior to FY 01 and in FY 02. Structural elements of an effective ethics management strategy were identified from the Federal Sentencing Guidelines for Organizations (Guidelines) model.

We interviewed the City Manager and other corporate level individuals accountable for Citywide ethics management activities. These included

the City Auditor, the Chief Investigator of the City Auditor's Integrity Unit, the director of the Human Resources Department (HRD), the City Attorney, and members of the Officer Involved Unit of the Austin Police Department. We also conducted a survey of department directors.

### **Objective 3 – Assess the Prevalence of Ethical Climate Factors and Outcomes**

For objective 3, ethical climate factors and outcomes were identified from the literature. A discussion of ethical climate factors and outcomes is contained in Appendix C. Questions from the City's 2001 *Listening to the Workforce (LTW)* survey served as measures of outcomes from ethics management strategies and as measures of the ethical climate. Our measures represent the proportion of employees who responded with agree and strongly agree to selected questions. We also calculated Pearson correlation coefficients to identify linear relationships between ethical climate factors and outcomes. Assessments of ethical climate factors and outcomes are based on employee perception and may tell a different story than more objective measurement. However, it is generally accepted by organizational culture researchers that perception of behavior defines climate. Appendix D contains all of the questions, correlations and summary statistics for the *LTW* questions we used.

The Economic Development Office was omitted from our analysis because the Office only had two responses to the 2001 *Listening to the Workforce* survey. The Mayor and City Councils' Offices were also omitted from our analysis in accordance with the government auditing standard on independence. Appendix B contains details of our methodology. We also surveyed department directors about FY 01 ethics management activities in individual City departments. In addition, we interviewed human resources managers from several departments. Throughout this report we use abbreviations for department names, which can be found in Appendix E.

This audit was conducted in accordance with generally accepted government auditing standards.

## AUDIT RESULTS

Significant financial and administrative benefits are likely to follow a sustained organizational commitment to encourage and support ethical conduct by City employees. Three indicators of a positive ethical climate — departmental commitment to enforcing high ethical standards; managers setting a good ethical example; and managers frequently reminding employees of ethical considerations — are associated with benefits to the City. Benefits include:

- lower number and cost of successful legal claims filed against the City;
- fewer complaints from the public;
- higher perceived quality of service delivery;
- fewer lost time injuries;
- less sick leave usage; and
- stronger commitment to the City by its employees.

City management has implemented some elements of ethics management Citywide to reduce the prospect of unethical or criminal conduct. These elements include:

- personnel policies;
- training;
- City Manager's Expectations on Ethics;
- *Administrative Bulletin 83:08 Fraud, Waste, and Abuse*;
- ethics questions on employee and citizen surveys;
- the Management Integrity Committee; and
- investigative and audit activities.

According to the City's *Voice of the Customer* survey, citizens have a decreased negative perception of how ethical the City is in conducting business in 2001 compared with 1996 and 1998.

With these Citywide ethics management elements in place, primary responsibility for maintaining ethical awareness and standards has been decentralized to the department level. While there are no complete ethics management models in place in departments, this audit identifies some best practice elements of ethics management in individual departments. A centralized guidance and monitoring system would help ensure consistent implementation of an ethics management model within departments; whereas, employees currently experience a variety of ethical climates depending on where they work in the City, and similarly a different exposure to the risk of misconduct.

**Significant financial and administrative benefits are likely to follow a sustained organizational commitment to encourage and support ethical conduct by City employees.**

The Office of the City Auditor detailed statistical associations between indicators of the ethical climate in City departments and indicators of financial and administrative burdens in the report *Ethics in the City: A Headlights Report to the City Manager* (April 2000). The associations we examined were correlations, i.e. factors related in the same direction. A positive correlation means that when one factor changes another factor is likely to move in the same direction. A negative correlation means the factors are likely to move in opposite directions. Correlation, however, does not necessarily mean that one factor causes another.

This report focused on internal comparisons to see if City departments that proactively promoted ethical conduct experienced lower financial and administrative burdens. This was accomplished by examining the relationship between four indicators of the ethical climate of different City departments and several financial and administrative measures potentially affected by ethical problems.

The choice of organizational unit, City departments, was dictated by the nature of the data available. However, the intent was not to single out individual departments for criticism or praise, but instead to determine whether a sustained organizational commitment to promoting ethical behavior was associated with lower administrative and financial burdens.

To accomplish this, departments were divided into just two groups — those who scored in the top half of the indicator and those who scored in the bottom half. In addition, for some analyses, we controlled statistically for relevant differences between departments, such as size and the nature of their work, that arguably might have spuriously produced the same results.

We found that a positive ethical climate was associated with greater financial and administrative benefits to the City with employees more likely to continue working for the City, reducing turnover and using less sick leave. A lower ethical climate was associated with, among other things, greater lost time injuries among employees and more complaints from the public.

**Three of the indicators could be characterized as positive indicators of a healthy, proactive ethical climate, while another could be characterized as a negative indicator.** Measures of a positive ethical climate used in the analysis were:

- A higher level of employee agreement that managers in their work group set a good ethical example.
- A higher level of employee perceptions of a departmental commitment to enforcing high ethical standards.
- Managers advocated frequently reminding employees of ethical considerations related to their work.

The indicator of a less healthy ethical climate was:

- A higher level of employee agreement that they were personally aware of unethical or illegal behavior by City employees.

Measures of the financial and administrative impact of departmental differences in ethical climate included:

- The number and cost of successful claims filed by Austin residents and businesses for damage caused by City employees.
- Injuries to employees involving time lost from work.
- Complaints made by customers.
- Employee assessments of the value their departments provided to customers.
- Sick leave usage.
- High employee turnover.
- Employee intentions to continue working for the City.

**A lower ethical climate rating was associated with greater damage and injury to Austin residents and businesses.** When employees of a department fail to follow legal and organizational rules and procedures, the City has little choice but to pay for any damages resulting from their behavior. In addition, Austin residents and businesses damaged or injured by City employees may lose confidence in City government.

While sidestepping rules may be expedient in the short term, formal rules and procedures exist for good reason. They are often intended to prevent harm and injury in the long term and help to shield the organization from liability. Moreover, the public expects government employees to obey rules and set a good example.

Both the number and cost of successful legal claims filed with the Law Department by Austin residents and businesses were highest among departments where:

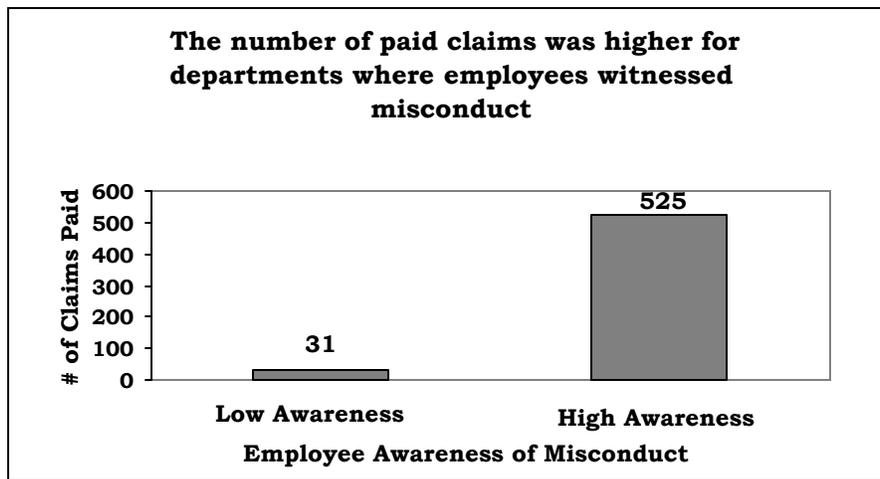
- employees reported greater awareness of illegal or unethical behavior by City employees (see Exhibits 1 and 2).

The number of successful claims, but not the cost, was lower for departments where:

- employees reported stronger agreement that managers of their work group set a good example.

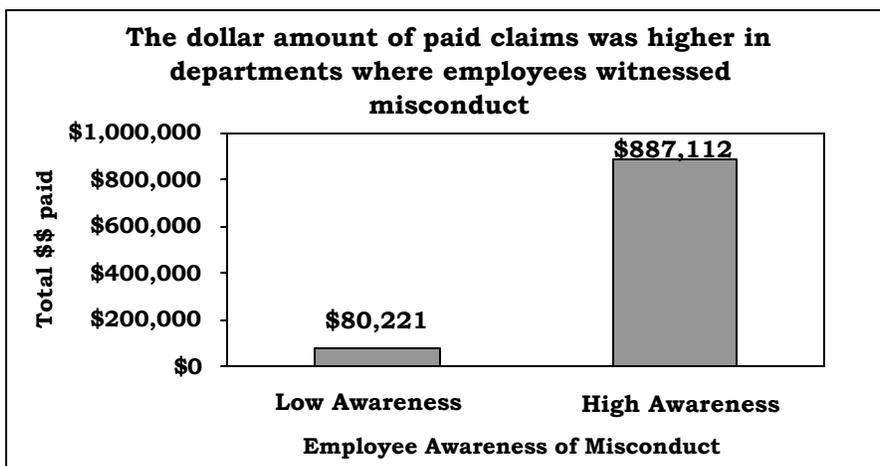
These relationships persisted even after controlling statistically for differences in department size and vehicle use.

### EXHIBIT 1



SOURCE: OCA analysis of 1996-2000 data. See Methodology, Appendix B.

### EXHIBIT 2



SOURCE: OCA analysis of 1996-2000 data. See Methodology, Appendix B.

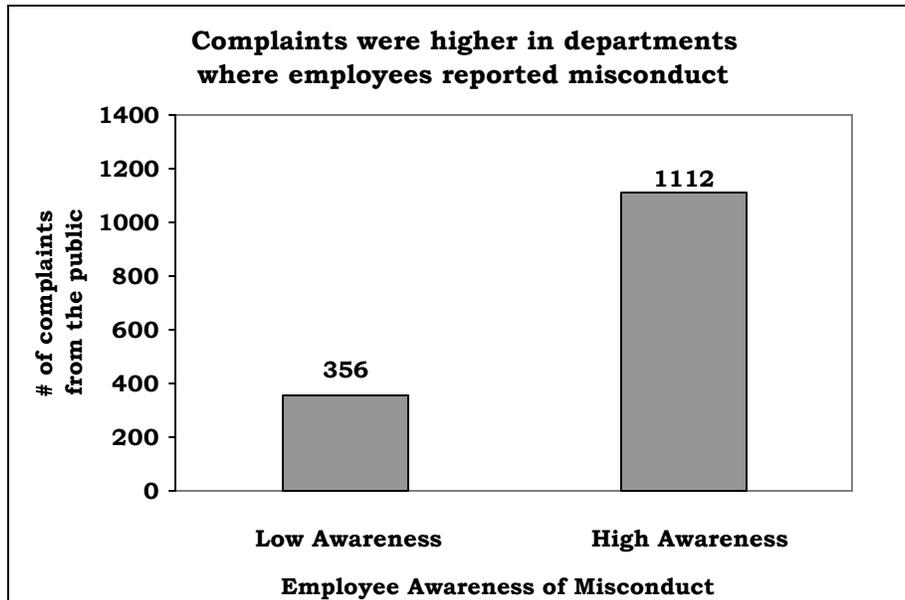
**Departments with a lower ethical climate rating received more complaints from the public.** Ethical problems undermine the delivery of quality services. The public more frequently contacted the City about complaints and problems dealing with departments where:

- employees reported greater awareness of illegal or unethical behavior by City employees (see Exhibit 3).

In contrast, fewer complaints were received for departments where:

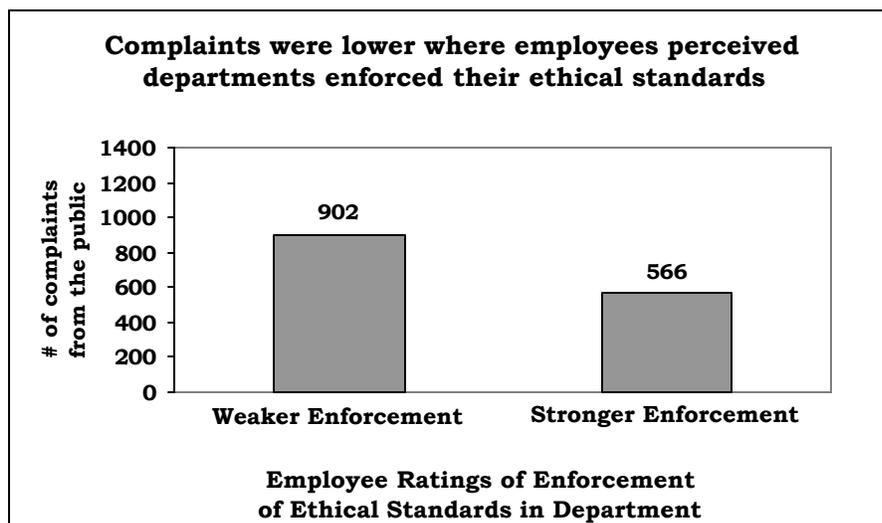
- employees reported greater agreement that their department enforced ethical standards (see Exhibit 4).

### EXHIBIT 3



SOURCE: OCA analysis of 1996-2000 data. See Methodology, Appendix B.

## EXHIBIT 4



SOURCE: OCA analysis of 1996-2000 data. See Methodology, Appendix B.

These relationships held even when statistical controls were introduced for differences in departmental size and whether the work of the department involved law or code enforcement. The latter control was included because departments that enforce laws and codes generally tend to receive more complaints because the nature of their work involves restricting the behavior of others.

**Employees who worked in departments with a stronger ethical climate believed their departments provided customers with a better value for their money.** Besides customer complaints, another indicator of service quality was employee beliefs about the value their department provided customers. Employees rated the quality higher for the work they provided when:

- employees reported greater agreement that their department enforced ethical standards,
- employees reported stronger agreement that managers of their work group set a good example, and
- managers themselves advocated frequent reminders to employees of ethical considerations.

Conversely, employees gave lower ratings of value provided to customers if they worked in departments where:

- employees reported greater awareness of illegal or unethical behavior by City employees.

**More workers were injured in departments that experienced problems with misconduct and lower levels of ethical leadership.**

Studies of occupational safety find that workplace pressures to increase productivity often lead managers and workers to take shortcuts on safety rules and procedures. This in turn leads to higher workers' compensations costs.

Lost time injuries were more likely to occur in departments where:

- employees reported greater awareness of illegal or unethical behavior by City employees (see Exhibit 5).

In contrast, lost-time injuries were lower in departments where:

- employees reported stronger agreement that managers of their work group set a good example.

These effects hold even when controlled statistically for differences in department size and the inherent dangerousness of the work.

**EXHIBIT 5**



SOURCE: OCA analysis of 1996-2000 data. See Methodology, Appendix B.

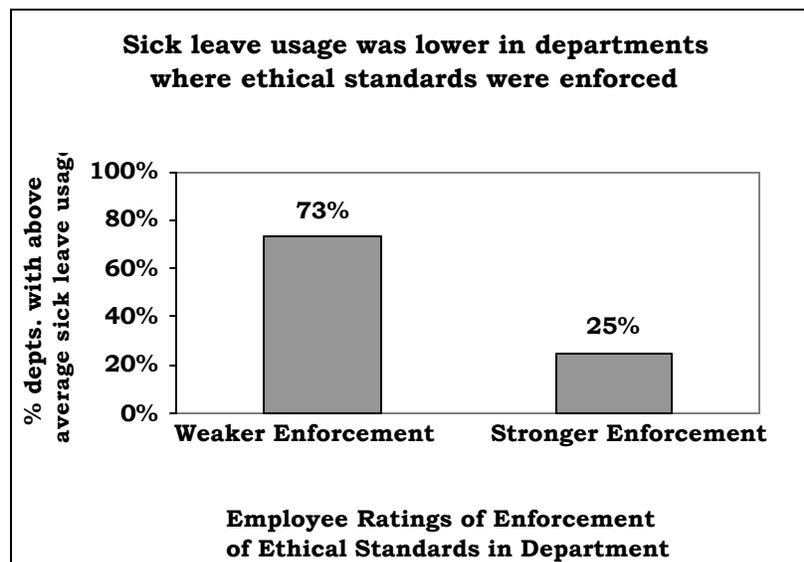
**Employees working in departments that had a stronger commitment to the enforcement of ethical standards took less sick leave.**

The ethical climate of a department can affect sick leave in several ways. Some workers may find it physically or emotionally stressful to work in

situations where ethical standards are lower than they prefer. Others may use sick leave for non-medical reasons because they view it as an entitlement. Greater sick leave usage may also reflect poor employee morale. Sick leave usage was lower in departments where:

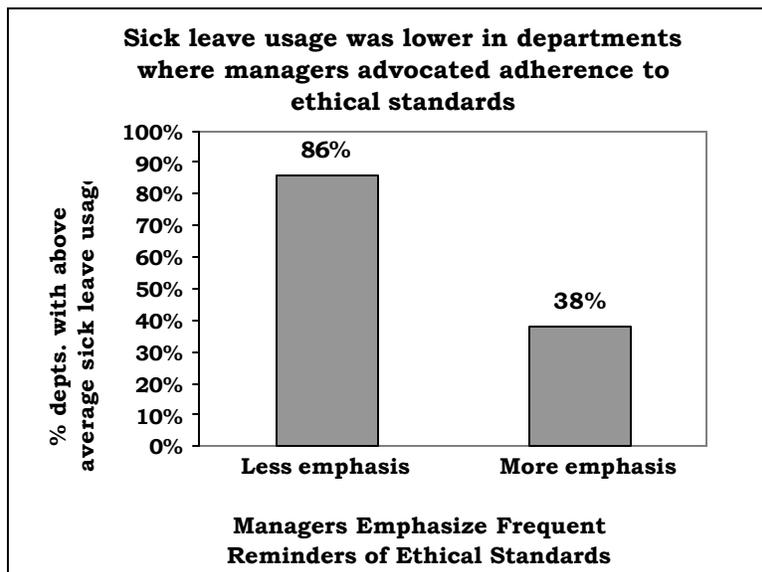
- workers reported greater agreement that their department was committed to enforcing high ethical standards (see Exhibit 6),
- employees reported stronger agreement that managers of their work group set a good example, and
- managers themselves advocated frequent reminders to employees of ethical considerations (see Exhibit 7).

### EXHIBIT 6



SOURCE: OCA analysis of 1996-2000 data. See Methodology, Appendix B.

## EXHIBIT 7



Source: OCA analysis of 1996-2000 data. See Methodology, Appendix B.

We calculated sick leave usage in a way that eliminated the upward impact a few maternity cases or seriously ill workers can have on department averages. It also took into account departmental differences in accrual rates.

**Employees were more likely to plan to keep working for the City when they worked in departments with a stronger ethical commitment to enforcing ethical standards.** More specifically, employee intentions to keep working for the City were higher when:

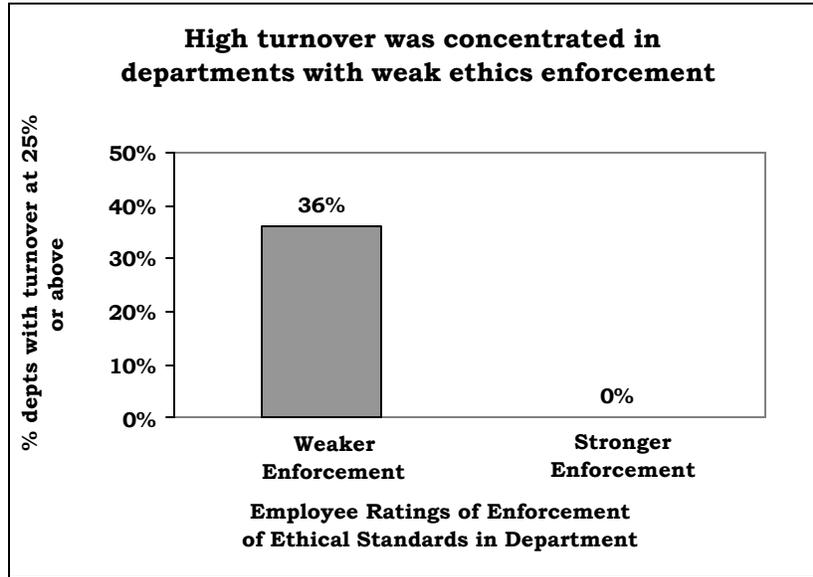
- employees reported greater agreement that their department enforced ethical standards and
- managers themselves advocated frequent reminders to employees of ethical considerations.

Departments whose employees perceived strong enforcement of ethical standards were less likely to have high turnover rates. People with high ethical standards may be reluctant to work for organizations that fail to enforce their ethical standards. Departments with exceptionally high turnover (defined as 25 percent or higher turnover) were found primarily among the group of departments where:

- employees reported lower agreement that their department enforced ethical standards (see Exhibit 8) and

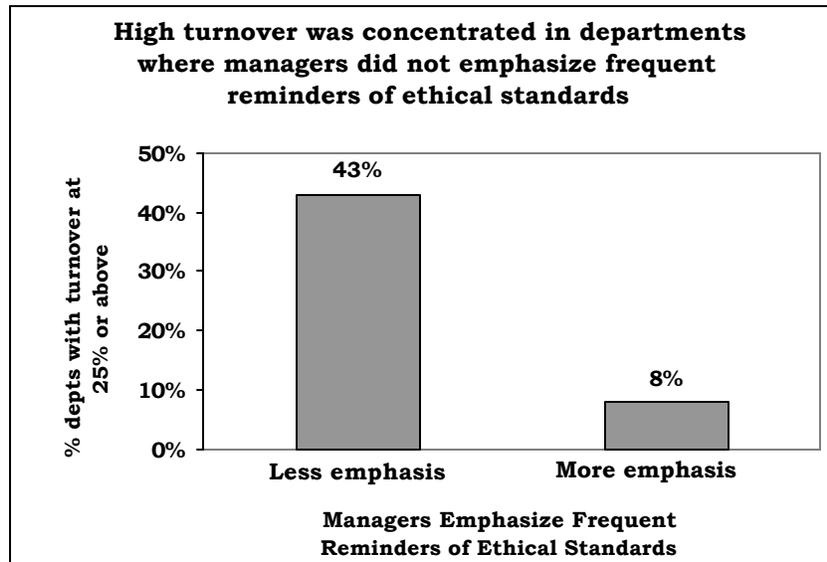
- managers did not stress the importance of making frequent reminders to employees of ethical considerations (see Exhibit 9).

**EXHIBIT 8**



SOURCE: OCA analysis of 1996-2000 data. See Methodology, Appendix B.

**EXHIBIT 9**



SOURCE: OCA analysis of 1996-2000 data. See Methodology, Appendix B.

## **The City of Austin already has some elements of a comprehensive ethics management framework in place.**

City management has implemented some elements of ethics management Citywide to reduce the prospect of unethical or criminal conduct, and some City departments have also incorporated best practice elements. We previously discussed elements of ethics management from the Federal Sentencing Guidelines for Organizations and summarize them in Appendix F. For our analysis we reference the seven requirements of the Federal Sentencing Guidelines.

Good information for monitoring ethical climate factors and outcomes is already being collected. The City asks for employees' perceptions of ethics in the City on the annual *Listening to the Workforce* survey and citizens rank the City's ethics on the *Voice of the Customer* survey (annual since 2001). Survey data shows that citizens have a decreased negative perception of the City's ethics in conducting business. The Human Resources Department (HRD) and Infrastructure Support Services Department (ISS) perform several ethics-related activities that include training, communications, and compliance functions. The Office of the City Auditor (OCA) works to make Austin's City government better and more accountable, by helping to ensure that government is efficient, effective and ethical. The Austin Police Department investigates reported allegations of employee criminal misconduct through the Officer Involved Unit (OIU) and with officers assigned to the District Attorney's Office. Some departments in the City have also incorporated additional elements of ethics management. The Management Integrity Committee was formed to manage coordination among investigations functions and to expedite investigations.

**Citywide ethics management activities include: policies, training, communications, and compliance monitoring.** Exhibit 10 shows corporate Citywide activities in place related to each Federal Sentencing Guideline along with selected best practices from a recent article in the journal *Internal Auditing*. The City has decentralized many ethics management functions to the departments and additional best practice activities performed by individual City departments are discussed later in this section.

**EXHIBIT 10**  
**Ethics and Compliance Program Assessment**

<b>Federal Sentencing Guidelines</b>	<b>Citywide Activities</b>	<b>Selected Best Practices</b>
<p><b>#1</b> Establish compliance polices and standards</p>	<p>Personnel Policies related to:</p> <ul style="list-style-type: none"> <li>• discrimination,</li> <li>• harassment,</li> <li>• sexual harassment,</li> <li>• retaliation,</li> <li>• use of City resources,</li> <li>• political activity,</li> <li>• solicitation and acceptance of gifts,</li> <li>• falsification of records,</li> <li>• theft of City property and</li> <li>• employee conduct related to integrity issues</li> </ul> <p>City of Austin Charter, City Code of Ordinances: Ethics- Standards of Conduct, 2-3-62 through 66</p> <p>City Manager’s Expectation on Ethics</p> <p>City of Austin <i>Administrative Bulletin 83:08 Fraud, Waste, and Abuse</i></p> <p>Statement of a vision and values</p> <p>Policies and procedures regulating purchasing, petty cash, and cash handling</p> <p>State law</p> <p>Federal regulations</p>	<p>Publish and distribute Code of Conduct and related policies</p> <p>Each employee should receive a personal copy of Code of Conduct</p> <p>Implement an acknowledgement process for the Code</p> <p>Customize Code to the City’s operating environment</p> <p>Make rules (Code, etc.) reasonably accessible via print as well as electronic media</p>
<p><b>#2</b> Designate high-level personnel to oversee compliance</p>		<p>Appoint an Ethics Officer, typically at corporate management level, with oversight responsibility and program accountability</p> <p>Ethics Officer has direct and independent access to City Manager and Chair of Audit Committee</p> <p>Designate additional staff as necessary</p>

<b>Federal Sentencing Guidelines</b>	<b>Citywide Activities</b>	<b>Selected Best Practices</b>
#2 Designate high-level personnel to oversee compliance (continued)		<p>Appoint, train, and confer with operational staff to support functions of ethics office</p> <p>Assign to Ethics Officer responsibility to conduct internal investigations into serious allegations of ethical lapses, oversee investigation of less serious matters, and delegate to operational staff related functions</p>
#3 Avoid delegating authority to those likely to act unlawfully		<p>Conduct effective pre-screening hiring procedures</p> <p>Incorporate modified screening procedures prior to internal promotion for managers</p>
#4 Effectively communicate the standards and procedures through training and/or publications	<p>New employee orientation</p> <p>Optional training class on ethics and on personnel policies conducted by HRD</p> <p>Newsletter articles including Positive Forces @ Work</p> <p>Supervisor training (required for new supervisors only)</p>	<p>Implement continuous communications campaign to inform employees about program features and expectations</p> <p>Utilize local program representatives throughout the year to reinforce program messages, provide training, and conduct outreach</p> <p>Create additional manuals to augment selected compliance topics</p> <p>Provide interactive training on ethical decision making to managers and executives</p>
#5 Take reasonable steps to achieve compliance through audits, monitoring processes, and a system for employees to report criminal misconduct without a fear of retribution	<p>City of Austin <i>Administrative Bulletin 83:08 Fraud, Waste, and Abuse</i></p> <p>Ethics questions on the <i>Listening to the Workforce</i> survey</p> <p>Ethics questions on <i>Voice of the Customer</i> survey</p> <p>Management Integrity Committee provides coordination and oversight for investigations</p>	<p>Appoint Oversight Committee to ensure coordination among Audit, Legal, Ethics, Human Resources, and Security on cross-cutting issues</p> <p>Ensure 24 hours/day, seven days/week coverage for employee reporting via telephonic response system</p> <p>Treat employee inquires and allegations in confidence and respond promptly</p> <p>Encourage anonymous reporting</p>

<b>Federal Sentencing Guidelines</b>	<b>Citywide Activities</b>	<b>Selected Best Practices</b>
<p><b>#5</b> Take reasonable steps to achieve compliance through audits, monitoring processes, and a system for employees to report criminal misconduct without a fear of retribution (continued)</p>	<p>Office of the City Auditor — audit activities</p> <p>City Auditor’s Integrity Unit- available by phone and through the Hotline</p> <p>HRD compliance functions</p>	<p>Management monitors guarantee of “no retaliation” and takes punitive action if guarantee is violated</p> <p>Create uniform investigatory practices, documentation, case closures, and outcome reporting</p>
<p><b>#6</b> Consistently enforce standards through appropriate disciplinary measures</p>		<p>Adopt written corporate policy and procedures on investigations, sanctions and discipline</p> <p>Designate high-ranking authority to review and approve all employee discharge decisions</p> <p>Coordinate and review all significant disciplinary actions</p>
<p><b>#7</b> Respond appropriately when offenses are detected and take reasonable steps to prevent the occurrence of similar offenses in the future</p>	<p>City Auditor’s Integrity Unit - investigative activities</p> <p>APD Officer Involved Unit – investigative activities</p> <p>HRD investigative activities (limited at the corporate level)</p>	<p>Ethics Officer reports at least annually in a closed session to Audit Committee and/or full City Council</p> <p>Ethics Officer provides regular operational reports to CMO and senior management</p> <p>City monitors its compliance standards</p> <p>Should violations occur, self-reports to appropriate regulatory agency are made</p> <p>External program review conducted on biannual basis via benchmarking or independent consultant</p>

SOURCE: *Internal Auditing*, July/August 2002, pp. 39-45, and OCA analysis.

**Citizens have decreased their negative perception of the City’s ethics in conducting business.** Exhibit 11 shows citizens’ proportional responses to the question “Overall, how ethical is the City in conducting business?”

## EXHIBIT 11

### How Ethical is the City in Conducting Business?

Response	Year		
	1996	1998	2001(a)
Very Good + Good	50.7%	62.8%	59.0%
Neutral	10.7%	2.8%	26.2%
Poor + Very Poor	32.6%	17.6%	8.0%
Don't Know	6.0%	16.8%	6.8%

SOURCE: OCA Analysis of City of Austin *Voice of the Customer* survey data.

Note a: Survey was not conducted in 2000.

Only every other citizen responded favorably in 1996, while in 2001, almost three in five citizens responded that the City was ethical in conducting business. Citizens exhibited the greatest shift in perception in moving from a poor view of the City's ethics to a neutral one. The percentage of respondents who rated the City's ethics as poor or very poor dropped from 32.6 percent in 1996 to eight percent in 2001. The proportion holding a neutral view of the City's ethics increased from 10.7 percent to 26.2 percent.

**The Human Resources Department (HRD) performs several ethics-related activities that include training, communications, and compliance functions.** All new employees receive some ethics training as a part of new employee orientation. In addition, HRD initiated a training course called *Ethics in Public Service for Supervisors* in May 1997. Participants are to:

- understand the importance of ethics in the workplace;
- identify situations that require ethical thinking; and
- recognize, evaluate, and respond to potential ethical situations as a supervisor.

During FY 02, HRD published six articles about ethics in newsletters to employees from October 2001 to March 2002. In February 2002 one article appeared for supervisors. These articles are referenced as being,

“part of a larger effort called Positive Forces @ Work, which is a communication campaign designed to bring out the best in our employees. Positive Forces @ Work supports the City's values in our discussion of relationships in the workplace.”

HRD designed Positive Forces @ Work to support a productive non-hostile work environment by letting City employees know what the City expects of them. Topics have included sexual harassment, diversity, ethics, and conflict management. The current series is on leave management and began in September 2002.

Compliance functions of HRD are mostly related to federal regulation of employment and hiring practices. At the central office, HRD investigates some allegations of discrimination and harassment related to race, sex, gender, or religion.

The Compliance Division of Human Resources houses The Austin Human Rights Commission (AHRC). The primary goal of AHRC is to promote and enforce fair treatment of all individuals in the area of employment, housing, and public accommodations. This division is empowered to enforce four City Ordinances and the following Federal statutes: Title VII and Title VIII of the Civil Rights Act of 1964, as amended, the Americans with Disabilities Act of 1990 (ADA), and the Age Discrimination in Employment Act of 1967 (ADEA). Title VII prohibits employment discrimination based on race, color, religion, sex and national origin, while Title VIII prohibits discrimination in federal housing activities. The AHRC is also empowered to take charges under the Equal Pay Act of 1963.

The Risk Management Division performs two functions related to employee conduct. The Division (1) purchases insurance to protect the City against losses from employee theft and embezzlement, and (2) monitors the City's decentralized safety functions.

The relatively new Corporate Safety Office in the Risk Management Division has a contractor evaluating the safety programs of the ten largest departments and reviewing regulatory compliance related to safety in all City departments. Specifically, the contractor is reviewing City compliance with the following regulations:

- Texas Hazard Communication Act,
- Public Employer Community Right-To-Know Act,
- OSHA's Hazardous Waste Operators ( HAZWOPER) regulations, and
- Communicable Disease Prevention and Control Act (Blood Borne Pathogen Control).

Functions of the Employee Relations Division include:

- conflict management, including grievances, investigations, and mediation;
- administration of random drug testing of employees operating City vehicles with a class C driver's license; and
- information and referral on issues related to the City's personnel policies and procedures.

**The Office of the City Auditor (OCA) works to make Austin's City government better and more accountable, by helping to ensure that local government is efficient, effective, and ethical.** Audits cover a range of issues, including evaluating:

- efficiency and effectiveness of City programs;
- accuracy of financial and performance information;
- safeguarding of assets from loss, damage, or inappropriate use;
- compliance with laws, regulations, policy, and grant and contract terms;
- development and maintenance of staff competence and integrity; and
- ensuring equity internally and in service delivery.

The City Auditor's Integrity Unit (CAIU) investigates allegations of fraud, waste, and abuse for the City. The Unit has investigated 556 cases since 1994. Employees have been investigated for falsifying government records, abuse of office, theft, and tampering with witnesses. Currently, CAIU is developing an early detection capability using proactive monitoring. Historically, the unit has relied on requests from City managers, employees, and the public in launching investigations.

**The Austin Police Department investigates reported allegations of employee crime.** The Officer Involved Unit (OIU) at APD is designated to respond to allegations of criminal misconduct by City employees. In the past, APD did not have one designated unit handling employee crime; investigations were spread across the department. APD also has officers assigned to the District Attorney's Office who investigate white-collar crime.

**The Management Integrity Committee (MIC) was formed to improve coordination among investigatory functions and to expedite investigations.** The MIC is composed of the City Auditor, City Attorney, and City Manager (or their designees). Though the nature and direction of the Management Integrity Committee is in flux, the MIC has been working on revising *Administrative Bulletin 83:08 Fraud, Waste and Abuse* as a means to detect and intervene in employee misconduct.

**Some departments have incorporated best practice elements of ethics management.** We surveyed department directors in order to identify activities within their departments that relate to the elements of the Federal Sentencing Guidelines. Department directors identified the most activities related to the fourth sentencing guideline: to effectively communicate standards and procedures through training and/or publications. The sixth sentencing guideline had the second largest number of activities with many department directors indicating that they have activities in place to consistently enforce standards through appropriate disciplinary measures. The other five guidelines had anywhere from zero to five department directors indicating that there were activities in their departments related to the particular guideline.

More than half of the City’s department directors responded to our request for information about how ethics is managed in their department. Eighteen department directors provided information: twelve during interviews and six by e-mail. We also obtained information from human resource managers in three departments. One of the City departments, Infrastructure Support Services (ISS), was dissolved during the writing of this report. Appendix G presents a list of departments that provided information. The exhibits below provide summaries for each Federal Sentencing Guideline, what best practice elements individual departments have implemented that relate to a guideline, and which departments have activities in place related to a guideline.

In Exhibit 12, there are two best practice elements that departments indicate they have implemented addressing the first Federal Sentencing Guideline.

**EXHIBIT 12**  
**Federal Sentencing Guideline #1**

<b>Establish compliance standards and procedures that can reduce criminal conduct.</b>	
Best Practice Elements	Departments
Departmental specific policies and procedures.	WWW and AFD
Standard operating procedures for choosing consultants/contractors.	Purchasing Office, PW and AE

SOURCE: *Federal Sentencing Guidelines: A Guide for Internal Auditors* and department responses to OCA survey.

The second Federal Sentencing Guideline suggests designating high-level personnel to oversee the program. None of the departments we interviewed had a specific person that would oversee an ethics or

integrity program. In general, the department director, the human resources manager, or division managers were responsible for activities relating to employee conduct. The department director at Austin Energy sets a strong “tone at the top” which he felt enabled employees to report unethical or illegal conduct.

Exhibit 13 shows four best practice elements that departments indicate they have implemented addressing the third Federal Sentencing Guideline.

**EXHIBIT 13**  
**Federal Sentencing Guideline #3**

<b>Avoid delegating discretionary authority to those likely to act unlawfully.</b>	
Best Practice Elements	Departments
Criminal background checks are performed on all employees before they are hired.	MuniCt and AFD
Criminal background checks are performed before hiring on all new employees who will be working with children.	PARD
Hiring practices include “ethics scenario challenges” during the interview process.	ISS
New employee’s six-month probationary period is used to evaluate an employee’s risk to the department.	ISS

SOURCE: *Federal Sentencing Guidelines: A Guide for Internal Auditors* and department responses to OCA survey.

In Exhibit 14, there are ten best practice elements that departments indicate they have implemented addressing the fourth Federal Sentencing Guideline.

**EXHIBIT 14**  
**Federal Sentencing Guideline #4**

<b>Effectively communicate the organizations standards and procedures through training and/or publications.</b>	
Best Practice Elements	Departments
New employees receive and sign an acknowledgement of the Department <i>Procurement Code of Ethics</i> .	HHSD
Ethics matters are communicated through a departmental newsletter.	WWW
Managers talk about ethics with employees when employees' performance reviews are discussed.	WWW and MuniCt
Ethics courses are required.	HHSD, DSWP, NHCD, PW, EMS, WWW, MgSv/CMO, and NPZ
All staff receive a copy of <i>Administrative Bulletin 83:08 Fraud, Waste, and Abuse</i> . The bulletin is provided in a meeting format and discussed during the meeting.	NHCD
A memo is distributed to staff about disciplinary action taken when violations are verified.	AFD
Supervisors meet with their employees annually to discuss and sign a policy review checklist.	WWW (proposed)
A section on ethics will be covered during the department's orientation.	MuniCt (proposed)
Letters or memos are sent to employees about employee involvement in City Council elections and prior to Christmas about accepting gifts.	DSWP
Ethics training developed for the departments that they serve.	ISS

SOURCE: *Federal Sentencing Guidelines: A Guide for Internal Auditors* and department responses to OCA survey.

Exhibit 15 shows that five departments responded that they were monitoring and auditing some internal controls addressing the first part of the fifth Federal Sentencing Guideline. Four best practice elements are also shown in Exhibit 16 that departments have implemented addressing the second part of this guideline: additional reporting mechanisms where employees can report criminal conduct without fear of retaliation.

**EXHIBIT 15**  
**Federal Sentencing Guideline #5**

<b>Take reasonable steps to achieve compliance through audits, monitoring processes, and a system for employees to report criminal conduct without fear of retribution.</b>	
Best Practice Elements	Departments
Some monitoring or auditing of internal controls is performed.	AE, ACC, ISS, WWW, and PARD
Bonus pay program giving employees an incentive to report unethical or illegal conduct to management.	ACC
Ethics and legal violation reporting system is available to citizens and employees 24 hours a day, 7 days a week.	EMS
The department director cultivates a work environment characterized by open communication upwards and downwards.	ISS
The department director makes it a practice to provide employees with the opportunity to talk about any issue that may concern them. Also, the department director makes it a point to discuss potential issues.	PIO

SOURCE: *Federal Sentencing Guidelines: A Guide for Internal Auditors* and department responses to OCA survey.

Exhibit 16 summarizes five best practice elements that departments indicate they have implemented addressing the sixth Federal Sentencing Guideline.

**EXHIBIT 16**  
**Federal Sentencing Guideline #6**

<b>Consistently enforce standards through appropriate disciplinary measures.</b>	
Best Practice Elements	Departments
Department has a formal process for handling issues related to ethics or legal violations.	EMS and AFD
Department has a standardized process, including documentation, for employee discipline along with standard department-wide disciplinary measures for some violations.	PARD
Departments had an independent human resources department (ISS) that managed personnel actions.	NPZ, PW, DSWP, and TPSD
Human resources managers write a report or memo to the department director and manager recommending appropriate disciplinary action for an employee.	WWW, SWS, ISS, and PARD
Human resources manager meets with the law department on a regular basis.	SWS and PARD

SOURCE: *Federal Sentencing Guidelines: A Guide for Internal Auditors* and department responses to OCA survey.

Exhibit 17 shows one best practice element that a department indicates it has implemented addressing the seventh Federal Sentencing Guideline.

**EXHIBIT 17**  
**Federal Sentencing Guideline #7**

<b>Respond appropriately when offenses are detected and take reasonable steps to prevent the occurrence of similar offenses in the future.</b>	
Best Practice Elements	Departments
When personnel actions are taken, operating procedures are reviewed and changed to prevent future violations.	WWW

SOURCE: *Federal Sentencing Guidelines: A Guide for Internal Auditors* and department responses to OCA survey.

The audit team also surveyed officials from nine other municipal governments, including eight Texas cities and Kansas City, Missouri.

None of these entities had a complete framework in place. The results of that survey are included in this report at Appendix H.

**While the City has resources assigned to activities essential to ethics management, these elements are not tied together in a strategic framework through corporate oversight.**

The Federal Sentencing Guidelines call for a member of upper management to have responsibility and be accountable for an ethics and legal/compliance management program; however, no *one* person in City management is assigned this function. While the Human Resources Department (HRD) might have assumed an oversight role, a decentralized employee relations function presents challenges to the checks and balances needed to ensure appropriate discipline of employees who violate policies and laws.

**No *one* person in City management is assigned responsibility and accountability for ethics management.** Instead, City management has implicitly delegated the responsibility for ethics management to individual department directors. This leaves the City without an important element of the Federal Sentencing Guidelines: a high-ranking City official to champion the program. This champion would help establish the “tone at the top” and signal to employees that compliance and ethics are taken seriously.

Such a champion would also provide evidence of a genuine commitment by City management. Commitment is usually expressed through rhetoric, demonstrated through setting an example, and supported by allocating adequate resources. Leadership by City management is necessary to give not only the authority for legal and administrative controls but also guidance for all ethics-related activities. Corporate leadership is essential to providing a credible response to employees and the public. “Tone at the top” is a pre-condition to effectiveness for the other elements of ethics management.

**A decentralized employee relations function presents some challenges to checks and balances needed to ensure appropriate discipline of employees who violate policies and laws.** The human resources reporting structure in the City is unusual among municipalities, in that human resources managers are accountable to their department management and do not have a reporting relationship with corporate HRD. As a result of a lack of corporate HRD oversight, reporting relationships are not structured to build in checks and balances to promote objective judgment.

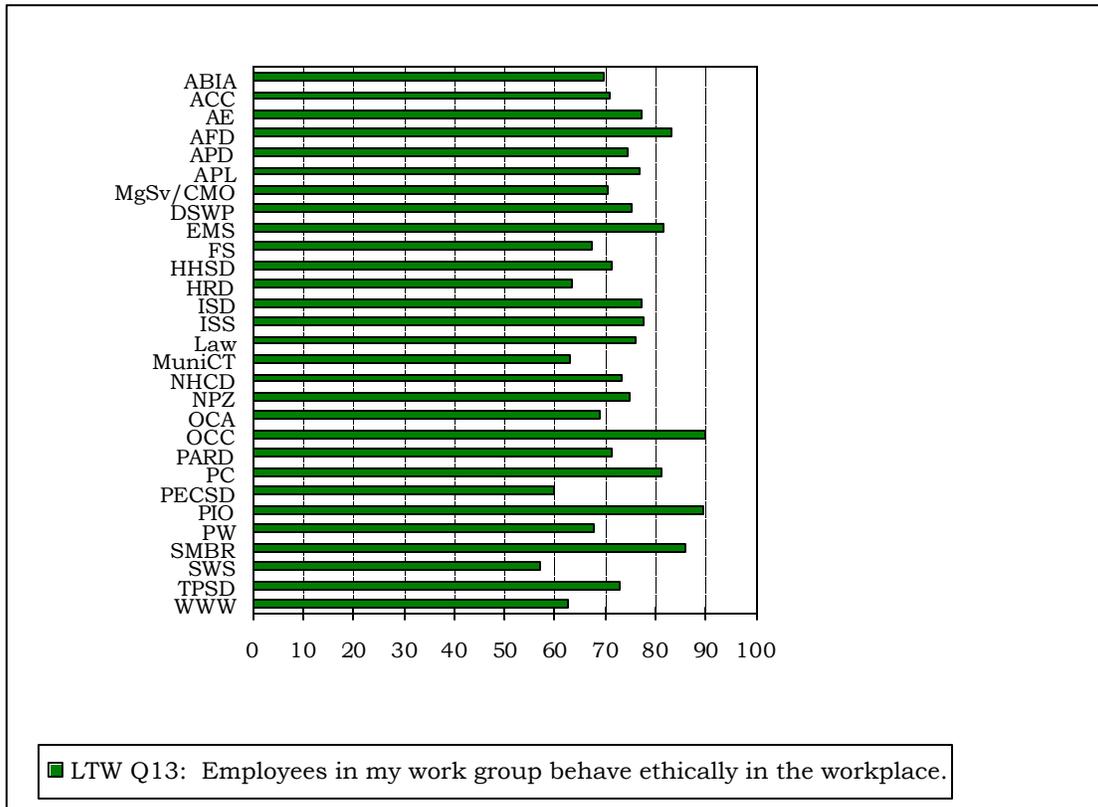
Corporate HRD does not review any departmental disciplinary actions including demotions, leave without pay, or termination unless requested to by department management. Officials in the Austin Police Department (APD) and the City Auditor's Integrity Unit (CAIU) believe that because departments are not required to report allegations of employee misconduct to corporate HRD, the department director and human resources manager within a department may tend to mitigate and minimize employee misconduct. Also, human resources managers may be subject to pressure by department management to condone more lenient discipline of employees than seems appropriate.

### **Consistency in enforcing standards needs strengthening.**

Some employees in the City do not perceive that their coworkers behave ethically in the workplace. We found that the most important factors influencing ethical conduct are related to supervisory leadership attention to ethics, which varies widely within the organization. Another factor influencing ethical outcomes is the consistency between policies and practices. Employees do not universally perceive a consistency within their departments in the fair application of City personnel policies or in the application of personnel policies by HRD. Furthermore, employee discipline for violations of policies and criminal misconduct varies across and within departments.

**Though in most departments at least 70 percent of employees perceive that their coworkers behave ethically, the perception in eight departments is not as favorable.** Variations in employees' perception of ethical behavior in their work group range from 90 percent of respondents in OCC agreeing that employees behave ethically in the workplace to 57 percent in SWS – an absolute difference of 33 percent. Exhibit 18 shows our analysis of a measure of ethical behavior from the 2001 *Listening to the Workforce (LTW)* survey.

**EXHIBIT 18**  
**Indicator of Ethical Behavior**



SOURCE: OCA analysis of City of Austin 2001 *Listening to the Workforce* data.  
Note: Graph illustrates the proportion of agree and strongly agree responses.

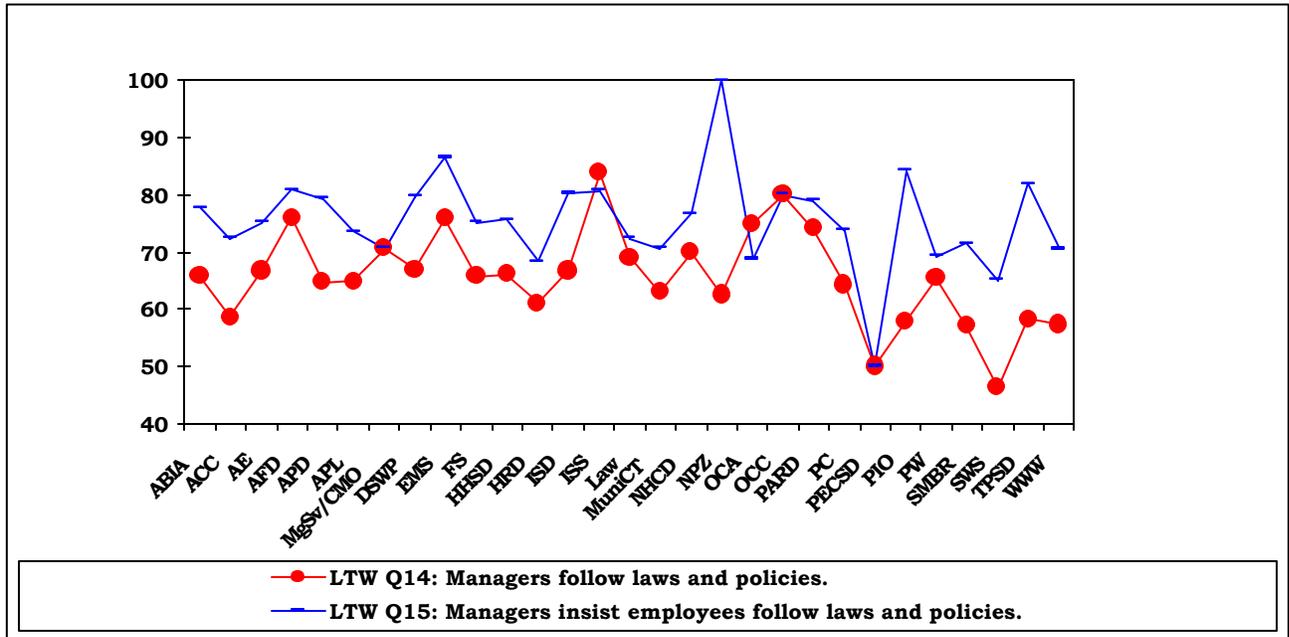
If department leaders do not actively promote and visibly endorse ethical behavior, then a desired outcome of ethical employee conduct will be more difficult to achieve. We performed a correlation analysis where supervisory leadership attention to ethics correlated strongly with the ethical behavior of employees. Specifically, supervisors insisting that employees follow policies and laws (*LTW Q15*) and supervisors themselves following laws and policies (*LTW Q14*) were correlated with ethical behavior in employees' work groups (*LTW Q13*).

**Supervisory leadership attention to ethics varies widely between departments.** Exhibit 19 shows our analysis of measures of supervisory attention to ethics taken from questions on the 2001 *Listening to the Workforce* survey:

- *LTW Q14*: Managers in my work group set a good example by following the laws and policies that apply to their jobs.

- *LTW Q15*: Managers in my department insist that employees follow the laws and policies.

**EXHIBIT 19**  
**Indicators of Supervisory Leadership Attention to Ethics**



SOURCE: OCA analysis of City of Austin 2001 *Listening to the Workforce* data.  
Note: Graph illustrates the proportion of agree and strongly agree responses.

Employees’ perceptions that supervisors require them to follow rules (*LTW Q15*) vary from a high of 100 percent positive responses by employees in NPZ to the lowest proportion of positive responses in PECSD at 50 percent – an absolute difference of 50 percent. In most departments, employees are consistently less likely to perceive that their managers follow the rules (*LTW Q14*). Employees’ perceptions that managers follow laws and policies vary from a high of almost 84 percent in ISS to the lowest proportion of positive responses in SWS at 46 percent – an absolute difference of 38 percent.

Managers are counted upon as a key part of the City’s control structure. They are expected to identify misconduct among employees and to deter misconduct through their oversight functions. When managers don’t follow the rules, this serves to disrupt a major component of internal control and creates a much higher level of vulnerability for the City.

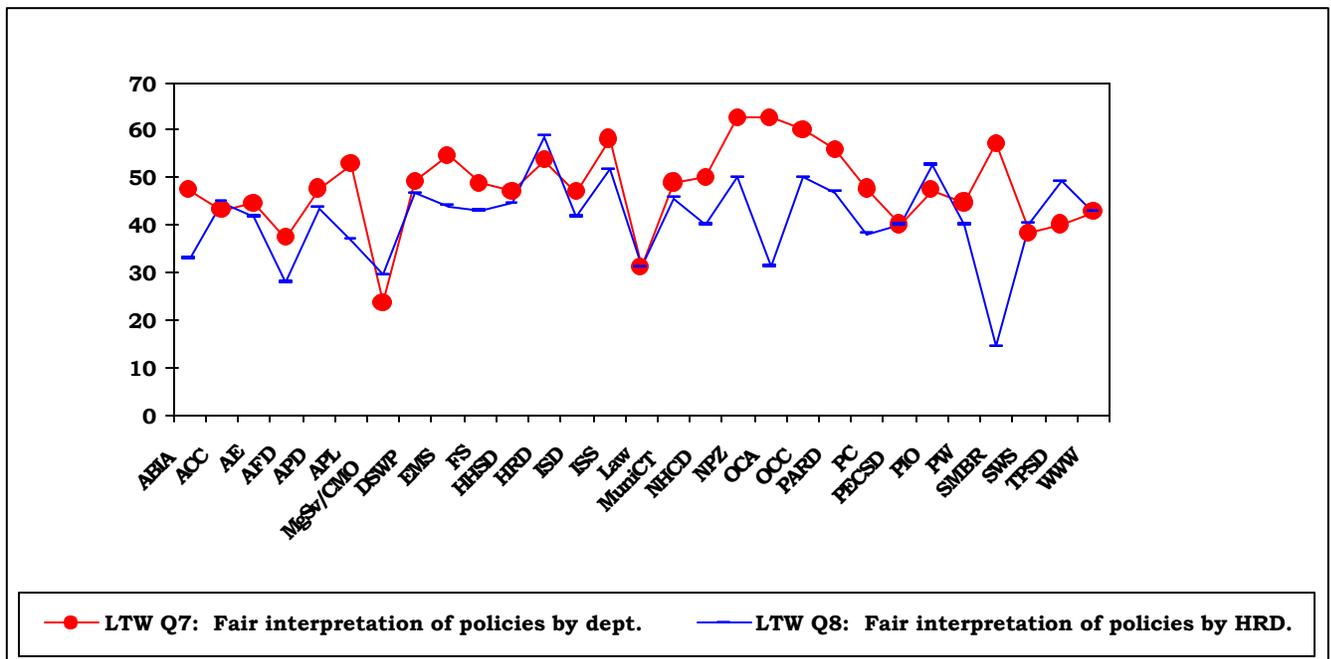
**Employees in most departments perceive inconsistencies between City policies and practices.** Sixty-three percent is the maximum

proportion of employees in a City department who perceive that City policies are interpreted and used fairly; the minimum proportion is 14 percent. In the literature, consistency between policies and practices was the factor most highly related to desirable ethics outcomes. Furthermore, an ethical climate is hard to maintain where employees do not perceive that they are treated fairly. If employees feel that policies are not used fairly they are more likely to rationalize misconduct in order “to even the score.”

Exhibit 20 shows our analysis of measures of consistency between policies and practices. We used two questions from the 2001 *Listening to the Workforce* survey to measure consistency between policies and practices:

- *LTW Q7*: The City’s personnel policies are interpreted and used fairly by managers in my department.
- *LTW Q8*: The City’s personnel policies are interpreted and used fairly by the City’s Human Resources Department.

**EXHIBIT 20**  
**Indicators of Consistency Between Policy and Practice**



SOURCE: OCA analysis of City of Austin 2001 *Listening to the Workforce* data.  
Note: Graph illustrates the proportion of agree and strongly agree responses.

Variations in employees’ perceptions that policies are fairly applied by their managers (*LTW Q7*) range from almost 63 percent in NPZ and OCA

to 24 percent in MgSv/CMO – an absolute difference of 39 percent. In 19 departments, less than half of employees perceive that managers apply policies fairly. Furthermore, even fewer employees perceive that HRD interprets and applies policies fairly (*LTW Q8*). Variations in this measure range from about 59 percent in HRD to 14 percent in SMBR, an absolute difference of 45 percent.

**Employees violating personnel policies or criminal law are not dealt with consistently throughout the organization.** Employee discipline for policy and legal violations in the City varies across departments, within departments and is perceived to vary across job levels. Different departments, and managers within departments, may determine different discipline for similar violations. Also, whether or not an employee’s criminal misconduct is reported to APD varies by department.

In the course of this audit we encountered the perception that employee discipline varies across job levels. However, we did not test the accuracy of that perception. The perception is that the City is more wary of disciplining higher-level employees for integrity violations and is much quicker to take action against lower-level employees.

Within departments, employees could experience different discipline depending on who their supervisor is. According to one department director, the human resources manager tries to coordinate processes so that discipline is consistent; however, each supervisor in this department handles employee misconduct in their own area with wide variation in procedures and responses. Another department recognized a problem with inconsistent discipline and established a set of disciplinary measures department-wide for certain types of misconduct. This department also has a standardized set of procedures for supervisors to follow in disciplining employees which include required documentation for the human resources manager.

Employee discipline also varies across departments. Employees in some departments feel that they are held to a higher standard than those in other departments. A recent occurrence, for example, dealt with two employees lying on employment applications. The City Auditor’s Integrity Unit reports that in their experience, generally, a department director will terminate employees if, after a criminal background check, an employee is found to have misrepresented information on their employment application about having a criminal conviction or adjudication. But, this is not always the case. Recently, two employees from the same department were not terminated who committed this integrity violation.

In addition, department directors also exercise discretionary authority in reporting employee work-related criminal misconduct to the Austin Police

Department (APD). During our interviews with department directors and human resource managers, departmental responses to employee work-related criminal misconduct included:

- not notifying APD if criminal misconduct is covered under a personnel policy, except in extreme cases,
- always notifying APD when misconduct could be criminal, and
- sometimes notifying APD and sometimes not, depending on the circumstances.

Officials at APD believe that it is a common practice for City departments to handle criminal allegations within the department, without reporting allegations to APD.

**Though the City has established administrative policies related to employee conduct, the City needs revised policies and additional procedures in some areas to reduce the prospect of, and mitigate the effects from, employee misconduct.**

We noted opportunities to improve policies and policy awareness by having a standardized set of procedures for inspectors; completing revisions of personnel policies; requiring, by City policy, background checks for certain positions; filing insurance claims to collect monies lost from employee theft; and providing easy access to City policies and procedures regarding the expected conduct of employees. In addition, while *Administrative Bulletin 83:08 Fraud, Waste, and Abuse* provided a written corporate policy on investigations and monitoring, necessary procedures were not developed resulting in information and monitoring gaps.

**Specific procedures that employees can be trained on, e.g. how to respond when someone tries to bribe a City employee, have been noted as an important piece the City needs.** Employees are not given standardized Citywide procedures for responding to certain risks of misconduct, such as a standardized appropriate response in the event an employee is offered a bribe. The ethics literature states that the best way to handle ethical dilemmas is to avoid their occurrence in the first place. Therefore, organizations should develop and document procedures for dealing with ethical dilemmas before they arise. Ideally, as a group, employees within an organization should resolve ethical dilemmas. However, employees might not have time to meet with a group to decide what the best course of action should be. Hence, employees should have access to a set of Citywide operating procedures in areas at high risk of

misconduct (e.g. for inspectors who are at risk for soliciting or being given bribes).

**Revisions of personnel policies are underway, but have yet to be completed.** Personnel policies have been under review for almost three years, but revisions haven't been finalized. Policy revisions need to be completed, and policies should reflect the realities of current technology. Policy revisions require continuous improvement, which should be done at least annually. The ethics literature recommends that once new policies are established, employees should sign a form indicating that they accept the revised policies. Also, all supervisors should be required to attend training about the revised policies and procedures.

**The City may not be routinely taking needed steps that could reduce the risk of delegating authority to those likely to act unlawfully.** Pre-employment criminal background checks, now mandated by City Ordinance for new hires working with children in the Parks and Recreation Department (PARD), have not been required for all positions where staff are in contact with children. HRD has drafted a personnel procedure for background checks of positions that work with children that is currently being piloted before issuance. This procedure sets out requirements for conducting criminal background checks on job applicants for positions that work with children. However, the City does not plan to adopt a policy requiring these criminal background checks, HRD will only be developing a set of procedures for departments to follow if the checks are conducted.

In addition, the ethics literature recommends screening procedures utilizing "ethics scenarios" in hiring managers and prior to internal promotion for managers to reduce the risks of misconduct. However, only one of the department directors we surveyed used this tool. Furthermore, internal training is currently not available on how to write or use such scenarios in the promotion process.

**The City has insurance against the risk of employee crime; however, claims are not routinely filed.** The City's crime insurance policy covers forgery or alteration of a public document; public employee dishonesty, including theft; robbery; and safe burglary. In the past eight years, the City has filed only one claim against this policy, although the City has experienced more than one covered loss. Personnel of the Risk Management Division in HRD cite lack of City policy support requiring departments to supply Risk Management with the information that they would need to file on all incidents that are reportable under the terms of the policy.

**While *Administrative Bulletin 83:08 Fraud, Waste, and Abuse* provided a written corporate policy on investigations and monitoring, necessary procedures were not developed and department directors were not trained.** In order for City management to monitor compliance with standards, policies and procedures are needed to create uniform investigatory practices, documentation, case closures and outcome reporting. The Federal Sentencing Guidelines also recommend ongoing assessment of systems designed to prevent, detect, and intervene in employee misconduct.

At present, the City does not have procedures to ensure that top management is informed of improper employee conduct. However, monitoring for noncompliance is a requirement of an effective ethics program. According to APD, one department handled internally at least six allegations of a criminal nature without notifying anyone. Further hampering the City's ability to monitor systems, the City does not maintain a repository of allegations of misconduct and case closures.

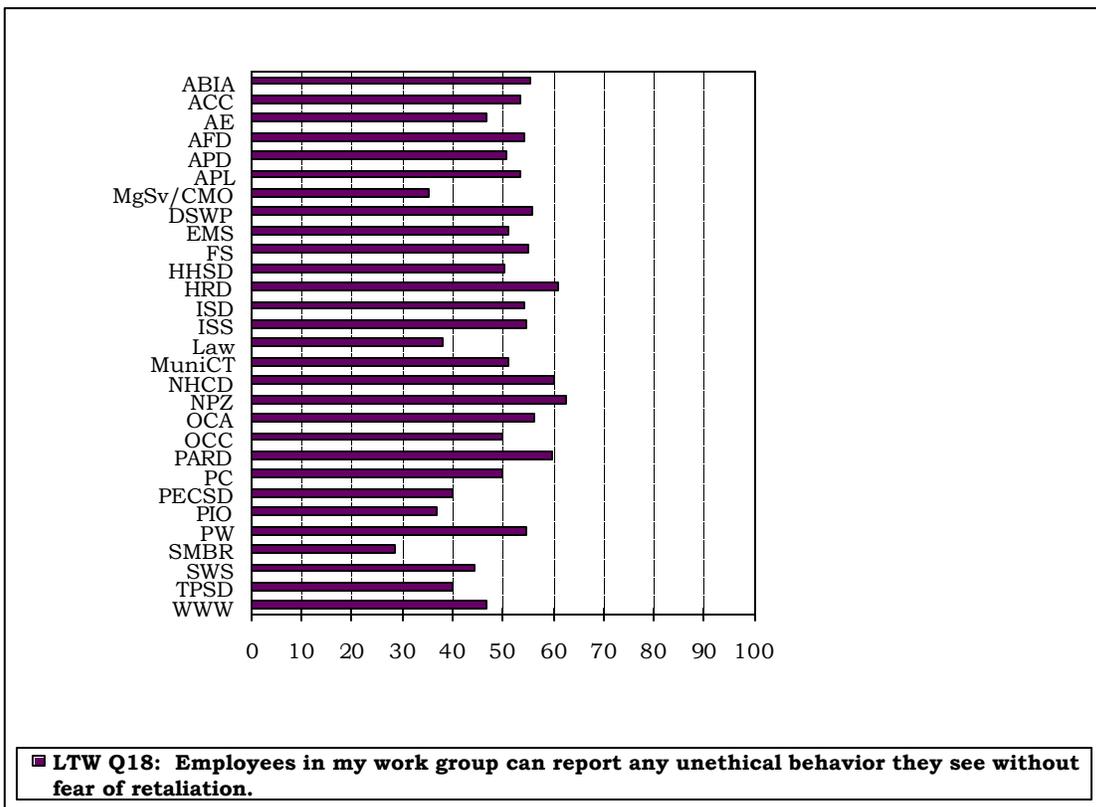
Without standard operating procedures and associated training, department directors must rely on their judgment in handling cases of administrative and criminal misconduct. Officials in APD and the City Auditor's Integrity Unit believe that some department and corporate personnel may be unaware of some aspects of administrative violations that are criminal in nature. For example, APD indicated that even some corporate HRD personnel were unaware that there are some aspects of sexual harassment that would be considered criminal.

**The City has communication processes that need strengthening to achieve compliance with policies and procedures.**

The ethics literature states that effective communication should flow up, down, across, and even outside the organization. Furthermore, organizations should create an environment in which information can flow uphill from employees to upper management. To handle situations where the traditional reporting method within a department is inappropriate, many companies have established additional reporting mechanisms, such as "hotlines or helplines." While the City does have a fraud hotline for anonymous reporting, the hotline has not been widely publicized. Many City of Austin employees, according to the *Listening to the Workforce* survey, cannot report wrongdoing without fear of retaliation. In addition, most employees do not receive ongoing communications about ethics, crucial for ethical decision making.

**Employees fear retaliation for reporting wrongdoing.** If employees had confidence in delivering bad news to management this would be evidence of a positive ethical culture suggesting that the work environment is safe and that supervisors and leaders have created an environment where open, honest communication is welcome and encouraged. Exhibit 21 shows our analysis of a measure of “ok to deliver bad news” from the 2001 *Listening to the Workforce* survey.

**EXHIBIT 21**  
**Indicator of “Ok to Deliver Bad News”**



SOURCE: OCA analysis of City of Austin 2001 *Listening to the Workforce* data.  
Note: Graph illustrates the proportion of agree and strongly agree responses.

Variation in employees’ perception that they can report any unethical behavior they see without fear of retaliation (*LTW Q18*) ranges from around 63 percent of employees in NPZ to around 29 percent in SMBR – an absolute difference of 34 percent. In nine departments, fewer than 50 percent of employees reported that they can report unethical behavior without fear of retaliation. Only two departments have greater than 60

percent of employees responding that they can report wrongdoing without fear.

Employees need a safe venue to report misconduct and a venue where they perceive that appropriate action will be taken. However, as we previously showed in Exhibit 20, employees don't perceive that HRD interprets and applies policies fairly, diminishing HRD's usefulness as a venue for reporting. Along with a fear of retaliation for reporting, this leaves employees without a suitable mechanism within City management to disclose misconduct.

Our correlation analysis indicates that the City can enhance employees' perceptions that they can report unethical conduct without fear of retaliation by addressing ethical climate factors. Factors influencing employee perception that they can report misconduct without fear of retaliation (*LTW Q18*) are:

- employee perception of consistency between policies and practices (*LTW Q7*),
- increased ethics training (*LTW Q21*),
- appropriate follow-up by management when wrongdoing is reported (*LTW Q16*),
- employees' knowledge of reporting avenues (*LTW Q17*), and
- employees' perception of being treated fairly (*LTW Q6*).

The length of time it takes for such a larger, more pervasive cultural shift to occur points out a need for alternative reporting routes with which employees do feel comfortable.

**The City has a Citywide mechanism for reporting wrongdoing, the fraud hotline, however, it has not been widely publicized for the last two years.** According to the City Auditor's Integrity Unit (CAIU), City employees more often call the direct lines to employees in CAIU. Many employees want to speak with another person, and the fraud Hotline only allows callers to leave a message.

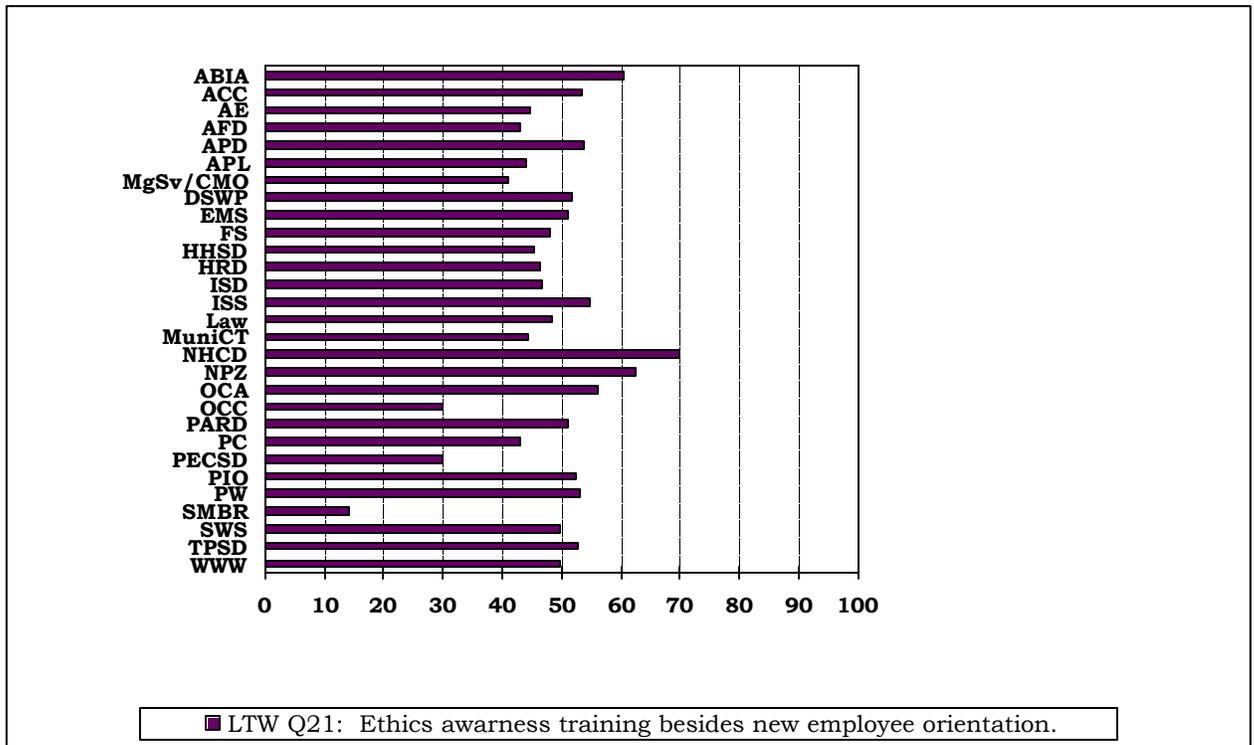
Employees' ability to report wrongdoing is crucial to an organization. A national study showed that the presence of an anonymous reporting mechanism facilitates the reporting of wrongdoing and seems to have a recognizable effect in limiting fraud losses. Management's challenge is to provide additional reporting mechanisms in which employees feel comfortable reporting their concerns. Without a variety of mechanisms, employees may either let concerns fester until they become deadened to their surrounding problems, leave the City, or report to an outside agency or news organization.

**Many employees do not receive focused and ongoing communications about ethical issues, crucial to ethical decision making.** Training operationalizes codes of conduct and other tools for guiding decisions and behavior. City management has implemented some necessary training components to educate employees about ethics. These components include new employee orientation, ethics training courses, and ethics articles in newsletters. However, communications about ethics have not been consistent or continuous for many employees.

In only 13 of 29 departments have more than half of employees received ethics training outside of new employee orientation. We measured training in Exhibit 22 with one question from the 2001 *Listening to the Workforce* survey :

- *LTW Q21*: Other than in new employee orientation, I have participated in some type of ethics awareness training as a City of Austin employee.

**EXHIBIT 22**  
**Indicator of Ethics Training**



SOURCE: OCA analysis of City of Austin 2001 *Listening to the Workforce* data.  
Note: Graph illustrates the proportion of agree and strongly agree responses.

Variation in the proportion of employees receiving additional ethics training (*LTW Q21*) ranged from 70 percent in NHCD to 14 percent in SMBR – an absolute difference of 56 percent.

The City requires all full-time permanent employees to attend Citywide new employee orientation, during which time HRD trainers present a segment on ethics. However, this ethics segment does not have a standard amount of time spent on it. We interviewed a few new employees who had attended the orientation, and they stated that the amount of time spent on the ethics section ranged from 5 to 30 minutes.

During FY 01, 43 employees also received training through HRD in two ethics courses: *Ethics in Public Service for Supervisors* and *Ethics in Public Service for Employees*. Specifically, *Ethics in Public Service for Supervisors* is part of the supervisor skills development academy required, since January 2002, for newly hired or newly promoted employees in their first City of Austin position requiring them to conduct performance planning and evaluation of subordinate non-civil service employees. A large number of lawsuits brought against organizations are due to supervisors not enacting policies because they did not understand them, although the organizations had clear policies.

If properly trained, supervisors can help to create an environment of candor and safety in their work group. Research has shown that in such an environment, employees will be more likely to inform management of developing ethical risks or problems before it is too late. HRD offers another course to aid work groups in creating an ethical environment. By request, HRD will present the course *Ethics in Public Service for Employees* to departments.

Nevertheless, Citywide communications about ethics are not continuous or comprehensive. All employees are not required to regularly attend ethics courses aside from new employee orientation. HRD did, for a limited time, include a series of six ethics-related articles in an employee newsletter. In addition, the Law Department prepares memos for department directors at Christmas time reminding them of the City's 'no gift' policy. However, best practice guidelines recommend continual ethics messages through training and other avenues of communication to keep ethics at the forefront of managers' and employees' minds. An additional benefit to the City of continuous ethics communications would be to help move passive employees into a more active posture, in which they are more willing to notice and report unethical conduct and to model ethical behavior.

**Employees don't have easy access to needed information.** While the City Manager's Expectations on Ethics are presented at new employee orientation, along with several ethics scenarios, these concepts have not been pulled together into a publication that employees could easily reference on the job. Employees with intranet access currently must navigate a complicated and counterintuitive path to access the information on line. Information about where and how to report wrongdoing outside of one's management structure is similarly difficult to access.

**The scope of the City's response to risks from employee misconduct needs broadening.**

Employees perceive that management follow-up when misconduct is discovered is not very high. Negative publicity around employee misconduct points out the need to address risks and controls early. After criminal and policy violations have occurred, the City Auditor's Integrity Unit (CAIU) has recently agreed to suggest internal controls informally. However, they do not prepare a report or follow up to ensure implementation.

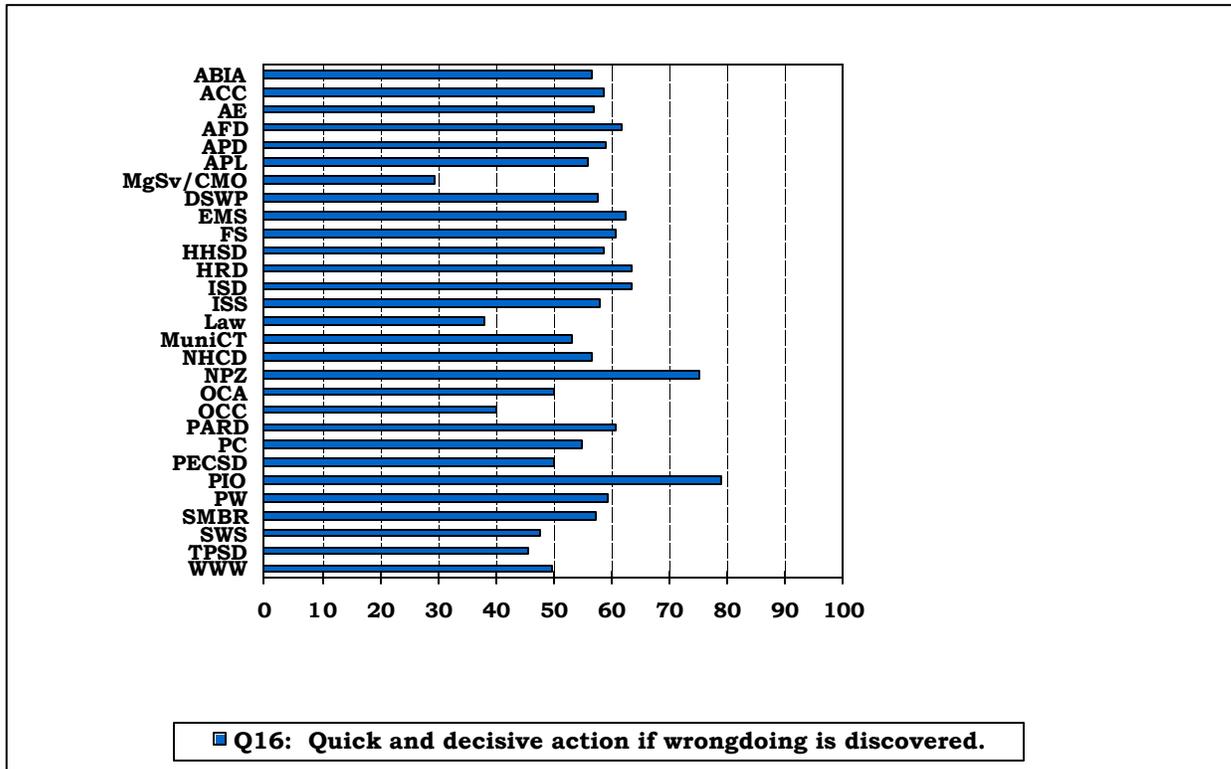
Employees' perceptions of follow-up on reports of discovered wrongdoing appear to be at a fairly low level across the City. Overall, in most departments less than 60 percent of employees report that appropriate action is taken when misconduct occurs. If the City has stated rules for employee conduct, then according to ethics management research it is important for the City to follow up when employees report concerns. Research has shown that without this follow-through, employees perceive that rules and regulations are simply for show and hold no substance. And, as a result, a positive ethical climate is diminished.

Exhibit 23 shows our analysis of an indicator of follow-up on reports of ethics concerns. We used one question to measure follow-up:

- *LTW Q16:* I am confident that quick and decisive action will be taken if wrongdoing is discovered in my work group.

## EXHIBIT 23

### Indicator of Follow-up Action When Wrongdoing is Discovered



SOURCE: OCA analysis of City of Austin 2001 *Listening to the Workforce* data.  
 Note: Graph illustrates the proportion of agree and strongly agree responses.

Employees’ reporting that quick and decisive action will be taken if wrongdoing is discovered in their work group (*LTW* Q16) varies from a high of 79 percent in PIO to the lowest proportion of positive responses in MgSv/CMO at 29 percent — an absolute difference of 50 percent.

**The City doesn’t currently monitor and analyze trends of reported wrongdoing: if such monitoring occurred at the corporate level, the City could address risks and controls before negative publicity occurs.** Negative publicity following disclosure of employee misconduct points out the need to address risks and controls early. Most of the time, department level liaisons and human resources managers investigate issues internally. However, after media reports of an inspector soliciting a bribe, the City Manager convened a task force to evaluate how such occurrences could be prevented in the future. After another recent negative media story about a City employee, one department took the

initiative to craft a system to have background checks on current employees and volunteers.

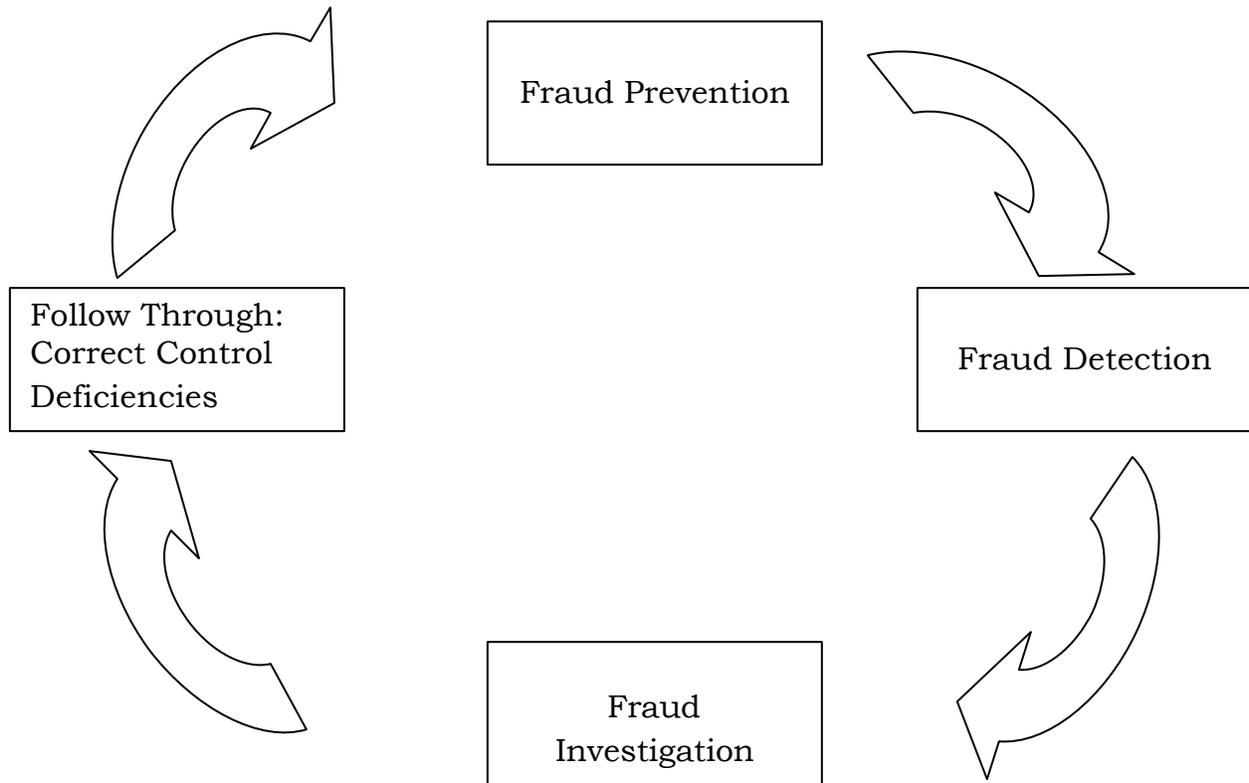
**The City Auditor's Integrity Unit (CAIU) recently has agreed to suggest internal controls informally after violations have occurred; however, CAIU does not prepare a report or follow-up to ensure implementation.** CAIU investigates integrity violations and will make recommendations, informally, for preventing future occurrences. CAIU has been able to point out a lack of controls or control breakdowns so that City departments could make changes. However, CAIU performs an investigative function and does not follow up to see if departments implement controls and accountability mechanisms. Officials at APD reported instances where the same crime reoccurred in a department where controls were not in place that would have aided in detection of the criminal activity. However, APD serves an investigatory role and does not recommend control improvements to departments.

A strong system of internal controls is viewed by members of the Association of Certified Fraud Examiners (ACFE) as the most effective anti-fraud measure. Regular fraud audits are also an important measure along with established fraud policies. In 86 percent of fraud cases reported to the ACFE, when fraud occurred the organization either had insufficient controls or had allowed its controls to be ignored by its employees or management.

Also, to qualify for fine reductions as a part of the Federal Sentencing Guidelines, companies should conduct an immediate investigation of a problem and identify the root cause of the violation. Once detected, the Guidelines specify that corrective action should be taken and the process should be modified to minimize the risk of a repeat offense.

The City of Austin needs a system, as depicted in Exhibit 24, which includes fraud prevention, fraud detection, fraud investigation, and follow through.

**EXHIBIT 24**  
**Model for Fraud Control**



**Recommendation and Management Response**

01. The City Manager should adopt and implement a best practice ethics management model that at a minimum addresses the seven requirements of the Federal Sentencing Guidelines for Organizations.

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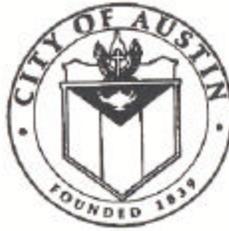
**MANAGEMENT RESPONSE: CONCUR**

The City Management Team is focused on building trust and confidence in our local government. An important cornerstone of this effort is ensuring a healthy ethical climate throughout the organization. Departmental models identified in the audit will become an important resource as we move forward with establishing a Citywide ethics program. (Summarized, see full response in Appendix A).



**APPENDIX A  
MANAGEMENT RESPONSE**





## MEMORANDUM

**TO:** Steve Morgan, City Auditor  
**FROM:** Toby Hammett Futrell, City Manager  
**DATE:** November 13, 2002  
**SUBJECT:** Response to Ethics Audit Recommendation

Steve, attached is the management response to your Citywide Ethics Audit. This audit contains one recommendation that the City Manager should adopt and implement a best practice ethics management model. As you know, my administration is focused on building trust and confidence in our local government. A fundamental element of trust and confidence is ensuring a healthy ethical climate throughout the organization.

I appreciate the audit's recognition of the many significant elements already in place in this organization. I also appreciate the best practices that you identified within departments. This will certainly be helpful as I move forward with my Management Initiatives. My goal is to pull these elements together into a comprehensive ethics model.

Toby Hammett Futrell  
City Manager



## **Citywide Ethics Audit Management Response**

### **Recommendation**

The City Manager should adopt and implement a best practice ethics management model that at a minimum addresses the seven requirements of the Federal Sentencing Guidelines for Organizations.

### **Management Response**

Concur and Underway. The City Management Team is focused on building trust and confidence in our local government. An important cornerstone to this effort is ensuring a healthy ethical climate throughout the organization. When Toby Futrell became the new City Manager in May 2002 she immediately began to focus on integrity in the workplace by evaluating existing ethics ordinances, programs and practices. This review also included an evaluation of important controls including signature authority, contract management and employee background investigations to name a few.

Additionally, the City Manager began discussing the organization's values, including an emphasis on integrity in the workforce, with her CMO team and the executive team within the organization. The Manager is developing a communication plan to include the entire workforce in her Management Initiatives, which will start with an evaluation of the organization's values and include an emphasis on integrity. This effort will be a top-down initiative but will involve all employees.

This audit has provided some valuable information regarding best practices that are already occurring within departments. These departmental models will become an important resource as we move forward with establishing a citywide ethics program.



**APPENDIX B  
METHODOLOGY**



## **Data Sources and Measurement For Objective 1 and Exhibits 1-9**

### 1997 Listening to the Workforce Survey

Obtained average score for each of the 23 departments with more than 10 respondents. Combined Mueller and New Airport employees (since most measures in City databases combine them).

*Employee awareness of misconduct:* Agree/disagree that “I’m personally aware of an illegal act or an ethics violation committed by a City employee in the past six months.”

### Integrity Unit database, Office of the City Auditor

Identified which departments were the subject of integrity investigations based on the following criteria:

*Any 1998 investigations:* Cases where the OCA launched an investigation in 1998, after determining an allegation was founded, or where the OCA provided referrals or assistance to outside agencies conducting their own investigations.

### 1998 Listening to the Workforce Survey

Obtained average score for each of the 23 departments with more than 10 respondents. Combined Mueller and New Airport employees (since most measures in City databases combine them).

*Example set by manager:* Agree/disagree with statement that “Managers in my work group set a good example by following the laws and policies that apply to their jobs.”

*Organizational commitment to ethics enforcement:* Constructed a scale based on agreement/disagreement with the following four questions: (1) managers in my department insist that employees follow the laws and policies that apply to their jobs, (2) managers in my department are supportive of employees who report improper behavior that they see, (3) managers in my department are committed to uncovering and disciplining unethical conduct when it occurs, and (4) I am confident that any ethics violation I report will be properly investigated.

*Intentions to keep working for City:* Agree/disagree that “I intend to be working here a year from now.”

*Vehicle use:* Percent of departmental respondents who indicated use of a City vehicle based on the following question: “Indicate the type of

vehicle from the list below that you and your office used most frequently over the past 12 months.”

#### 1999 Listening to the Workforce Survey

Obtained average score for each of 23 departments with more than 10 respondents.

*Value customers get for money:* Employee rating (from very good to very poor) of “The value of what customers get for their dollars, including taxes and fees (getting their money’s worth from your department).”

#### 1996 Manager Survey

Based on content-coding of 21 interviews on ethical issues conducted with top departmental managers by the Office of the City Auditor in October 1996. The interview with the head of the New Airport Team was dropped because most data sources combined both airports into a single department, leaving 20 cases available for analysis.

*Manager stresses frequent reminders:* This was coded if the manager advocated frequent, routine, and repetitive reminders to workers of ethical issues or otherwise stressed making ethics part of the organizational culture, something that is emphasized over and over, not just in one-shot training. Thirteen managers stressed frequent reminders.

#### Legal claims

Based on Law Department claims data provided to OCA for its risk assessment analysis. Consists of the number and amount of claims paid by the City during the time period 2/1/98 through 1/31/99 for each department.

#### Worker injuries involving time lost from work

Based on a table provided by HRD tabulating by department the number of workers compensation claims filed during the 1998 fiscal year involving time lost from work.

### Complaints by the public

Based on data on public contacts provided to OCA for its risk assessment analysis by the Public Information Office. Only contacts involving complaints made or problems described by members of the public are included in the analysis. The time period covered is the calendar year 1998.

### Sick leave usage

Based on Banner data provided to OCA for its sick leave report. The data include hours of sick leave accrued and taken for 23 pay periods in calendar year 1998, ending 12/14/98. Because employees in different classes accrue sick leave at different rates, the percent of accrued sick leave taken was used to measure sick leave instead of the number of hours taken. Also, because a few maternity cases or seriously ill workers can bias department averages upward, the median amount (50<sup>th</sup> percentile) of sick leave taken was used to represent the department's overall rate of sick leave usage.

### High turnover

Based on Banner data provided to OCA for its risk assessment analysis. Temporary employees were excluded from the calculation of turnover. Departmental turnover was first calculated as the total number of employees separated during the time period 10/26/97 through 9/12/98, divided by the number of active employees per department as of 9/12/98. Departments were then further categorized by whether they had excessively high turnover (25% or higher).

### Inherent dangerousness of occupation

This was a control variable based on auditor judgment. Departments identified as having inherently dangerous work were Police, Fire, EMS, Austin Electric, and Water/Wastewater.

### Departmental work involves law or code enforcement

This was a control variable based upon auditor judgment and analysis of departmental organizational structure. Departments designated as having divisions or programs that involved law or code enforcement were Police, Fire, Health and Human Services, Development Review and Inspection, Municipal Court, and Watershed Protection.

### Department size

Based on Banner data provided by HRD to OCA for its risk assessment analysis. Defined as the number of non-temporary employees working for the department as of 9/12/98.

## **Analysis Procedure**

The first step was to categorize departments as high or low on each of the six ethical indicators. Median splits were utilized to dichotomize variables into two roughly even groups. The “low” group consists of those departments with responses below the median (cumulative percent less than or equal to 50 percent), while the “high” group is defined as those whose averages are above the median value (cumulative percent greater than 50 percent).

The six ethical indicators are:

1. employee agreement that managers in their work group set a good ethical example (1998 workforce survey);
2. employee perceptions of a departmental commitment to enforcing high ethical standards (composite from 1998 workforce survey);
3. managers advocating frequently reminding employees of ethical considerations related to their work (1996 OCA manager interviews);
4. employee agreement that they are personally aware of unethical or illegal behavior by City employees (1997 workforce survey);
5. integrity investigations initiated in the department (1998 OCA Integrity Unit database); and
6. managers cynical attitudes toward unethical conduct (1996 OCA manager interviews).

Measures of the financial and administrative impact of departmental differences in ethical climate are:

1. the number and cost of successful claims filed by Austin residents and businesses for damage caused by City employees (Law Department claims data);
2. injuries to employees involving time lost from work (Workers’ Compensation claims data);
3. complaints made by customers (Public Information Office data);
4. employee assessments of the value their departments provide to customers (1999 workforce survey);
5. sick leave usage (HRD Banner data);
6. high employee turnover (HRD Banner data)
7. employee intentions to continue working for the City (1998 workforce survey).

The correlation between each of the ethical indicators and each of the outcome measures was calculated. Since the data include both ordinal and interval measures, Kendall’s tau-b was used to obtain the correlations. Because we had directional hypotheses, a one-tailed test of significance was used with the alpha level set at .05.

For some outcome measures—the number and amount of legal claims, the number of worker injuries, and the number of complaints by the public—multivariate analyses were also performed to rule out competing hypotheses that might have produced spurious correlations between the ethics indicators and the outcome variables. Due to the censored nature of their distributions (i.e, there were a substantial number of cases with a zero value), Tobit regressions were used to analyze legal claims and worker injuries. Ordinary least squares regression was used for the complaints data. The outcome data were transformed to normalize their distributions as much as possible and to reduce the impact of outliers. Square root transformations were used for the amount of legal claims and the number of complaints, while natural log transformations were used for the number of claims paid and the number of injuries involving time lost from work.

### **Methodology for Objective 3**

Questions from the City’s 2001 *Listening to the Workforce (LTW)* survey served as measures of outcomes from ethics management strategies and as measures of the ethical climate. Our measures represent the proportion of employees who responded with agree and strongly agree to selected questions. We also calculated Pearson correlation coefficients to identify linear relationships between ethical climate factors and outcomes.

The Economic Development Office was omitted from our analysis because the Office only had 2 responses to the 2001 *Listening to the Workforce* survey. The Mayor and City Councils’ Offices were also omitted from our analysis in accordance with the government auditing standard on independence.

We used SPSS software to assess the relationships between the following questions:

2001 *Listening to the Workforce* Questions

Q6 If I have a complaint in my department, it will be handled fairly.
Q7 The City's personnel policies are interpreted and used fairly by managers in my department.
Q8 The City's personnel policies are interpreted and used fairly by the City's Human Resources Department.
Q9 My values and the values of my department are similar.
Q10 I am proud to tell people that I work for the City of Austin.
Q11 I intend to be working for the City of Austin a year from now.
Q12 I have a strong commitment to the City of Austin as my employer.
Q13 Employees in my work group behave ethically in the workplace.
Q14 Managers in my work group set a good example by following the laws and policies that apply to their jobs.
Q15 Managers in my department insist that employees follow the laws and policies.
Q16 I am confident that quick and decisive action will be taken if wrongdoing is discovered my work group.
Q17 If I become aware of unethical behavior, I know how I can report it.
Q18 Employees in my work group can report any unethical behavior they see without fear of retaliation.
Q19 I am familiar with the City of Austin Ethics Code.
Q20 I am familiar with the Administrative Bulletin on "Fraud, Waste, and Abuse Prevention."
Q21 Other than in New Employee Orientation, I have participated in some type of ethics awareness training as a City of Austin employee.
Q44 When changes in pay occur, I feel they are made fairly.

**APPENDIX C**  
**ETHICAL CLIMATE FACTORS AND OUTCOMES**



## Ethical Climate Factors and Outcomes

Ethical climate factors and outcomes were found in “Managing Ethics and Legal Compliance: What Works and What Hurts” by Linda Trevino (*California Management Review*, Winter 99, Vol. 41 Issue 2).

### **Seven Outcomes Relevant to Effective Ethics Management**

1. Less unethical and illegal behavior
2. Employee awareness of ethical and legal issues that arise at work
3. More likely that an employee facing an ethics or legal compliance issue will ask for help and guidance within the organization
4. Increased employee willingness to report bad news to management
5. Employees are willing to report ethical or legal violations to management
6. Employees perceive the ethics program as contributing to better decision making in the organization
7. Employee commitment is higher

### **Organizational Factors associated with Ethics Management Effectiveness**

1. A values orientation is the most effective single orientation
2. A compliance or external stakeholder orientation is also helpful
3. Combining orientations may be effective
4. “Protect top management” is clearly a harmful approach
5. Formal program characteristics are relatively unimportant
6. Program follow through is essential

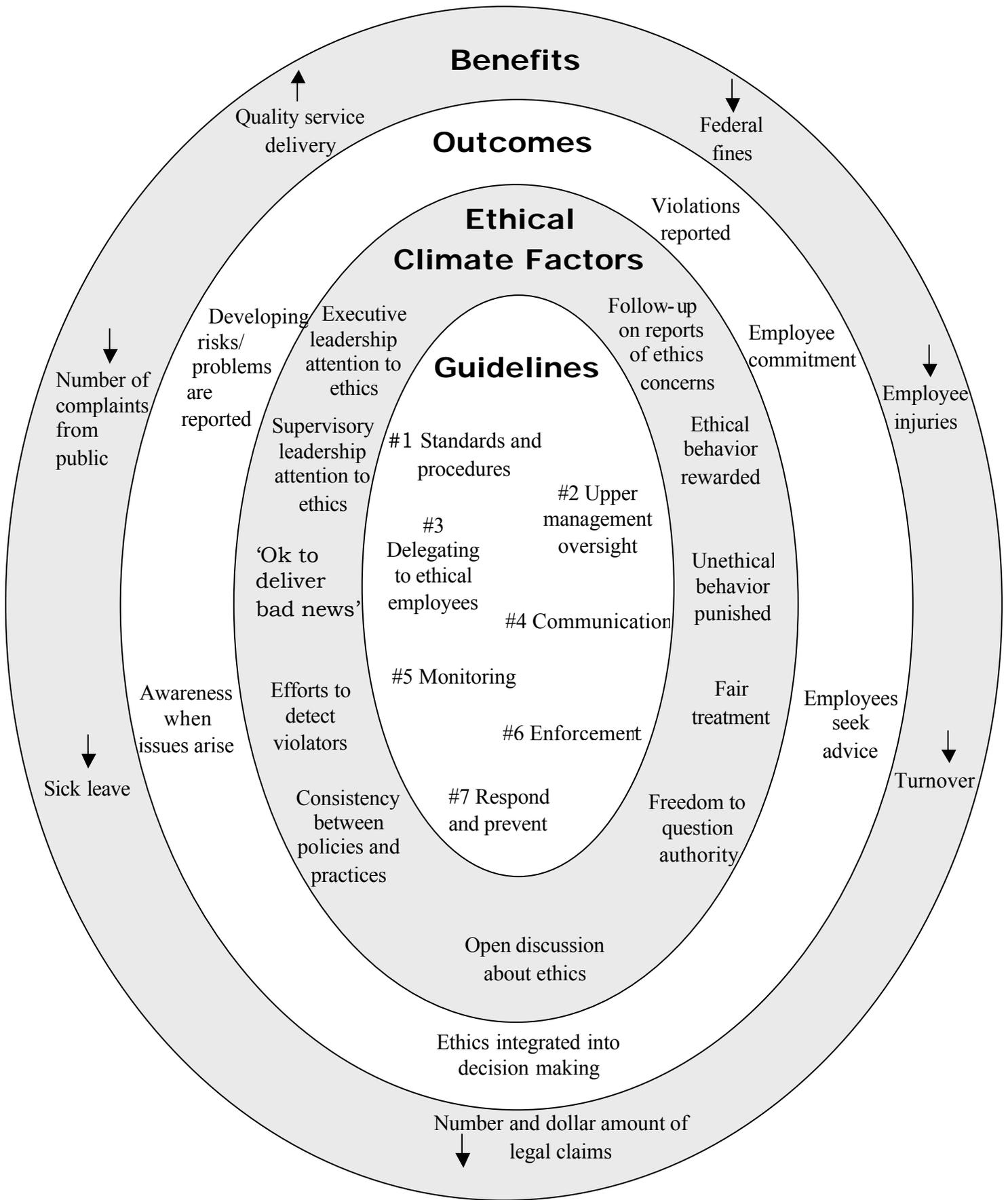
### **Key Ethical Culture Factors**

1. Executive and supervisory leadership
2. Fair treatment of employees
3. Perception that ethics is talked about and integrated into decision making
4. Reward systems that support ethical conduct
5. An obligation to question authority when something seems wrong
6. Perception that the organization is focused on what’s best for employees or the public

### **What Hurts**

1. Perceived expectation of unquestioning obedience to authority
2. Perceived management focus of self interest rather than concern for employees and the community

The exhibit which follows concisely describes an ethics management program: from the ethics management guidelines, ethical climate factors, outcomes, to the benefits. In the inner circle are the foundation guidelines for an ethics management program. These guidelines were taken from the Federal Sentencing Guidelines for organizations. In the next circle are the ethical climate factors of an ethics management program, which are taken from best practice literature. These factors are characteristics of what should be created by an ethics management program. Furthermore, in the next circle, best practices assert the outcomes listed that could be expected of an effective ethics management program. In the outer circle are the benefits that are likely to occur if an organization establishes an ethics management program. All of the benefits listed come from the prior Office of the City Auditor report *Ethics in the City: A Headlights Report to the City Manager*, except for “lower federal fines” which comes from a book published by the Institute of Internal Auditors, Federal Sentencing Guidelines: A Guide for Internal Auditors.





**APPENDIX D**  
**CORRELATIONS AND SUMMARY STATISTICS**



2001 *Listening to the Workforce* Questions

Q6 If I have a complaint in my department, it will be handled fairly.
Q7 The City's personnel policies are interpreted and used fairly by managers in my department.
Q8 The City's personnel policies are interpreted and used fairly by the City's Human Resources Department.
Q9 My values and the values of my department are similar.
Q10 I am proud to tell people that I work for the City of Austin.
Q11 I intend to be working for the City of Austin a year from now.
Q12 I have a strong commitment to the City of Austin as my employer.
Q13 Employees in my work group behave ethically in the workplace.
Q14 Managers in my work group set a good example by following the laws and policies that apply to their jobs.
Q15 Managers in my department insist that employees follow the laws and policies.
Q16 I am confident that quick and decisive action will be taken if wrongdoing is discovered my work group.
Q17 If I become aware of unethical behavior, I know how I can report it.
Q18 Employees in my work group can report any unethical behavior they see without fear of retaliation.
Q19 I am familiar with the City of Austin Ethics Code.
Q20 I am familiar with the Administrative Bulletin on "Fraud, Waste, and Abuse Prevention".
Q21 Other than in New Employee Orientation, I have participated in some type of ethics awareness training as a City of Austin employee.
Q44 When changes in pay occur, I feel they are made fairly.

Correlations Between Selected 2001 *Listening to the Workforce* Questions

	<b>Q06</b>	<b>Q07</b>	<b>Q08</b>	<b>Q09</b>	<b>Q10</b>	<b>Q11</b>	<b>Q12</b>	<b>Q13</b>	<b>Q14</b>	<b>Q15</b>	<b>Q16</b>	<b>Q17</b>	<b>Q18</b>	<b>Q19</b>	<b>Q20</b>	<b>Q21</b>	<b>Q44</b>
<b>Q06</b>	1.00	.745**	.379*	.648**	.329	.071	-.281	.075	.442*	.320	.205	.665**	.712**	.419*	.023	.357	.019
<b>Q07</b>	.745**	1.00	.283	.499**	.325	.323	-.088	.271	.311	.380*	.502**	.564**	.504**	.510**	.134	.074	.084
<b>Q08</b>	.379*	.283	1.00	.542**	.319	-.132	-.520**	-.113	.020	.291	.358	.393*	.445*	.062	-.016	.400*	.217
<b>Q09</b>	.648**	.499**	.542**	1.00	.440*	.124	-.508**	.256	.416*	.580**	.311	.719**	.701**	.219	-.108	.412*	.433*
<b>Q10</b>	.329	.325	.319	.440*	1.00	.346	-.083	.485**	.504**	.480**	.079	.243	.137	.175	.128	.295	.358
<b>Q11</b>	.071	.323	-.132	.124	.346	1.00	.500**	.483**	.134	.711**	.386*	.261	-.003	.189	.270	.129	.379*
<b>Q12</b>	-.281	-.088	-.520**	-.508**	-.083	.500**	1.00	.031	-.135	.051	-.107	-.374*	-.443*	.112	.357	-.096	.020
<b>Q13</b>	.075	.271	-.113	.256	.485**	.483**	.031	1.00	.475**	.584**	.233	.053	-.173	.226	.106	-.223	.269
<b>Q14</b>	.442*	.311	.020	.416*	.504**	.134	-.135	.475**	1.00	.421*	-.073	.429*	.388*	.421*	0.084	.164	.117
<b>Q15</b>	.320	.380*	.291	.580**	.480**	.711**	.051	.584**	.421*	1.00	.485**	.567**	.326	.353	.276	.415*	.515**
<b>Q16</b>	.205	.502**	.358	.311	.079	.386*	-.107	.233	-.073	.485**	1.00	.467*	.421*	.239	.216	.300	.359
<b>Q17</b>	.665**	.564**	.393*	.719**	.243	.261	-.374*	.053	.429*	.567**	.467*	1.00	.855**	.291	-.033	.570**	.258
<b>Q18</b>	.712**	.504**	.445*	.701**	.137	-.003	-.443*	-.173	.388*	.326	.421*	.855**	1.00	.307	-.016	.603**	.242
<b>Q19</b>	.419*	.510**	.062	.219	.175	.189	.112	.226	.421*	.353	.239	.291	.307	1.00	.642**	.197	.172
<b>Q20</b>	.023	.134	-.016	-.108	.128	.270	.357	.106	.084	.276	.216	-.033	-.016	.642**	1.00	.230	.361
<b>Q21</b>	.357	.074	.400*	.412*	.295	.129	-.096	-.223	.164	.415*	.300	.570**	.603**	.197	.230	1.00	.379*
<b>Q44</b>	.019	.084	.217	.433*	.358	.379*	.020	.269	.117	.515**	.359	.258	.242	.172	.361	.379*	1.00

2001 *Listening to the Workforce* data and OCA analysis.

Note: \*Correlation is significant at the 0.05 level.

\*\*Correlation is significant at the 0.01 level.

	<b>Mean</b>	<b>Median</b>	<b>Mode</b>	<b>Min.</b>	<b>Max.</b>	<b>Range</b>	<b>Std. Deviation</b>
<b>QQ06</b>	43.89	43.17	62.50	23.53	62.50	38.97	9.43
<b>QQ07</b>	47.68	47.58	40.00	23.53	62.50	38.97	8.90
<b>QQ08</b>	41.34	42.64	40.00	14.29	58.54	44.25	8.92
<b>QQ11</b>	83.17	83.33	100.00	60.00	10.00	40.00	7.35
<b>QQ12</b>	82.98	83.33	83.33	70.00	100.00	30.00	6.66
<b>QQ13</b>	73.44	73.33	71.43	57.05	90.00	32.95	8.19
<b>QQ14</b>	65.65	65.79	66.67	46.31	83.87	37.56	8.31
<b>QQ15</b>	75.49	75.13	72.41	50.00	100.00	50.00	8.44
<b>QQ16</b>	55.83	57.14	50.00	29.41	78.95	49.54	9.91
<b>QQ17</b>	71.80	72.41	75.00	50.00	87.50	37.50	9.29
<b>QQ18</b>	50.01	51.09	40.00	28.57	62.50	33.93	8.36
<b>QQ19</b>	67.76	68.78	70.00	51.01	83.87	32.86	7.30
<b>QQ20</b>	46.32	46.81	50.00	28.22	67.74	39.52	10.16
<b>QQ21</b>	48.02	49.61	30.00	14.29	70.00	55.71	10.47
<b>QQ44</b>	32.33	33.33	33.33	10.00	47.15	37.15	7.11



**APPENDIX E**  
**DEPARTMENT ABBREVIATIONS**



<b>Abbreviation</b>	<b>Department</b>
ABIA	Austin Bergstrom International Airport
ACC	Austin Convention Center
AE	Austin Energy
AFD	Austin Fire Department
APD	Austin Police Department
APL	Austin Public Library
MgSv/CMO	Community Court Government Relations Office Office of Emergency Management Redevelopment Office All other Management Services/CMO staff
DSWP	Development Services/Watershed Protection
EMS	Emergency Medical Services
FS	Financial Services
HHSD	Health and Human Services
HRD	Human Resources Department
ISD	Information Systems Department
ISS	Infrastructure Support Services
Law	Law Department
MuniCt	Municipal Court
NHCD	Neighborhood Housing & Community Development
NPZ	Neighborhood Planning and Zoning
OCA	Office of the City Auditor
OCC	Office of the City Clerk
PARD	Parks and Recreation Department
PC	Primary Care
PECSD	Planning, Environmental and Conservation Services Dept
PIO	Public Information Office
PW	Public Works Department
SMBR	Small & Minority Business Resources
SWS	Solid Waste Services
TPSD	Transportation Planning & Design
WWW	Water and Wastewater



**APPENDIX F**  
**SUMMARY OF THE FEDERAL SENTENCING GUIDELINES**



The Federal Sentencing Guidelines for Organizations have the same basic format as the Internal Control Integrated Framework Model referred to as the COSO model from the auditing profession. COSO and the Guidelines both focus on developing a strong control system. COSO is much broader than the Guidelines, but all of the Guidelines' requirements can be explained within the context of COSO. Even though there is significant overlap in their content, there is also a fundamental difference. While COSO provides many illustrations of what constitutes strong internal control, it does not mandate specific actions. However, the Guidelines contain explicit requirements for an effective ethics/legal compliance program. The two models are compared in the graph that follows.

## Elements of An Ethics/Compliance Strategy: COSO and The Federal Sentencing Guidelines Organizations

COSO	Federal Sentencing Guidelines for Organizations (FSG)
<b>Organizational Culture (Control Environment)</b>	
<ul style="list-style-type: none"> <li>Management should set the “tone at the top.” Management leads by actions.</li> </ul>	<ul style="list-style-type: none"> <li>Sanctions if top management knew, tolerated, or condoned improper conduct.</li> <li>Rewards for cooperation and contrition.</li> <li>“Due diligence” requirement.</li> <li>Upper management oversight of ethics/compliance program (FSG#2).</li> </ul>
<ul style="list-style-type: none"> <li>Integrity and ethical values. Code of ethics. Mechanism to encourage reporting.</li> </ul>	<ul style="list-style-type: none"> <li>Code of ethics (FSG#4).</li> <li>Additional reporting mechanisms.</li> </ul>
<ul style="list-style-type: none"> <li>Human resources. Hiring those with evidence of integrity. Consistent discipline.</li> </ul>	<ul style="list-style-type: none"> <li>Do not delegate to those with criminal tendencies (FSG#3).</li> <li>Consistent discipline (FSG#6).</li> </ul>
<b>Goals and Obstacles (Risk Assessment)</b>	
<ul style="list-style-type: none"> <li>Objectives related to operations, financial reporting, and compliance.</li> <li>Identification and analysis of relevant risks.</li> <li>A strategy to manage risks.</li> </ul>	<ul style="list-style-type: none"> <li>Provide incentives to maintain internal controls.</li> <li>Organization must identify whether there are any risks from illegal or unethical conduct.</li> </ul>
<b>Policies and Procedures (Control Activities)</b>	
<ul style="list-style-type: none"> <li>Policies and procedures to help ensure that management’s directives are followed.</li> </ul>	<ul style="list-style-type: none"> <li>Establish standards and procedures that are capable of reducing the prospect of criminal conduct (FSG#1).</li> <li>After violations occur, determine what modifications need to be made to prevent future problems (FSG#7).</li> </ul>
<b>Systems and Communications (Information and Communication)</b>	
<ul style="list-style-type: none"> <li>Pertinent information must be identified, captured, and communicated in an appropriate format and time frame.</li> </ul>	<ul style="list-style-type: none"> <li>Must take steps to communicate effectively its standards and procedures to all employees and other agents.</li> <li>Required training or publications.</li> <li>Establish additional reporting mechanisms (such as Hotlines, Helplines) (FSG#5).</li> </ul>
<b>Evaluation and Feedback (Monitoring)</b>	
<ul style="list-style-type: none"> <li>Ongoing assessment of the internal control system.</li> </ul>	<ul style="list-style-type: none"> <li>Utilize monitoring and auditing systems designed to detect criminal conduct (FSG#5).</li> </ul>

SOURCE: *Control Model Implementation: Best Practices and Federal Sentencing Guidelines: A Guide for Internal Auditors.*

**APPENDIX G**  
**LIST OF DEPARTMENTS THAT PROVIDED INFORMATION**



### Department Directors and Human Resources Managers Interviews

Name	Title	Department	Date of interview
Willie Rhodes	Director	Solid Waste Services	5/29/2002
Peter Rieck	Director	Public Works	5/30/2002
Austan Librach	Director	Transportation, Planning & Sustainability	5/30/2002
Alice Glasco	Director	Neighborhood Planning & Zoning	5/31/2002
Kerry Overton	Director	Infrastructure Support Services	5/31/2002
Jesus M. Olivares	Director	Parks and Recreation	6/03/2002
David Lurie	Director	Health and Human Services	6/04/2002
Richard Herrington	Director	Emergency Medical Services	6/04/2002
Chris Lippe	Director	Water and Wastewater	6/05/2002
Rebecca Stark	Clerk of the Court	Municipal Court	6/05/2002
Robert Hodge	Director	Convention Center	6/06/2002
Juan Garza	Director	Austin Energy	7/24/2002
Human Resources Managers			
Sylvia Gonzalez	Human Resources Manager	Infrastructure Support Services	6/06/2002
Rick Ramirez	Administration and Finance Manager	Parks and Recreation	6/13/2002
Charles Williams	Solid Waste Services Division Manager	Solid Waste Services	6/13/2002

### **Department Directors that responded by E-mail**

<b>Name</b>	<b>Title</b>	<b>Department</b>
Paul Hilgers	Director	Neighborhood Housing and Community Development
Chief Gary Warren	Director	Austin Fire Department
Michele Middlebrook-Gonzalez	Director	Public Information Office
Steve Collier	Director	Office of Emergency Management
Gregory Toomey	Community Court Administrator	Community Court
Mike Heitz	Director	Watershed Protection and Review Department (referred to as as Development Service/Watershed Protection (DSWP) in the 2001 <i>Listening to the Workforce</i> survey)

**APPENDIX H**  
**RESULTS OF THE CITY SURVEY**



Information about specific ethics management strategies can be obtained from other cities. In a survey conducted by the Office of the City Auditor (OCA), eight Texas cities (Abilene, Arlington, Beaumont, Dallas, Garland, Houston, Irving, and Plano) and another city (Kansas City, MO) all responded that they had some elements of an effective ethics/legal compliance management strategy in place. The exhibits that follow give summaries for what the Federal Sentencing Guidelines state, which cities have items in place to meet each guideline, and a description of the specific practices in place in each city.

In Exhibit A, there are five strategies that cities have implemented to meet the first federal sentencing guideline. More than half of the cities responding have some type of compliance standards and procedures that can reduce criminal conduct.

**EXHIBIT A**  
**Federal Sentencing Guideline #1**

Establish compliance standards and procedures that can reduce criminal conduct.	
<b>Activities</b>	<b>City</b>
<ul style="list-style-type: none"> <li>• Personnel Rules,</li> <li>• Code of Ethics</li> <li>• Waste, Fraud, and Abuse Policy</li> <li>• Admin. Directive - Acceptable use of City Provided e-mail and Internet Services</li> </ul> <p>All employees and city officials are provided with the above referenced information upon initial employment with the city. Then after staff review with the new employee, each employee is asked to sign statements attesting to their understanding of the policies and procedures.</p> <p>Audit office is responsible for ensuring that all grant funds are used in accordance with federal, state, and local laws.</p>	Dallas
City Council Ethics Policy, and City Manager’s Fraud Directive	Garland
Code of Ethics	Plano
Drafting ethics guidelines	Beaumont
Personnel policies	Arlington

SOURCE: *Federal Sentencing Guidelines: A Guide for Internal Auditors* and OCA survey.

The survey we conducted did not ask specifically about the second Federal Sentencing Guideline: designating high-level personnel to oversee compliance. However, initially we contacted a city’s audit office and asked who would be the best person to complete the survey. Of the nine people completing surveys, four were from legal; three were from audit; one was from human resources; and one person worked in the City manager’s office.

In Exhibit B, two items are shown that cities have implemented to meet the third federal sentencing guideline. The majority of the cities that responded to our survey have not implemented formal procedures to exercise due care not to delegate significant authority to a person known to have criminal tendencies.

**EXHIBIT B**  
**Federal Sentencing Guideline #3**

Avoid delegating discretionary authority to those likely to act unlawfully.	
<b>Activities</b>	<b>City</b>
All “new hires” are subject to a criminal background check and drug screening prior to a final offer being extended.	Abilene
Hiring practices include “ethics scenario challenges” during the interview process	Beaumont

SOURCE: *Federal Sentencing Guidelines: A Guide for Internal Auditors* and OCA survey.

Exhibit C contains five items that cities have implemented to meet the fourth federal sentencing guideline. All cities that responded to our survey have developed some method of communicating policies and procedures to all employees and other agents. All cities discuss ethics during new employee orientation.

**EXHIBIT C**  
**Federal Sentencing Guideline #4**

Effectively communicate the organizations standards and procedures through training and/or publications.	
<b>Activities</b>	<b>City</b>
New employee orientation	Abilene, Dallas, Garland, Irving, Kansas City, MO, Arlington, Houston, Beaumont, Plano
Ethics training	Abilene, Dallas
Monthly city magazine has an ethics-related article	Kansas City, MO
Ethics pamphlets or brochures	Kansas City, MO, Houston
Employee newsletter	Arlington, Houston

SOURCE: *Federal Sentencing Guidelines: A Guide for Internal Auditors* and OCA survey.

In Exhibit D, there are six items that cities have implemented to meet the second part of the fifth federal sentencing guideline, a reporting mechanism where employees can report criminal conduct without fear of retaliation. We did not specifically ask cities about the first part of the guideline: if they use internal controls to monitor and audit their systems to detect and prevent misconduct.

The majority of the cities stated that employees were encouraged to report criminal or unethical conduct to their supervisor or to the human resources department. Almost a majority of the cities stated that employees could report instances through a fraud hotline.

**EXHIBIT D**  
**Federal Sentencing Guideline #5**

Take reasonable steps to achieve compliance through audits, monitoring processes, and a system for employees to report criminal conduct without fear of retribution.	
<b>What the city has implemented</b>	<b>Cities that have implemented</b>
Employees are encouraged to report instances to a supervisor or the Human Resources Department.	Abilene, Beaumont, Arlington, Irving, Plano, Kansas City, MO
Employees are encouraged to report instances to a fraud hotline.	Dallas, Garland, Irving, Kansas City, MO
Employees are encouraged to report instances to the city management.	Beaumont, Kansas City, MO
Employees are encouraged to report instances to the general auditor.	Kansas City, MO
Employees are encouraged to report instances to the Police Department.	Irving
Employees are encouraged to report instances to the Office of the Inspector General (“umbrella agency” within the Houston Police Department).	Houston

SOURCE: *Federal Sentencing Guidelines: A Guide for Internal Auditors* and OCA survey.

Exhibit E shows five items that cities have implemented to meet the sixth federal sentencing guideline. In general, all cities go through some centralized process to ensure consistent disciplinary action. Three cities ensure consistent enforcement of the standards through appropriate disciplinary mechanisms by having discipline coordinated with the human resources personnel.

**EXHIBIT E**  
**Federal Sentencing Guideline #6**

Consistently enforce standards through appropriate disciplinary measures.	
<b>What the city has implemented</b>	<b>Cities that have implemented</b>
Discipline is coordinated with the Human Resources Department.	Abilene, Garland, Irving, Arlington
Pervasive acts are eventually reported to the Auditor's waste, fraud and abuse hotline. Then, audit office investigators write up a complaint and require management to respond to an incident within 30 days.	Dallas
Department director has the responsibility to administer discipline for employees in their department. The Director of Human Resources Department has the responsibility to monitor and comment on the consistency of that discipline.	Kansas City, MO
Office of the Inspector General ("umbrella agency" within the Houston Police Department) makes appropriate recommendation for all employee conduct citywide.	Houston
Human Resources representative is involved in the department director's and supervisor's decision on employee disciplinary action.	Beaumont, Plano

SOURCE: *Federal Sentencing Guidelines: A Guide for Internal Auditors* and OCA survey.

Exhibit F shows five items that cities have implemented to meet the seventh federal sentencing guideline. The majority of the cities stated that they have implemented some necessary steps to prevent any similar occurrences in the future, including modifying the compliance program. In general, these cities stated that the department and/or policies and procedures are reviewed and necessary changes are made to prevent additional violations.

**EXHIBIT F**  
**Federal Sentencing Guideline #7**

Respond appropriately when offenses are detected and take reasonable steps to prevent the occurrence of similar offenses in the future.	
<b>What the city has implemented</b>	<b>Cities that have implemented</b>
Thorough review by department in coordination with human resources personnel and police department, if necessary, determines action taken	Abilene
Analyze to determine culpability, document, involve City Manager, City Attorney, Human Resources, then Police if necessary	Garland
This matter may be referred to law enforcement. In addition, the city would finalize any internal investigation and administer appropriate discipline.	Plano
After such instances are found and resolved, review is made to ascertain what allowed the event to take place and determine what preventative or detective controls need to be established or if procedures should be changed to prevent reoccurrence.	Kansas City, MO
Recommendations for revised policies and procedures or additional training	Arlington, Beaumont

SOURCE: *Federal Sentencing Guidelines: A Guide for Internal Auditors* and OCA survey.

