



TORONTO STAFF REPORT

December 31, 2004

To: Audit Committee

From: Auditor General

Subject: Annual Report on the Status of Fraud and Related Matters,
Including the Operation of the Fraud and Waste Hotline Program

Purpose:

To submit, as requested by the Audit Committee, an annual report on the status of fraud and related matters, including the operation and activities of the Fraud and Waste Hotline Program.

Financial Implications and Impact Statement:

Complaints received by the Auditor General's Office (related to suspected fraud or irregular activity involving City resources) may result in an investigation being conducted or may also be referred to City departments for review, as summarized in this report. In some cases, substantiated complaints have or may result in the recovery of funds to the City. In addition, recommendations made to management resulting from investigations conducted and complaints referred to Departments for review and appropriate action, should minimize the risk of fraudulent activities and other improprieties, thereby mitigating potential losses to the City.

Recommendation:

It is recommended that this report be received for information.

Background:

This report represents the Auditor General's annual report to the Audit Committee on the status of fraud and related matters, including the operation and activities of the Fraud and Waste Hotline Program.

Legislated Impetus to Establish Anonymous Reporting Mechanisms

The City's establishment of an anonymous reporting program is aligned with a legislated impetus that has mandated the use of a hotline or other anonymous reporting mechanism as an

effective means of detecting irregularity. In response to various Corporate scandals in the United States, the Sarbanes-Oxley corporate reform law was passed in 2002 requiring public company audit committees to establish confidential reporting mechanisms for employees. Last year, related implementation rules were adopted by the U.S. Securities and Exchange Commission on receiving and addressing confidential and anonymous complaints from employees. In Canada, recent amendments to the Canadian Criminal Code were designed to protect employees from employment-related retribution due to “whistleblowing”.

This legislated impetus, along with initiatives by internal audit organizations, media coverage and professional literature, require private and government organizations to focus on enhancing corporate governance practices and seem to have all contributed to the use of a hotline (or other anonymous reporting mechanism) becoming a best practice.

A significant number of US municipal and state governments operate a fraud and waste hotline. A number of Canadian cities are considering the establishment of such a program.

Anonymous Reporting Mechanisms – Effective Means of Detecting Fraud or Irregularity

The most cost-effective way to deal with fraud or irregularities involving City resources is to prevent it. Establishment of an anonymous hotline in an organization to report inappropriate or unethical conduct is one initiative that may enhance control and accountability bringing an organization one step closer to minimizing the risk of irregular conduct involving corporate resources.

Our research continues to indicate that anonymous reporting mechanisms are an effective means of detecting irregularities as tips or complaints received by an organization remain the most common means of detecting fraud.

The Association of Certified Fraud Examiners (a U.S. based global professional association), in its comprehensive study entitled “2004 Report to the Nation on Occupational Fraud and Abuse” indicates that while frauds may be detected through various sources, the greatest percentage of frauds detected were as a result of a tip:

<u>Initial Detection of Occupational Frauds – 2004 *</u>	
	<u>Percent of Cases</u>
Tips	[_____] 39.6%
Internal Audit	[_____] 23.8%
By Accident	[_____] 21.3%
Internal Controls	[_____] 18.4%
External Controls	[_____] 10.9%
Notified by Police	[] .9%

* Source: The Association of Certified Fraud Examiners, 2004 Report to the Nation on Occupational Fraud and Abuse

Reporting Incidents of Fraud or Other Irregularities

Fraud detection and reporting are an important component in an organization's system of internal controls. The City of Toronto's Policy on Fraud and Other Similar Irregularities (the Fraud Policy) formalized the duty of employees to report all allegations of fraud or other irregularity involving City resources to the Auditor General's Office.

Suspected incidents of fraud or other improprieties are brought to the attention of the Auditor General by City staff, suppliers, or the public. These incidents may be reported to the Auditor General directly by City staff, by mail, through an anonymous telephone Hotline (416-397-STOP (7868) with 24-hour voice-mail) or via the Internet using a secure on-line form. The Auditor General may also identify incidents in the course of conducting audits.

Comments:

City's Fraud and Waste Hotline Program

The City of Toronto's Fraud and Waste Hotline Program (the Hotline Program) is an ongoing initiative operated by the Auditor General's Office, established as a centralized facility for anonymous reporting of allegations of fraud, waste and other irregularities involving City resources (referred to as complaints). Operation of the Hotline Program includes administration of complaint intake, electronic tracking of complaints, disposition of complaints received, and the annual reporting on the activity of the Hotline Program.

The Hotline Program began as an anonymous telephone resource (with 24-hour voice messaging). A six-month pilot was conducted (from March 1, 2002 to August 31, 2002) with operation continuing after the pilot ended. City Council approved the initiative as a permanent program in November 2002.

The Hotline Program has since been expanded through the development of a reporting and data management application that permits anonymous reporting of complaints on-line while providing a database solution for managing all complaints received by the Auditor General's Office. In September 2003, the Fraud and Waste Hotline Program's on-line complaint form and data-management application was implemented allowing timely electronic tracking of complaint activity.

In the context of operating the Hotline Program, the Auditor General's Office has also provided advice to representatives from other municipalities in Canada and the U.S. on establishing and administering a hotline program. In addition, staff has made presentations to a number of fraud-related conferences.

Communication Strategies for Hotline Program

Continued communication of the Hotline Program is essential to its effectiveness.

A formal communication strategy to appropriately promote the permanent Fraud and Waste Hotline Program to City staff, suppliers and the public was developed in consultation with the City's Corporate Communications Division.

Over the last year, we have continued, in consultation with the City's Corporate Communications Division, to enhance the awareness of the Hotline Program to City staff, suppliers and the public. Communication strategies to promote the existence of the permanent Hotline Program have been combined with initiatives to enhance awareness of the City's Fraud Policy.

Communication initiatives employed over the course of this last year have included:

- information in the City's Corporate Newsletter;
- information on the City's Internet/intranet sites;
- distribution of a Hotline poster – advertising the new Hotline telephone number 416-397-STOP;
- presentations to senior executive staff group and City Legal Services; and
- presentations to the Association of Certified Fraud Examiners on establishing and operating a Fraud and Waste Hotline Program.

Marketing and communicating the existence of a hotline should be viewed positively. If marketed effectively, a hotline will convey to employees, the public and anyone doing business with the City, that the City of Toronto is committed to ethical conduct and takes the detection, reporting and prevention of fraud or other irregularity seriously.

Disposition of Complaints

Complaints received by the Auditor General's Office may result in the following dispositions:

- no action;
- investigations;
- referrals to Departments/Agencies, Boards and Commissions;
- referrals to other City hotline program's (including the City's Social Services' hotline that handles complaints regarding social assistance fraud); or
- referrals to outside agencies (Provincial/Federal)

All complaints received are screened by designated staff of the Auditor General's Office and appropriately reviewed and investigated in accordance with internal protocols, procedures and guidelines. The disposition of all complaints are reviewed and approved by senior staff in the Auditor General's Office.

Investigations

Since the Auditor General last reported on the status of fraud and related matters in September 2003, my office has continued to conduct a number of investigations which have involved the collection of evidence related to suspected fraudulent or irregular activity perpetrated by City employees and, in some cases, by external third parties. While the Auditor General takes the lead role in conducting investigations, they are conducted in consultation with appropriate City Legal, Human Resources and departmental staff.

As well, investigations may be coordinated with departmental management staff having regard to the nature of the allegations, management staff's expertise and staff levels. Management staff may be asked to conduct the necessary steps and procedures to compile information as the lead in an investigation, in consultation with the Auditor General's Office, reporting back to the Auditor General on any action taken. In some cases, the services of outside investigators have been employed by departments to conduct investigations within a department, again having regard to the nature of the allegations and staff levels.

There have been some instances in which departments have conducted investigations and then subsequently notified the Auditor General of the incident and departmental action taken. We recognize that departments may wish to conduct some preliminary enquiries to confirm suspicions of an irregular incident prior to contacting the Auditor General. However, in accordance with the Fraud Policy, once the Department has reason to suspect there has been an irregular incident, then our Office should be notified on a timely basis.

In addition, informal protocols have been established with the City's Internal Audit Division, Chief Administrator's Office, with respect to that Division's investigation of fraud (or other irregularities) referred to them by the Auditor General's Office.

Informal protocols have also been discussed with the City's newly appointed Integrity Commissioner in relation to issues of mutual concern and respective responsibilities. Both parties are committed to working together to address issues of concern and meet, as appropriate.

Lastly, in cases where there is sufficient evidence, the Toronto Police Service is contacted. My office has worked co-operatively with departments and the Toronto Police Service to ensure that evidence is documented to a level that is sufficient to substantiate the laying of charges. Where charges are laid, staff from the Auditor General's Office and City staff may appear as witnesses at court proceedings.

Referral to Departments, Agencies, Boards and Commissions

In certain cases, due to the nature of the allegations, complaints are referred to City Departments with a request that management conduct a review of the allegations and report back to the Auditor General's Office on any action taken within a set time frame. In other less substantive cases, the Auditor General may determine a response from management is not required. All requests for responses are tracked by the Auditor General's Office and follow-up is conducted if responses are outstanding. Each response is reviewed by the Auditor General to ensure that appropriate action has been taken. In circumstances where the Auditor General is not satisfied with the response, additional information or further action is requested.

Complaints referred to departments have included such matters as allegations of unwarranted overtime, allegations of inappropriate hiring practices, irregular benefit claims, unauthorized personal use of City assets and complaints regarding City services.

Senior staff, including the Chief Administrative Officer and the Commissioners, have worked co-operatively with the Auditor General's Office to address concerns brought to their attention.

Summary of Complaints Received – September 1, 2003 through to December 31, 2004

Previously, we have reported on the Hotline Program activity, based on a 12-month period from September 1 through to August 31. This time frame initially coincided with the date of the establishment of the Hotline.

However, on a go forward basis we will report on a 12-month period from January 1 through to December 31 of each year. Consequently, this report covers a sixteen-month period from September 1, 2003 through December 31, 2004.

This report also provides additional information on the status of all 2003 complaints previously reported (in terms of total complaint and disposition figures) to the Audit Committee in September 2003, however, concluded in 2004, with additional information regarding quantifiable value/recovery figures and internal control weakness identified.

The tables below provide a summary of complaints received by the Auditor General's Office for the sixteen month period from September 1, 2003 through to December 31, 2004.

Table 1 Source of Complaint

	Jan. 1 to Dec. 31, 2004	Sept. 1 to Dec. 31, 2003
Fraud and Waste Hotline (416-397-STOP)	89	50
Letters	39	12
On-line Complaint Forms (via Internet)	92	20
Referrals from Departments	34	2
Referrals from Councillors	8	3
Other Sources (i.e., calls/e-mails/faxes, walk ins)	85	19
Total Complaints Received	347	106

From a comparative perspective, there were 347 complaints received for the 12-month period ended December 31, 2004. The number of complaints received by the Auditor General's Office for the 12 month period ending August 31, 2003 was 200. The increase in complaints is generally due to the increased awareness of the existence of the Fraud and Waste Hotline.

Table 2 Disposition of Complaints

	Jan. 1 to Dec. 31, 2004	Sept. 1 to Dec. 31, 2003
No Action (Not enough information is provided to support allegations, outside our mandate i.e., private matter)	120	34
Referrals to Departments (Includes complaints referred to Social Assistance Hotline, complaints referred for information only)	146	58
Investigations (Includes on-going investigations)	59	11
Referrals to Internal Audit	1	0
Referrals to ABCs	3	0
Referrals to Outside Agencies (Includes Provincial/Federal agencies)	17	3
Not yet assigned	1	0
Total	347	106

Table 3 Complaint Conclusion

	Jan. 1 to Dec. 31, 2004	Sept. 1 to Dec. 31, 2003
Substantiated (by both the Department and the Auditor General)	41	5
Unsubstantiated	54	19
Conclusion Not Required †	220	82
Conclusion pending (currently under review, conclusion pending)	32	0
Total	347	106
† Includes complaints where no action taken, future audit, referred to departments for information only as generally involve service issues (no report back), referred to Social Assistance Hotline (no report back) and duplicate complaints.		

Every complaint received, whether it is brought to the Auditor General's attention through the Hotline Program or otherwise, is dealt with pursuant to the Auditor General's Office approved mandate and in accordance with the City of Toronto's Policy on Fraud and Other Similar Irregularities.

Audit Resources Required to Operate the Fraud and Waste Hotline Program

The staff time employed to operate and administer the Hotline Program includes:

1. documenting and monitoring all complaints received;
2. performing preliminary enquiries regarding complaints prior to determining appropriate disposition (including referrals to departments or potential investigations);
3. making determination as to disposition for all complaints received and action to be taken;
4. forwarding complaints to departments for appropriate review and action (includes follow-up with departments as to review conducted and action taken);
5. investigating complaints or co-ordinating investigations with departments, as appropriate;
6. tracking of complaint activity (from receipt to final disposition);
7. reporting out on activity of Hotline Program;
8. monitoring/maintenance of Hotline Program's on-line data-management application;
9. establishing new procedures, as required, streamlining Hotline Program procedures; and
10. coordinating the marketing and communication of the Hotline Program.

The total amount of staff time utilized on the foregoing activities in 2004 was approximately 3,700 hours.

Cost of Operating Fraud and Waste Hotline Program

Complaint activity relating to the Fraud and Waste Hotline Program has increased significantly since its inception and is at such a level that additional resources are required in order to ensure that issues identified as a result of the Hotline Program may be addressed appropriately.

The Auditor General's Office accommodated the operation of the Fraud and Waste Hotline Program (including marketing and communications) during its first year as a permanent program, within its 2003 approved budget. This was done with a view to monitoring audit resources required to operate the Hotline Program and conduct investigations, and request any additional funding during the 2004 budget process. This allowed us to monitor and assess the level of Hotline activity over a longer period of time.

We have continued to monitor the level of audit resources required to operate the Hotline Program and administer the volume of complaints. For 2004, approximately the equivalent of three dedicated full-time staff were required to operate the Hotline Program and investigate complaints received. The increase in audit staff resources utilized to operate the Hotline Program over the last year has been accommodated by transferring staff from other audit projects.

Consequently, the Auditor General has requested two additional audit staff resources as part of the 2005 budget process, with one of the two likely being assigned to the operation the Hotline Program in order to accommodate the approximately 70 per cent increase in complaint activity which has occurred over the last year, as recently reported to the Audit Committee, in the Auditor General's report entitled "Annual Report and 2005 Budget", dated October 29, 2004.

Benefits of the Fraud and Waste Hotline Program

Our research continues to indicate that tips or complaints received by an organization remain the most common means of detecting fraud, while anonymous reporting mechanisms have shown the greatest impact on limiting fraud losses (by increasing the likelihood of incidents being reported and detected).

The City's Hotline Program has provided several benefits. One of the key benefits of the permanent Fraud and Waste Hotline Program is that complaints received have resulted in actions that have reduced losses attributed to incidents of fraud, waste or other irregularities by terminating substantiated incidences, and by strengthening controls to reduce the risk of future losses. Even when a finding of fraud or irregularity is not substantiated, investigations conducted have identified areas where internal controls need to be strengthened (to improve City operations) or better protection of City resources. Research also indicates that a further benefit of operating a hotline is that it may assist in deterring irregular conduct by increasing the perception of being detected.

Information from reviews and investigations of complaints has also promoted and enhanced accountability for the management and utilization of City resources, while in some cases highlighting the need for making needed policy and administrative changes. For example:

1. Irregular Benefits Claims:

Allegations of irregular benefit claims by City employees reported through the Hotline Program resulted in consultations with the City's benefit provider (that administers employee benefits under the City's self-insured plan), the Auditor General's Office and the City Human Resources' Department. On-going consultations have highlighted the need for enhanced monitoring of potential irregular claims resulting in the benefits' provider taking action (i.e., implementing operational changes, enhancing scrutiny of submitted claims) to minimize the recurrence of irregular claims and associated future losses to the City.

2. Inappropriate Use of Internet Sites:

Allegations regarding the use of the Internet by employees to view inappropriate sites continue to be brought to the Auditor General's attention through the Hotline Program. Consultations with the IT Division are continuing with a view to determining what initiatives the City is taking to implement internet access restrictions for staff. The City has not yet implemented a global solution to restrict employee access to the Internet. As well, a policy direction with respect to Internet usage is outstanding, with an acceptable use policy for employees yet to be finalized.

Savings – Recoveries – Internal Control Weaknesses

We have previously reported the estimated savings and recoveries as a result of the Hotline Program and associated investigations as being in the range of \$500,000 (a cumulative total, reported during the 2004 and 2005 budget processes, up to the period ending December 31, 2003).

The estimated \$500,000 savings was recently reported to the Audit Committee in the Auditor General's Annual Report and 2005 Budget document, dated October 29, 2004. The reported savings are the result of identifying excessive overtime, consulting expenses and inappropriate disbursements and grant payments, etc.

As further reported, the City's forensic audit section of the external auditors, Ernst & Young, had advised us that their estimate of the amount of savings would be significantly greater than the \$500,000 identified, taking in to account that if the irregular activity had not been identified the extent of the loss to the City may have continued for a significant period of time.

The Auditor General will be reporting out further information on potential future savings to the City to the Audit Committee and the City Budget Advisory Committee, as requested by Audit Committee (at its meeting of November 23, 2004).

The following table summarizes the total quantifiable values/recoveries associated with complaint activity and the number of complaints in which internal control weaknesses were identified and associated operational changes made, for the report periods covered by this report:

Table 4

Substantiated Complaints

Substantiated/ Unsubstantiated Complaints	Jan. 1 to Dec. 31, 2004	Sept. 1 to Dec. 31, 2003†
Total Quantifiable Value	\$213,019	\$35,041
Total Recovery	\$80,860	\$14,181
Internal Control Weaknesses Identified	21	2
Operational Changes Made by Department	21	2
† includes values for all 2003 complaints closed in 2004		

Referral to Departments – Complaint Highlights

The complaints referred to departments within the report period included the following City Departments, Agencies, Boards and Commissions:

Complaints Referred to Departments
September 1, 2003 to December 31, 2004

Chief Administrator's Office	Toronto Hydro Corporation
Community and Neighbourhood Services †	Toronto Parking Authority
Corporate Services	Toronto Police Services
Councillor's Office	Toronto Zoo
Economic Development, Culture and Tourism	Toronto Transit Commission
Finance	Urban Development Services
Toronto Community Housing Corporation	Works and Emergency Services
† includes complaints referred to the Social Assistance Hotline	

The nature of substantiated complaints referred to departments are summarized as follows:

Nature of Complaints Referred to Departments

Fraudulent Cheques	Includes incidents in which City cheques are being fraudulently altered and cashed by third parties.
Inappropriate use of Corporate time/resources	Includes allegations of staff using City fleet vehicles for personal purposes on Corporate time.
Waste	Includes allegations of wasted water resources.
Theft of City Funds	Includes allegations of stolen cash.
Human Resource	Includes allegations of inappropriate hiring.
Conflict of Interest	Includes allegations of City employment being used to secure benefit from vendor.
Irregular benefit claims	Includes allegations of irregular benefit claims.
Waste disposal	Includes allegations of inappropriate waste disposal.
Improper employee conduct	Includes allegations of employees being impaired.
Loss of City revenue	Includes allegations of employees inappropriately evading parking fees.
Misappropriation of City supplies	Includes allegations of employee misappropriating City medical supplies.
Social Services	All allegations of Social Assistance fraud are referred to Community and Neighbourhood Services.

In approximately half of the complaints referred to and substantiated by departments, internal control weaknesses were identified and action was taken by departments.

Substantiated Complaints – Investigation Highlights

The following substantiated complaint summaries provide highlights of investigations conducted:

1. Misappropriation of Funds

Our investigation concluded that a City Facility and Real Estate Property Manager, working under contract with the Toronto Public Library, was responsible for the misappropriation of \$64,742 of Toronto Public Library funds between April 2003 and December 2003. The former Property Manager's actions involved alteration of supplier invoices and other documents in order to obtain numerous cheques payable both by the Library to suppliers and by tenants to the Toronto Public Library. Full recovery of the funds has been made. Criminal charges have been laid and court proceedings are pending.

2. Misappropriation of Funds

Audit staff was advised by senior management of the misappropriation of approximately \$15,000 at a community recreation centre operated by Parks and Recreation Division. Upon consultation with the Auditor General's Office, this matter was reported to the Toronto Police Service. Parks and Recreation staff are taking steps to recover the misappropriated funds. Disciplinary proceedings are pending against the suspected employee.

Senior management has initiated corrective action and advised that controls have now been implemented at the community recreation centre to prevent future misappropriations. This includes adherence to the Cash Handling and Internal Control Policies and Procedures manual and the need for ongoing supervisory reviews and analysis as required by the manual. The Auditor General's Office is continuing to monitor the status of the police investigation.

3. Fraudulent Sale of Commercial Yellow Bags

The Auditor General's Office was advised by departmental management that staff had identified, through routine contact with commercial property owners, strong evidence to suggest that non-approved commercial yellow bags were being sold to commercial customers outside of the City's Yellow Bag Program. Commercial customers eligible for City garbage collection are required to use the special yellow bags for garbage pick-up, available at Toronto retail stores, at a price (\$3.10 each) intended to cover the cost of collection and disposal of garbage.

An investigation, coordinated by the Department, identified that an individual or individuals were engaged in the fraudulent sale of replica yellow bags to commercial customers at a cost that was far less than what the bags were sold through the City program. It is estimated that the fraud involved approximately 38,700 bags. The loss of revenue is estimated at \$120,000.

To minimize future fraudulent use of yellow bags, we have been advised that the City recently issued a newly designed yellow bag with a distinctive new design including enhanced visibility of City logos and other additional security features.

Toronto Police Services has completed its investigation and a member of the public has been arrested.

4. Unauthorized Long Distance Telephone Charges

In early 2004, the Facilities and Real Estate Division conducted an internal review of telephone long distance, usage and noted that a significant number of long distance calls were made from a City office telephone. Departmental management contacted the Auditor General's Office and proceeded with an investigation. The investigation confirmed that an employee incurred personal long distance charges of \$3,416 during the period of December 2002 to March 2004. In consultation with Human Resources, departmental management made arrangements to recover the full amount from the employee over a 12-month period. We were advised that departmental management has since de-activated the long distance capability in all meeting rooms, and that monthly reports on long distance charges are regularly reviewed to identify long distance calls of personal nature for cost recovery purposes.

5. Misappropriation of Funds

The Auditor General's Office was advised of an incident involving the misappropriation of funds by a Facilities Services' employee. An investigation conducted by departmental management identified a number of incidents where the employee had failed to follow established cash handling procedures. The employee was found to have misappropriated funds in the amount of \$3,714. The Department made successful efforts to fully recover the funds. The employee has been terminated. The Department has since issued a revised set of business guidelines.

6. Conflict of Interest

The Auditor General's Office was advised by departmental management that a Public Health employee had used her employment with the City to secure free theatre tickets. An investigation co-ordinated by the Department concluded that the employee had secured 20 tickets for a total value of \$3,200. Disciplinary proceedings resulted in the employee no longer being employed with the City.

7. Conflict of Interest

The Auditor General's Office was advised of an incident involving a Shelter Housing and Support employee collecting a fee from a resident client for a personal business (arranging placements in an outside anti-addiction program). The Department, in consultation with Labour Relations, investigated the matter and determined that the employee had violated the City's Conflict of Interest Policy. The employee has been disciplined.

8. Misappropriation of Funds

A Shelter Housing and Support employee was misappropriating City funds from laundry operations. The matter was investigated by the Department, in consultation with Labour Relations and City Legal. The employee has been terminated and appropriate efforts have been made to recover the lost funds. The Department has also issued new procedures regarding the collection and disposition of laundry revenue.

9. Purchasing of Employment Training Program

Allegations regarding the excessive cost of employment training services provided by a service provider to social assistance recipients were brought to the Auditor General's attention.

Our review focused on determining whether the awarding of the employment training contract complied with the City's purchasing policies and procedures (in existence at that time) and whether the cost of the training was reasonable.

Our review determined that the cost of employment training and placement services provided by the service provider in this case was reasonable, having regard to other unsolicited quotes received by the Department.

However, we found that the Division awarded service contracts directly, without the involvement of the City's Purchasing and Materials Management Division, in contravention of City's purchasing by-laws and practices.

The Department recently advised that a new process for the selection and approval of employment services has now been developed (in association with City Purchasing, Internal Control and community stakeholders) with a view to satisfying all mandatory Provincial requirements, internal City control standards, and client and labour market needs.

Highlights of Investigations Commenced in 2003 and Concluded in 2004

1. Recovery of Parks and Recreation Registration Fees

Allegations were brought to the attention of the Auditor General's Office identifying various issues of concern. Based on our review, we found no conclusive evidence to support allegations that a United Way account was operated inappropriately nor that a sponsorship account had been used by employees for personal use. However, in the context of our review, we provided comments to the Department with a view to improving accounting practices and enhancing transparency regarding funds donated to the City by third parties.

Our review did conclude that an employee owed fees to the City for Parks and Recreation program registrations. Fees owed to the City in the amount of \$4,000 were recovered as a result of our review.

2. Misappropriation of Funds

The Auditor General's Office was advised of an incident involving misappropriation of funds by a Court Services' employee. The Department has contacted Toronto Police Services to investigate. The investigation concluded that the employee had misappropriated funds intended for payments of outstanding fines. The Department estimated the loss to be in the area of \$23,000. The employee is no longer employed with the City. Criminal proceedings resulted in a conviction with the employee being ordered to make \$15,500 in restitution to the City (\$5,000 of which has been recovered to date).

3. Misappropriated Pension Cheques

The Auditor General's Office was advised by departmental management that an employee of Homes for the Aged had allegedly misappropriated funds over an eight month period. The Department conducted an investigation and consulted the Auditor General's Office. The matter was referred to Toronto Police Services. The employee was terminated and the sum of \$1,467 was recovered. Subsequent criminal proceedings resulted in the employee's conviction.

Conclusions:

The most cost-effective way to deal with fraud or irregularities involving City resources is to prevent it.

The City's establishment of an anonymous reporting program is aligned with the legislated impetus in the United States and Canada that has mandated the use of a hotline or other anonymous reporting mechanism as an effective means of detecting irregularity.

All City of Toronto staff has a responsibility to report improper activity involving City resources, pursuant to the City's Fraud Policy. My office continues to work with the Chief Administrative Officer and Department Heads to increase the level of awareness among City employees with respect to the identification and reporting of fraud and other improprieties involving City resources.

While the Auditor General takes the lead role in conducting investigations, they are conducted in consultation with appropriate City Legal, Human Resources and departmental staff. As well, investigations may be coordinated with departmental management staff having regard to the nature of the allegations, management staff's expertise and staff levels. Management staff may be asked to conduct the necessary steps and procedures to compile information as the lead in an investigation, in consultation with the Auditor General's Office, reporting back to the Auditor General on any action taken.

The primary responsibility for maintaining appropriate internal controls to prevent and detect fraud or other irregularity involving City resources remains with departmental management. In particular, appropriate and adequate supervision is an important component of administrative internal control.

Complaint activity relating to the Fraud and Waste Hotline Program has increased significantly since its inception and is at such a level that additional resources are required in order to ensure that issues identified as a result of the Hotline Program may be addressed appropriately.

We have continued to monitor the level of audit resources required to operate the Hotline Program and administer the volume of complaints. For 2004, approximately the equivalent of three dedicated full-time staff were required to operate the Hotline Program and investigate complaints received. This represents an increase in audit staff resources utilized to operate the Hotline Program over last year and has been accommodated by transferring staff from other audit projects.

One of the key benefits of the Fraud and Waste Hotline Program is that it may help reduce losses attributed to fraud and other irregularities by terminating substantiated incidences and by strengthening controls to reduce the risk of future losses to the City. Research also indicates that a further benefit of operating a hotline is that it may assist in deterring irregular conduct by increasing the perception of being detected.

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