

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

Date:	March 8, 2007
To:	Audit Committee
From:	Auditor General
Wards:	All
Reference Number:	

SUMMARY

As the public sector comes under increased pressure to manage budgets more efficiently, the question of fraud prevention and detection have become increasingly important. The City, in addressing this issue, approved a Fraud and Waste Hotline Program as a six-month pilot project commencing in March 2002. In November 2002, at the conclusion of the pilot project, City Council approved it as a permanent program along with a requirement that the Auditor General report annually to Audit Committee on the operation and activities of the program. This report represents the Auditor General's sixth annual report on the activities of the Fraud and Waste Hotline Program and represents activities from January 1, 2006 to December 31, 2006.

Statistical data concerning the activities of the Fraud and Waste Hotline are contained in the body of the report. In addition, and at the request of Audit Committee we have provided details of certain reviews completed in 2006. This information is provided in Appendix 1 of the report.

Management is in the process of finalizing an Ethics Awareness Initiative training program for approximately 250 members of the extended senior management team by June 2007. We are completely supportive of this initiative but are of the view that the training contemplated for all staff should be accelerated. A cost-effective way of conducting such a process would be through the City's Intranet.

RECOMMENDATIONS

The Auditor General recommends that:

1. The City Manager give consideration to accelerating the introduction of a formal ongoing ethics education program to all City staff which emphasizes the following:
 - the role of staff in the prevention and detection of fraud;
 - the responsibilities of staff in reporting incidents of allegations of fraud or wrongdoing;
 - the importance of protecting employees who report allegations of fraud or wrongdoing;
 - the importance of recognizing, avoiding and communicating conflict of interest situations; and
 - the consequences of reporting incidents of fraud or wrongdoing which are frivolous or vexatious.

In developing such a program, consideration should be given to delivering the program through the City's intranet.

FINANCIAL IMPACT

The introduction of an ongoing training program through the City's intranet may involve additional costs. It is not anticipated that these costs would be significant. Investigations or reviews conducted as a result of various communications to the Fraud and Waste Hotline have resulted, in certain cases, in the recovery of funds to the City. More importantly these investigations or reviews have resulted in improved internal controls which will likely mitigate the loss of future funds.

DECISION HISTORY

In June 2000, Audit Committee requested that the Auditor General (formerly the City Auditor) submit an annual report on the status of fraud and related matters in response to a fraud investigation that arose during a cash controls review in the then Parks and Recreation Division. The Auditor General's first annual report on the status of fraud and related matters was considered by Council at its meeting of October 3, 2000.

The Fraud and Waste Hotline Program administered by the Auditor General's Office began as a six-month pilot program starting March 1, 2002. City Council approved it as a permanent program at its meeting of November 6, 2002, along with the recommendation

that the Auditor General report to the Audit Committee on the operation and activities of the hotline program, as part of his annual report on the status of fraud and related matters.

ISSUE BACKGROUND

The provisions of the new *City of Toronto Act, 2006* recognize the importance of ethics in the context of an accountable municipal government. Part V of the *Act*, “Accountability and Transparency”, includes specific provisions for the creation of a statutory Auditor General, Integrity Commissioner, Ombudsman and a Lobbyist Registrar. As set out in section 178 of the *City of Toronto Act*, “The Auditor General is responsible for assisting city council in holding itself and city administrators accountable for the quality of stewardship over public funds and for achievement of value for money in city operations.”

The significant interest in corporate governance as a result of major corporate scandals and the resulting U.S. Sarbanes-Oxley Act in 2002 has led many organizations, both in the public and private sector to implement a confidential and anonymous employee hotline to report misconduct. The Sarbanes-Oxley Act requires publicly traded corporations to provide a process for reporting financial irregularities that enables employees who report information to remain anonymous. As of 2004, Canadian securities legislation requires all publicly-listed companies to provide an anonymous reporting service to employees. Further, the recently passed Federal Government Accountability Act recognizes the benefits of reporting wrongdoing and in turn the importance of protecting “whistleblowers”.

The City of Toronto was the first City in Canada to establish a Fraud and Waste Hotline Program. Since that time advice has been requested and provided by the Auditor General’s office to a number of other Canadian municipalities and as a result the cities of Edmonton, Ottawa, and Windsor have introduced similar programmes. Anonymous hotlines have been in existence in a number of U.S. Cities for many years.

Since June 2005, the Canadian Institute of Chartered Accountants (CICA) has clarified the responsibilities of the external financial auditors to consider fraud during its annual Financial Statement audit. The CICA have very clearly articulated that “the primary responsibility for the prevention and fraud rests with those charged with governance of the entity and with management”. The CICA also requires that the auditor should make enquiries of management, as appropriate to determine whether they have knowledge of any critical, suspected or alleged fraud affecting the entity. In this context the Auditor General meets on a regular basis during the year with the external auditors to discuss the activities in relation to the Fraud and Waste Hotline.

COMMENTS

Annual Report on the Status of Fraud and Related Matters Including Operations of the Fraud and Waste Hotline Program

This report represents the Auditor General's annual report on the status of fraud and related matters including the operation and activities of the Fraud and Waste Hotline Program as requested by Audit Committee. This report covers the 12-month period from January 1 through to December 31, 2006.

Benefits of the Fraud and Waste Hotline Program

In its 2006 Report to the Nation on Occupational Fraud and Abuse, the Association of Certified Fraud Examiners (ACFE) found that "tips are the number one method of detecting fraud". In fact, the ACFE found that organizations with a hotline typically cut their fraud losses in half.

The City's Hotline Program has provided benefits to the City including:

- The identification and termination of occurrences of fraud and waste.
- The recovery of funds as a result of investigations.
- The deterrence of unacceptable behaviour by increasing the perception that this behaviour may be detected.
- An avenue and risk free way for staff and the public to voice concerns.
- An avenue to demonstrate the City's core values through the promotion of ethics to the public.
- The improvement of areas of administrative internal control weaknesses. Such a process has likely reduced the occurrence of any future loss of City resources.

It is important to comprehend that the benefits of the Fraud and Waste Hotline are not only measured by the extent of funds recovered but also by the prevention of future losses. These future losses can not be measured.

Communicating the Hotline Program – 416-397-STOP – A Key to its Effectiveness

Continued communication of the Hotline Program is essential to its effectiveness. A formal communication strategy to promote the Fraud and Waste Hotline Program to City

staff, suppliers and the public was developed in consultation with the City's Corporate Communications Division, at the time the program was established.

Over the last year, the Auditor General has continued to develop communication strategies, in consultation with the City's Corporate Communications Division, to enhance the awareness of the Hotline Program. 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 in 2006 have included:

- articles and information in the City's Corporate Newsletter, "Inside Toronto";
- information displayed on the City's Internet/Intranet sites;
- continued display of a Fraud and Waste Hotline poster – advertising the Hotline telephone number 416-397-STOP;
- presentation to senior management at the Toronto Police Service. This included details relating to the Auditor General's referral of matters to the Toronto Police Service Fraud Squad;
- information provided on the Hotline Program to employees during the Toronto Public Service Week, coordinated by the City Manager's Office;
- presentation to the City Manager, Deputy City Managers and Division Heads on the Hotline Program that highlighted the activities of the Fraud and Waste Hotline;
- presentation to City Council Members on Ethics, Accountability and Privacy. The presentation by the Auditor General on the City's Audit Framework included information on the Hotline Program;
- presentations at a number of public sector and government related conferences; and
- presentation to the Audit Committee Chair that demonstrated the on-line data management application developed to track hotline complaint activity.

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

Disposition of Complaints

All complaints received are screened by designated staff of the Auditor General's Office and reviewed and investigated in accordance with internal protocols, procedures and guidelines. The unique circumstances of each complaint require the application of professional judgement to determine the appropriate disposition in a particular case. The disposition of all complaints are reviewed and approved by senior staff in the Auditor General's Office.

Complaints received by the Auditor General's Office are addressed in a variety of ways as follows:

- no action is taken generally because there is insufficient information to proceed further;
- preliminary inquiries are conducted by the Auditor General's staff to determine the validity of the complaint;
- referrals to Divisions, Agencies, Boards and Commissions depending on the nature of the complaint;
- referrals to the Integrity Commissioner and in future to the Ombudsman;
- referrals to other City hotline programs, including the City's Social Services' hotline that handles complaints regarding social assistance fraud;
- referrals to outside agencies, including provincial and federal agencies; and
- a formal investigation conducted by the Auditor General.

Investigations

Since the Auditor General last reported on the status of fraud and related matters (report dated February 9, 2006), the Office has continued to conduct a number of investigations which have involved the collection of evidence related to suspected irregular activity by City employees and, in some cases, by external third parties. While the Auditor General takes the lead role in conducting these investigations, they are always conducted in consultation with appropriate City Legal, Human Resources and Divisional staff.

Investigations may also be coordinated with divisional management staff having regard to the nature of the allegations, management staff's expertise and staff levels. Management staff is often asked to conduct the necessary steps and procedures to compile information as the lead in an investigation, while consulting with the Auditor General's Office on issues such as appropriate investigative steps. Divisional management is required to report back to the Auditor General on any action taken.

Divisional action and investigative findings are reviewed by the Auditor General's Office. Based on this review, a determination is made as to the adequacy of the information provided and whether additional action is required by a division prior to the Auditor General's Office closing the complaint.

While information regarding disciplinary action taken is communicated to and tracked by the Auditor General's Office, decisions pertaining to the appropriate level of discipline are the sole responsibility of divisional management. An important consideration for management in disciplining employees is that it should be fair and consistent throughout the Corporation and should provide guidance on and reinforce acceptable conduct for all City employees.

In 2006, divisional management reported that discipline was imposed in 21 of the incidents reported to the Auditor General's Office. In an additional 22 instances, divisional management took other appropriate action including, for example, reinforcing workplace expectations through communication or training initiatives.

The Auditor General's Office has provided ongoing support or assistance to the City's Legal Services Division and Human Resources Division, and also to external legal counsel representing the City on various matters. This ongoing assistance requires the organization and presentation of key facts and evidence and may involve extensive meetings and preparation for testimony as a witness.

Finally, where there is sufficient evidence that a criminal act may have been committed, the Toronto Police Service is contacted and provided with an appropriate level of evidence. The Auditor General's Office has provided a significant amount of staff resources to ensure evidence is documented, compiled and secured at a level sufficient to represent the City's position in any arbitration, civil or criminal proceeding.

Referrals to the Integrity Commissioner and Ombudsman

Protocols have been established with the City's Integrity Commissioner in relation to respective responsibilities, particularly in the handling of anonymous complaints involving Councillors or their staff. The new *City of Toronto Act, 2006*, Part V, Accountability and Transparency, has provided a statutory basis for the existing Integrity Commissioner's Office and conferred powers that strengthen and facilitate the fulfillment of the Integrity Commissioner's mandate. Both the Auditor General and Integrity Commissioner are committed to continue working together to address mutual issues of concern.

Potential future referrals of hotline complaints to the City Ombudsman's office are also contemplated. The *City of Toronto Act, 2006*, includes provisions for the creation of a statutory Ombudsman who is intended to investigate "administrative" matters. We have had preliminary discussions with the City Manager's staff responsible for the

implementation of the Ombudsman's office regarding mutual responsibilities. Further discussions are required to delineate respective roles and responsibilities. We anticipate working closely with the Ombudsman particularly in the context of the availability of the Auditor General's management information data base for tracking complaints.

Referral to Divisions, Agencies, Boards and Commissions

In certain cases, due to the nature of the allegations, complaints are referred to City Divisions 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's Office to ensure that appropriate action has been taken. The Auditor General's Office may request additional information or further action, as appropriate.

Complaints referred to divisions have included allegations of unwarranted overtime, inappropriate hiring practices, irregular benefit claims and unauthorized personal use of City assets, such as the misuse of the City's Internet. Complaints regarding the quality of City services are also referred to divisions.

Senior staff, including the City Manager, has worked co-operatively with the Auditor General's Office to address concerns brought to their attention.

Allegations of Whistleblower Retribution

The risk and fear of retribution can deter many people from reporting allegations of wrongdoing against a colleague, manager or a City vendor.

The City's Fraud Policy includes "Whistle-Blower Protection" and prohibits retribution against any employee who may have contacted the Auditor General. In 2006, the Auditor General's Office received three retribution complaints involving employees who have reported an incident of suspected wrongdoing directly to management or through the Fraud and Waste Hotline Program. We take these complaints extremely seriously. One of these complaints was withdrawn, a second was determined to be unsubstantiated and the third continues to be outstanding.

While the Auditor General's Office is responsible for the operation of the City's Hotline Program, management is responsible for ensuring employees who report allegations of wrongdoing may do so without reprisal. The importance of protecting those who report wrongdoing should be conveyed to all City employees, through the education process recommended by the Auditor General.

Summary of Complaints Received–January 1, 2006 to December 31, 2006

The tables below provide a summary of complaints received during 2006.

Table 1 Source of Complaint

	Jan. 1 to Dec. 31, 2006	Jan. 1 to Dec. 31, 2005
On-line Complaint Forms (via Internet)	184	125
Fraud and Waste Hotline (416-397-STOP)	108	184
Other Sources (i.e., calls/e-mails/faxes, walk ins)	93	103
Letters	58	114
Referrals from Divisions	36	32
Referrals from Councillors	24	19
Total Complaints Received	503†	577
† Additional complaints received close to the 2006 year end may not have been processed until 2007 and will be reported out in next year's annual report.		

In 2005 and 2004, we reported an approximate 66 per cent and 70 per cent increase, respectively, in complaint activity, over previous years. The number of complaints received by the Auditor General's Office for the 12-month period ending December 31, 2006 was 503 (2005-577) representing a 12 per cent decrease in the number of hotline complaints over the previous year. We have attempted to evaluate the reasons for the decrease and for the most part it relates to a decrease in the number of complaints received relating to City hiring practices. The attention given to the City's hiring practices in 2005 was significant due to a number of relatively high profile incidents.

Our research has also indicated that on the initial set up of a hotline there is usually a significant influx of complaints, particularly as a result of pent up demand but also because many staff do not understand that hotlines are not for all manner of complaints. It is also viewed by research that as the program matures, complaints are focused on more appropriate subject matter.

Despite the decrease in the number of complaints in 2006, total staff hours required to operate the Hotline Program and manage complaint activity has exceeded the 2005 figure, generally because of the nature of the complaints, as well as the significant time required to compile evidence to facilitate human resource and legal action.

Table 2 Disposition of Complaints

	Jan. 1 to Dec. 31, 2006	Jan. 1 to Dec. 31, 2005
No Action (Not enough information is provided to support allegations, outside our mandate i.e., private matter)	203	253
Preliminary Inquiries Conducted by AG's Office (which resulted in no further action) †	62	††
Referrals to Divisions (Includes complaints referred to Social Assistance Hotline, complaints referred for information only)	166	192
Investigations (Includes ongoing investigations)	51	99
Referrals to ABCs	9	3
Referrals to Outside Agencies (Includes provincial/federal agencies)	4	22
Refer to Integrity Commissioner	3	-
Referrals to Internal Audit	1	7
Not yet assigned	4	1
Total	503	577
† In 2006 Preliminary inquiries were conducted in 210 additional complaints and resulted in a referral or investigation.		
†† In 2005 preliminary inquiries conducted were not tracked.		

Table 3 Complaint Conclusions

	Jan. 1 to Dec. 31, 2006	Jan. 1 to Dec. 31, 2005
Substantiated	39	64
Substantiated in part	10	-
Unsubstantiated	53	72
Conclusion Not Required	330	331
Conclusion pending (currently under review, conclusion pending)	71	110
Total	503	577

Table 3 above shows a total of 71 complaints in 2006 that have a “conclusion pending” (as the review of the matter is ongoing). We will report out on the final resolution of these pending items in the Auditor General’s 2007 annual report.

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 mandate and in accordance with the City of Toronto’s Policy on Fraud and Other Similar Irregularities. Generally, a complaint may have merit; however, sufficient evidence is required to support the allegations and arrive at a fair and conclusive finding of wrongdoing.

Associated Values – Recoveries – Internal Control Weaknesses

The following table summarizes the total quantifiable values and recoveries, internal control weaknesses and operational changes associated with complaints substantiated and concluded in 2006:

Table 4 2006 Substantiated Complaints

Substantiated Complaints	Jan. 1 to Dec. 31, 2006	Jan. 1 to Dec. 31, 2005
Total Quantifiable Value (Actual Loss)	\$83,014	\$346,063
Total Recovery	\$33,196	\$224,481
Total Quantifiable Value (At Risk) †	\$108,635	\$394,117
Internal Control Weaknesses Identified	10	23
Operational Changes Made by Division	9	23
† Total complaints identified as having placed City funds “at risk”, that is, but for detection, the irregular activity may have continued and resulted in an actual loss of funds to the City.		

Table 5 2004/2005 Substantiated Complaints - Concluded in 2006

Substantiated Complaints	Jan. 1 to Dec. 31, 2006
Total Quantifiable Value (Actual Loss) †	\$413,924
Total Recovery	\$397,347
Total At Risk ††	\$2000
Internal Control Weaknesses Identified	10
Operational Changes Made by Division (one response from Division is outstanding)	9
† Includes additional values of \$245,054.04 (in 2005 an \$80,000 value and recovery was reported for a specific complaint but revised to \$325,054.04 by the division in 2006).	
†† Total complaints identified as having placed City funds “at risk”, that is, but for detection, the irregular activity may have continued and resulted in an actual loss of funds to the City.	

Substantiated Complaints by Areas Affected

Complaints substantiated within the report period included the following City Divisions, Agencies, Boards and Commissions:

Table 6 Substantiated Complaints by Areas Affected

Auditor General's Office	Parks Forestry and Recreation
Children's Services	Public Health
City Clerk's Office	Purchasing and Materials Management
City Planning	Revenue Services
Court Services	Shelter, Support and Housing
Economic Development, Culture and Tourism	Social Development and Administration
Emergency Medical Services	Solid Waste Management Services
Facilities and Real Estate	Strategic and Corporate Policy
Fire Services	Technical Services
Fleet Services	Toronto Public Library
Homes for the Aged	Toronto Water
Information and Technology	Toronto Zoo

Table 7 Substantiated Complaints - Nature of Complaints

The type or nature of complaints substantiated within the report period included the following:

Nature of Substantiated Complaints	Description
Conflict of Interest	Includes allegations of City employees conducting personal business on corporate time, renting personal rental property to shelter clients, charging the public for assistance with various City application forms.
Fraud	Includes incidents in which City employee misappropriated client funds, City vendors fraudulently misappropriated City property, theft of City property by City staff, attempted deposits of fraudulent City of Toronto cheques, payments made for unsolicited products, and fraudulently deleting or amending computer records to avoid permit charges.
Human Resource	Includes allegations of inappropriate hiring practices.
Improper Employee Conduct	Includes allegations of employee theft of items from clients.
Inappropriate Use of Corporate Time and Resources	Includes allegations of inappropriate use of City computers and cell phones, and unauthorized use of City property and staff time.
Irregular Benefit Claims	Misuse of short and long term disability benefits.
Irregular Employee Work Hours	Includes allegations of false attendance records.
Irregular Purchasing	Includes allegations of activities contrary to City purchasing policies, purchased items missing from inventory, and tender documents tampered with post-bid closing.
Loss of City Revenue	Water theft at apartment buildings, commercial vendor using City water without permit, employee personally collecting fees for unauthorized swim program.

Summarized Details of Substantiated Complaints

Attached as Appendix 1 are summarized details of various investigations conducted during 2006. These summaries are required as requested by Audit Committee.

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SIGNATURE

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ATTACHMENTS

Appendix 1: Summarized Details of Substantiated Complaints

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Summarized Details of Substantiated Complaints

In accordance with the request of the Audit Committee the following are summaries of various substantiated complaints concluded in 2006.

1. Unauthorized Use of Corporate Funds

In late 2005, allegations were received through the Hotline Program that unauthorized purchases were made by an employee for personal use. An investigation conducted by the Auditor General's Office found that controls over a corporate credit card were almost non-existent with access and use of the credit card being available to any number of staff. The investigation was unable to determine the location of the purchased items. In addition, in spite of significant communication with legal representatives from the credit card issuing company we were not able to determine the identity of the person who had signed for the purchases which approximated \$600. The credit card has been subsequently cancelled and is no longer in use. We issued a report to the Deputy City Manager on this matter which contained six recommendations.

2. Loss of City Revenue – Conflict of Interest

During a site visit to one of the Toronto school recreation pools, staff discovered a Pool Supervisor had set-up an unauthorized aquatic program, under the guise of it being a City program. The Pool Supervisor registered participants on-site and personally collected fees for the unauthorized aquatic program, while scheduling City staff to teach the program. An investigation concluded that a total of 80 participants were identified and registered in the unauthorised program. Refunds totalling \$2,400 were provided by the implicated employee to the registrants. The Pool Supervisor's employment with the City has been terminated. The Auditor General had requested the Division review the possibility of prior occurrences. The Division has taken action to prevent any future incidents.

3. Conflict of Interest

Through an investigation, a Division concluded that an employee had recruited a client to rent a room located in a property which she owned. In doing so, the employee contravened both the Standards set up by the Division, and the City's Conflict of Interest Policy. The employee was given a 10 day suspension.

4. Conflict of Interest and Contract Management

The Auditor General's Office received complaints through the City's Fraud and Waste Hotline Program that included allegations of conflict of interest involving senior staff. The complaints also included allegations of mismanagement of contracts awarded to a particular contractor and over billing practices. The Auditor General's office was also apprised of contraventions of the City's Fair Wage Policy by this particular contractor.

In late 2006, the Auditor General's Office commenced a review of contracts awarded to the implicated contractor, as part of its 2006 work plan. However, as the audit progressed, additional information was received concerning the conflict of interest, including a division's undisclosed conflict by senior management that provided a reasonable basis on which to postpone the audit and proceed with a more detailed investigation investigation.

A number of investigative procedures were conducted in 2006 with the investigation continuing in 2007.

5. Conflict of Interest

An investigation led by divisional management, in consultation with the Auditor General's Office, concluded that an employee used City photographs without the requisite payment or permission to publish the material. The total loss to the City was \$3,115. Additionally, it was concluded that the employee used City resources and removed City property to further her personal business interests. The employee is no longer employed with the City. The investigation also resulted in the discipline of a second employee.

6. Conflict of Interest

In January 2006, divisional management became aware that a City employee inappropriately and personally charged grant applicants a \$300 fee for each application submitted. The employee personally invoiced grant applicants \$300 for each of six grant applications, totaling \$1,800. The employee was terminated following the results of an investigation.

7. Fraud

An investigation concluded that a number of amendments had been inappropriately made to ice permits resulting in approximately \$8,500 being credited to certain permit holders. The division conducted the investigation and determined that the transactions were processed using an employee's password by an unknown third party. The Information & Technology Division assisted the division in investigating this matter and highlighted various security issues including the need to change employee passwords on a regular basis.

8. Irregular Purchasing

The City Manager's office received information from a division that a bid file for the procurement of pressurized water washing services may have been tampered with. It was alleged that a signed quotation from a bidder was added to the procurement file after the bidder had been disqualified for not signing the bid submission. Internal Audit investigated and concluded that a signed copy of the quotation response from the bidder may have been added to the procurement file. The identity of the individual who may have inappropriately added the signed copy to the file could not be determined.

The Auditor General's Office was advised that Internal Audit made recommendations with respect to the proper securing of procurement files.

9. Misuse of City Resources

A complaint was received through the Hotline Program alleging that two City staff used their cell phones for non-work related activities. A preliminary analysis of the employees' cell phone usage by the Auditor General's Office identified excessive usage.

The division further reviewed the matter and concluded that the employees had misused their cell phones. The division subsequently reviewed cell phone usage for all 38 staff and recovered \$3,035 in non-work related cell usage costs.

10. Loss of City Revenue

In September 2004, the Auditor General's Office was notified of allegations involving the tampering of water meters at several large apartment buildings that had been investigated by the Division. A subsequent investigation by the Toronto Police Service did not find conclusive evidence as to who may be responsible for the tampering and as a result no charges were laid. We were advised that as a result of the investigation being commenced, inappropriate activity involving the water meters appeared to cease as water consumption levels increased dramatically. This matter was finally concluded in 2006 following attempts by the division to recover previously unbilled water revenues and the recovery of approximately \$325,000 in lost revenue.

11. Contravention of Acceptable Use Policy

In mid-December 2005, the Auditor General became aware of an incident within the Auditor General's Office involving an alleged contravention of the City's Acceptable Use Policy relating to the City's Information and Technology resources. The investigation into this matter began in late December and was concluded in 2006. The Auditor General discussed this matter with the Chair of the Audit Committee and the City Manager. The employee was disciplined after consultation with the City's Legal Services Division as a result of this incident.

12. Irregular Employee Benefits Claim

In June 2005, it was reported through the Hotline Program that an inactive City employee was operating a private business while collecting long-term disability which was effective October 2004. The investigation of this matter was led by the division and the City's benefit provider (that administers employee benefits under the City's self-insured plan). As a result of the investigation, the employee's claim for long-term disability benefits was terminated. The Auditor General's Office had requested details as to whether there would be recovery of any unwarranted disability payments paid to the employee during the period disability had been claimed. The matter was finally concluded in 2006 following the benefit provider's determination that there was no overpayment of benefits paid out to the employee to be recovered.

13. Recovery of Funds

The Auditor General became aware of the general details contained in a management agreement which had been terminated. The termination of the agreement resulted in certain funds being retained by the management company. Due to previous involvement in the financial audit of the entity, it was determined by the Auditor General that the retention of certain funds by the management company was inappropriate. Discussions were held with the City's Legal Services Division and the management company which resulted in the negotiated recovery of approximately \$10,000.

14. Fraud

In December 2005, the Auditor General's Office was advised of an alleged case of fraud perpetrated by the Treasurer of a Business Improvement Association (BIA). An investigation conducted by BIA board members in consultation with the Auditor General's Office and Divisional staff determined that the Treasurer issued two unauthorized cheques totaling \$4,280 and subsequently misappropriated the funds. Although all BIA cheques require two signatures, the second signature was forged. The matter was referred to the Toronto Police Service and criminal charges were laid. Criminal proceedings are pending.

15. Fraud

In March 2005, an incident involving the misappropriation of City funds was reported to the Auditor General's Office. Divisional staff led the investigation in consultation with the Auditor General's Office. Based on our review of investigative reports, supporting documentation and discussions with divisional staff, we concluded that the employee had misappropriated almost \$20,000 of City funds over a four-month period in 2004. The employee had been terminated. The Auditor General's Office worked co-operatively with the Toronto Police Service to ensure that evidence was documented to a level that was sufficient to substantiate the laying of criminal charges in this matter. This matter was finally concluded in 2006 following criminal court proceedings in which the total amount of misappropriated funds was recovered.