

APPENDIX 1

2008 ANNUAL REPORT FRAUD AND WASTE HOTLINE

January 15, 2009



Auditor General's Office

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EXECUTIVE SUMMARY

***8th annual report
on Hotline
activities***

Annual reporting of the activities of the Fraud and Waste Hotline Program is at the direction of the Audit Committee. This report represents the Auditor General's eighth annual report on the activities of the Fraud and Waste Hotline Program for the period of January 1 to December 31, 2008.

The risk of fraud and wrongdoing is an inherent part of conducting business in all organizations including the Public Sector.

***Prevention and
detection, key
components to
manage risk of
fraud, other
wrongdoing***

Prevention and detection remain key components in managing the risk of fraud and other wrongdoing. No one method, technique or control exists to prevent occurrences of wrongdoing.

The City's strategy in managing the business risk of fraud and other wrongdoing has included the establishment of a Fraud and Waste Hotline Program, operated by the Auditor General's Office.

***City of Toronto
Fraud and Waste
Hotline Program***

The City of Toronto was the first City in Canada to establish a Fraud and Waste Hotline Program. The Hotline Program provides a centralized facility for employees or members of the public to report fraud, waste or other wrongdoing involving City resources, anonymously if they prefer.

***Anonymous
Hotlines***

Anonymous hotlines are generally regarded as best practice in the municipal environment and in the past number of years many municipalities in both Canada and the U.S. have introduced anonymous fraud and waste hotlines.

***Hotline Program
has helped reduce
losses***

The Hotline Program has helped reduce losses and identified areas where internal control weaknesses can be strengthened.

Managing risk of wrongdoing is a continuous and collective effort; but primary responsibility remains with management

Managing the business risk of fraud and wrongdoing must be a continuous and collective effort involving all levels of staff, but the primary responsibility for maintaining appropriate internal controls and other strategies to prevent and detect wrongdoing remains with divisional management.

Inadequate internal controls contributing factor to fraud

Often fundamental and basic internal controls that help reduce the risk of wrongdoing are not implemented or are overlooked, particularly when controls are not regularly reviewed. Inadequate internal controls are a primary contributing factor to the occurrence of wrongdoing; override of existing controls and lack of management review are also factors.

Non-compliance with basic operational and corporate policies

We have identified instances of non-compliance with basic operational procedures and corporate policies. In certain cases, internal controls in place to prevent such instances from occurring were disregarded and the effectiveness of the controls was not actively monitored.

Statistical data

Statistical data concerning the activities of the Fraud and Waste Hotline Program is included in this report and highlighted as follows:

619 complaints in 2008 represents 18% increase

- In 2008, the 619 complaints received represented an 18 per cent increase in the number of hotline complaints over the 523 received in 2007.

Investigations

- In 53 complaints (nine per cent of the 619 complaints received), investigations were conducted by the Auditor General's Office or divisional management.

Substantiated complaints

- Forty-two complaints (19 per cent) of the 220 complaints investigated or referred to divisions in 2008 have been substantiated in whole or in part.

Internal control weaknesses

- In six out of 42 substantiated complaints in 2008, internal control weaknesses were identified. In all these instances internal control changes were made.

Losses and recovery of losses

- For complaints received in 2008, quantifiable actual losses to the City were \$260,538. This amount is expected to increase as outstanding 2008 complaints continue to be concluded in 2009.

Potential losses or at risk dollars

- Also, in 2008 quantifiable potential losses or “at risk” dollars were \$297,115. This sum represents additional potential losses which could have resulted in actual losses to the City had the incident of wrongdoing continued without being detected. Again, this amount is expected to increase as outstanding complaints continue to be concluded in 2009.

1.0 ADEQUATE INTERNAL CONTROLS REDUCE RISK OF FRAUD AND WRONGDOING

1.1 Internal Controls

Prevention and detection, key components to manage risk of fraud or other wrongdoing

The risk of fraud and wrongdoing is an inherent part of conducting business in all organizations including the Public Sector.

Prevention and detection remain key components in managing the business risk of fraud and wrongdoing. No one method, technique or control exists to prevent occurrences of wrongdoing.

The City’s strategy in managing this business risk has included the establishment of a Fraud and Waste Hotline Program, operated by the Auditor General’s Office.

The Hotline Program has helped reduce losses and identified areas where internal control weaknesses can be strengthened.

Management has primary responsibility to manage this risk

Managing the risk of fraud or other wrongdoing must be a continuous and collective effort involving all levels of staff. The primary responsibility for maintaining appropriate internal controls to prevent and detect wrongdoing remains with divisional management.

***Inadequate
internal controls
contributing
factor to fraud***

Often fundamental and basic internal controls that help reduce the risk of wrongdoing are not implemented or are overlooked, particularly when controls are not regularly reviewed. Inadequate internal controls are a primary contributing factor to the occurrence of fraud; the override of existing controls and lack of management review are also factors.

***Previous
AG report
emphasized need
to re-evaluate
internal controls***

In this regard, the Auditor General (formerly the City Auditor) issued a report in 2001 entitled “Management Controls: A Basic Departmental Responsibility”. The report emphasized the need for management to constantly re-evaluate internal controls, a fundamental component of best practices in financial management.

***Financial
Statement/Internal
Control Checklist***

Also included in this report was a document entitled “Financial Statement/Internal Control Checklist.” This checklist has been used by the City Manager in order to ensure that senior staff are aware of their responsibilities in regards to internal controls.

We understand the Checklist has been further enhanced by Management and is used as part of the annual performance evaluation process.

***Corrective
controls help
ensure future
wrongdoing is
prevented,
detected***

Corrective controls, such as improved policies and procedures, are key to remedying problems that are discovered ensuring that future wrongdoing is better prevented and detected, especially in areas subject to greater levels of risk.

***A number of
substantiated
complaints may
have been
mitigated by
monitoring
controls***

In 2008, based on our review of concluded complaints, a number of substantiated complaints may have been mitigated through the active enforcement of internal controls, policies and procedures. In these cases basic controls were inadequate or disregarded and their effectiveness not actively monitored. Weaknesses in internal controls have subsequently been addressed by management.

The recommendation made in this report will re-emphasize management’s responsibility to regularly review and re-evaluate internal controls.

Recommendation:

- 1. The City Manager direct management staff to regularly review and evaluate the adequacy of internal controls within their area of responsibility. Where appropriate, action be taken to strengthen controls, with a view to preventing and detecting instances of fraud and other wrongdoing.**

2.0 Annual Reporting

***8th annual report
on Hotline
activities***

The Annual Reporting of the activities of the Fraud and Waste Hotline Program was a directive of Audit Committee. This report represents the Auditor General's eighth annual report on the activities of the Fraud and Waste Hotline Program for the period from January 1 through to December 31, 2008.

Statistical data concerning the activities of the Fraud and Waste Hotline is contained in this report. In addition, and as requested by Audit Committee, we have provided details of certain complaints substantiated in 2008.

3.0 THE FRAUD AND WASTE HOTLINE PROGRAM

***City of Toronto,
first in Canada
to establish
Fraud and Waste
Hotline Program***

The City of Toronto was the first City in Canada to establish a Fraud and Waste Hotline Program. Set up in 2002 with Council's support, the City's Fraud and Waste Hotline Program provides a centralized facility for employees or members of the public to anonymously report fraud, waste or other wrongdoing involving City resources.

Since that time we have provided advice and guidance to a number of Canadian and U.S. municipalities that have established anonymous hotline programs. These municipalities have included the following:

- City of Ottawa
- City of Windsor
- City of Edmonton
- City of Calgary
- City of San Jose
- City of Oakland
- City of Richmond

A significant number of U.S. cities also operate anonymous fraud and waste hotline programs.

Anonymous reporting is effective in detecting irregularities

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

Our research continues to indicate that anonymous reporting is an effective means of detecting irregularities, as tips or complaints received by an organization remain the most common means of detecting fraud and other wrongdoing.

Research indicates that organizations with hotlines reduce losses by 60 per cent

According to the 2008 Report to the Nation on Occupational Fraud and Abuse, published by the Association of Certified Fraud Examiners (ACFE), a global professional organization, hotlines remain a very effective fraud detection tool. In fact, according to the ACFE, organizations with a hotline reduce fraud losses by 60 per cent.

In the U.S., the Sarbanes-Oxley Act of 2002 impacted the way in which publicly held organizations dealt with fraud. Many government organizations have adopted the Act's regulations, including the requirement that anonymous reporting be in place for employees to report accounting or audit irregularities.

Canadian and American municipal governments have implemented anonymous hotlines

Over 55 per cent of government agencies that participated in the ACFE study indicate that they have implemented an anonymous hotline.

Our research including our benchmarking of Canadian and U.S. municipal governments continues to indicate the use of anonymous hotlines is a best practice.

3.1 Operation of the Hotline Program

AG's Forensic Unit responsible for operation of City's Fraud and Waste Hotline Program

In July 2005, a Forensic Unit was established within the Auditor General's Office. The Unit is responsible for the operation of the City's Fraud and Waste Hotline Program and for conducting and coordinating investigations directed at the detection of fraud, waste and wrongdoing involving City resources.

Operation of the Hotline Program includes the complaint intake process, electronic tracking of complaints and determining the disposition of complaints received, including conducting and coordinating investigations with various City divisions.

Continued improvements to the AG's Hotline database

In 2008, together with Information and Technology Division staff, we continued with improvements to the Hotline database. Improvements included an email interface to streamline electronic tracking of complaints and related correspondence which represented a significant administrative component. It is expected that other City divisions and offices will leverage this interface solution.

Hotline database adaptable for other Accountability Offices

As well, we have provided demonstrations of the Auditor General's Hotline database to other City divisions, as well as the Office of the Ombudsperson and the Lobbyist Registrar who intend to leverage our business experience in managing complaint activity and adapt the database for purposes of managing their business processes.

Communication of the Hotline program is essential to its effectiveness

Operation of the Hotline program also includes coordinating the marketing and communication of the program which is essential to its effectiveness. Details of communication initiatives coordinated by the Auditor General's Forensic Unit in 2008 are provided in Exhibit 1.

3.2 Investigations

Conducting investigations

In 2008, the Auditor General's Office was involved in investigations which included the collection of evidence related to alleged improprieties by City employees and, in some cases, by external third parties.

Investigations are coordinated with divisional management

While the Auditor General may take a lead role in conducting certain investigations, the majority are coordinated with divisional management. In these circumstances, divisional management takes the lead role in the investigation and where appropriate, the Auditor General's Office provides advice and guidance.

Coordinated approach to investigations utilizes staff expertise

Investigations are conducted in consultation with City Legal Services and Human Resources, as appropriate.

This coordinated approach to investigations utilizes the expertise of all staff and allows for the leveraging of resources to ensure allegations are dealt with in a timely manner.

Divisional action and investigative findings are reviewed by the AG's Office

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.

In certain circumstances and where the level of evidence is appropriate, certain cases are reported to the Fraud Unit of the Toronto Police Service.

AG Recommendation

Matters investigated by the Auditor General's Office may result in the reporting of recommendations to senior management.

3.3 Referrals to Accountability Officers

Protocols established with the Integrity Commissioner's Office

Protocols have been established with the Integrity Commissioner's Office in relation to respective responsibilities, particularly in the handling of anonymous complaints involving Councillors or their staff. Both the Auditor General and Integrity Commissioner are committed to continue working together to address mutual issues of concern.

Protocols to be established with the Office of the Ombudsperson

Future referrals of hotline complaints to the Office of the Ombudsperson are also contemplated. We have had preliminary discussions regarding mutual roles and responsibilities.

4.0 STATISTICAL SUMMARY

Complaints received – January 1, 2008 to December 31, 2008

4.1 Total Complaints

Fraud, by nature is concealed, hidden

One of the primary characteristics of fraud and wrongdoing is that it is concealed or hidden. Fraud, by its very nature, cannot be scientifically observed or measured in an accurate manner.

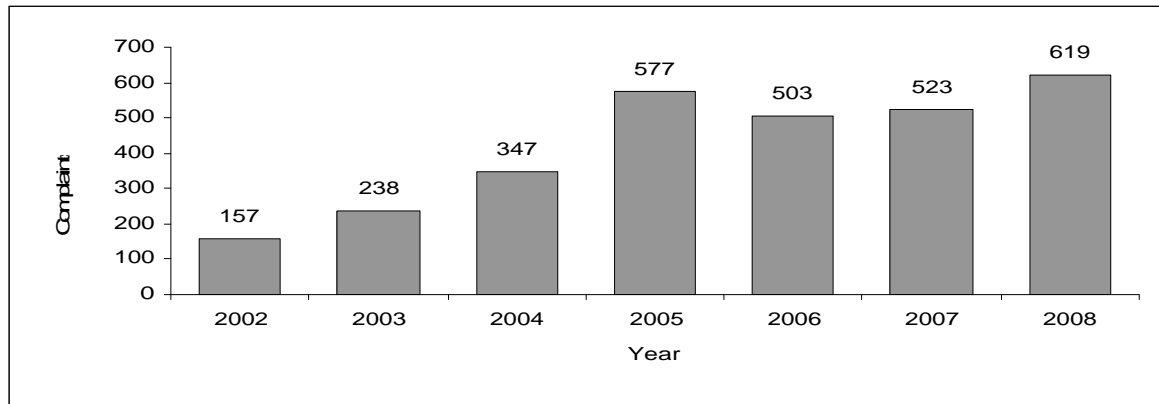
As such, the number of complaints or allegations received is not always a complete picture of fraud or wrongdoing.

Over 2900 complaints handled since 2002

The Fraud and Waste Hotline Program was initiated in 2002 and since then the Auditor General's Office has handled over 2,900 individual complaints. Each complaint may in turn include numerous allegations.

Chart 1 outlines the trends in reporting to the Hotline from 2002 to date.

Chart 1 – Complaints Reported 2002 to 2008



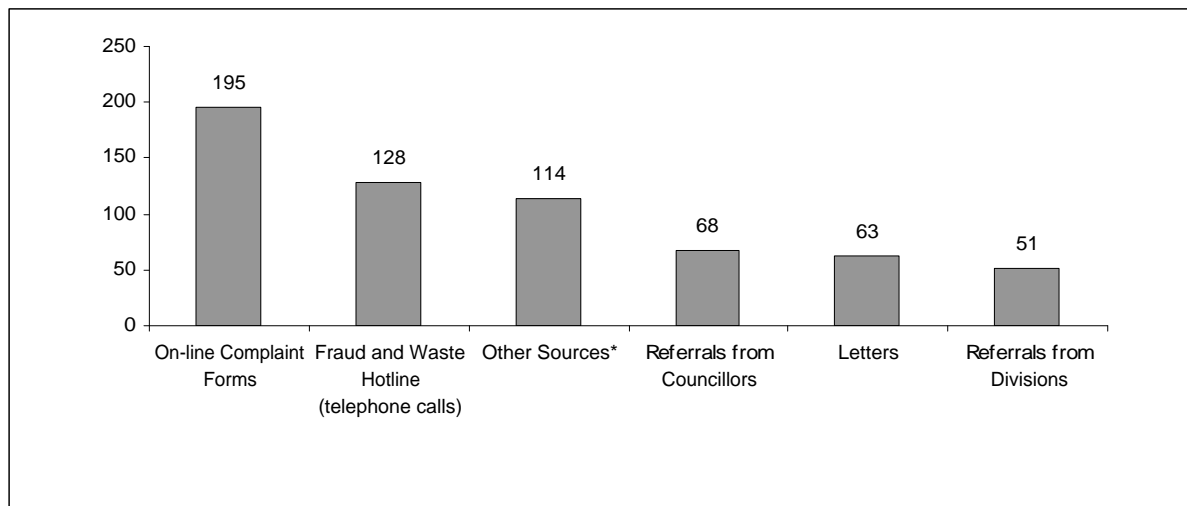
18% increase in the number of hotline complaints received

In 2008, the 619 complaints received represented an 18 per cent increase in the number of hotline complaints over the 523 received in 2007.

4.2 Source of Complaints

Chart 2 provides a summary of the methods used to report complaints to the Fraud and Waste Hotline program.

Chart 2 – Source of Complaints



Total complaints: 619

* Other Sources includes telephone calls to general line, emails, faxes and walk-ins.

4.3 Disposition of Complaints

Each and every complaint received by the Auditor General's Office is reviewed. Matters may be dealt with in a variety of ways.

All complaints are screened

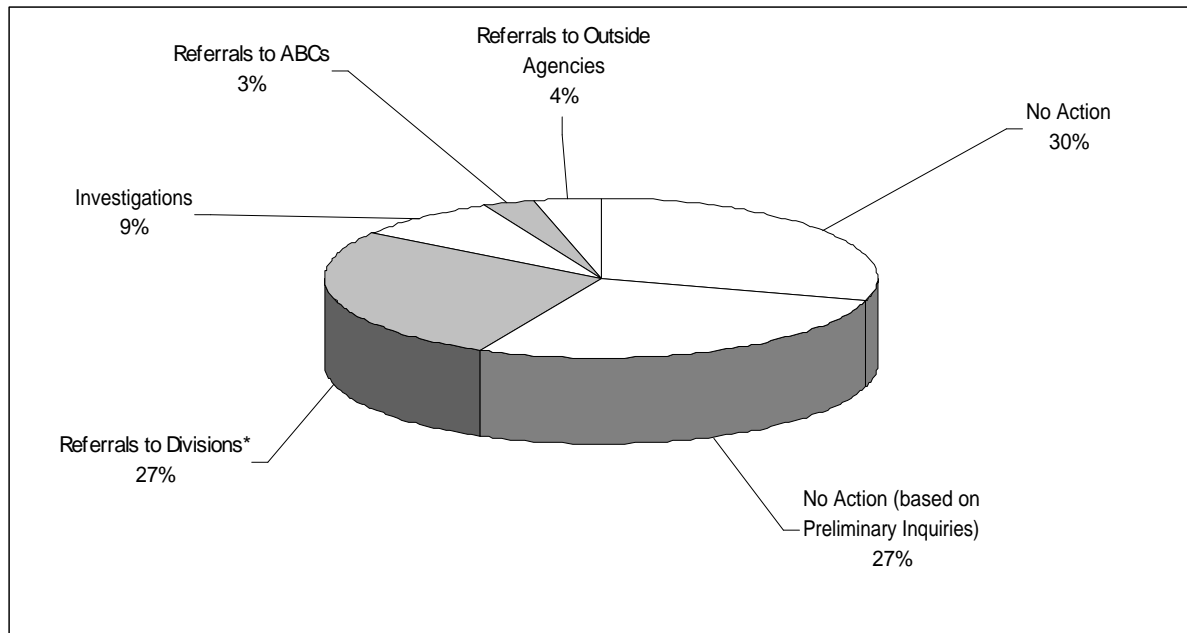
All complaints received are screened by staff of the Auditor General's Office for actionable next steps. In numerous complaints, preliminary inquiries are conducted to determine whether the allegations may have merit or to obtain additional information required in order to make the matter actionable.

Complaints are reviewed and investigated in accordance with internal procedures

Based on this initial screening, complaints are further reviewed and investigated in accordance with internal protocols, procedures and guidelines. The unique circumstances of each complaint require the application of professional judgment to determine the appropriate disposition of a particular matter.

Chart 3 provides a breakdown of the disposition of complaints in 2008.

Chart 3 – Disposition of Complaints



*Includes 12 complaints referred to Social Assistance Hotline and 73 complaints referred for information only.

9% of complaints resulted in investigations

As noted in Chart 3, nine per cent of all complaints received (53 complaints) resulted in investigations conducted by the Auditor General's Office or divisional management.

27% of complaints were referred to divisions

Twenty seven per cent of all complaints (167 complaints) were referred to divisions for action or for information only.

No action in 57% of complaints, based on initial screening or preliminary inquiries conducted

In 30 per cent (183 complaints) of all complaints, the initial screening resulted in no action being taken due to insufficient information or because the matter was outside the jurisdiction of the Auditor General's Office.

In an additional 27 per cent (168 complaints) of all complaints, we conducted preliminary inquiries prior to determining that no further action would be required.

4.4 Complaint Conclusions

All complaints are managed until they are resolved or concluded

Every complaint received by the Auditor General's Office is dealt with pursuant to the Auditor General's mandate and in accordance with the City of Toronto's Fraud Prevention Policy. Each complaint is managed until it has been resolved or concluded.

Preliminary inquiries conducted by AG's Office in 52% of all complaints

The Auditor General's Office will often conduct preliminary inquiries to determine, as a first step, whether a complaint has merit and is further actionable.

In 2008, preliminary inquiries were conducted by the Auditor General's Office in 52 per cent (321 complaints) of all complaints.

Sufficient evidence is required to substantiate allegations

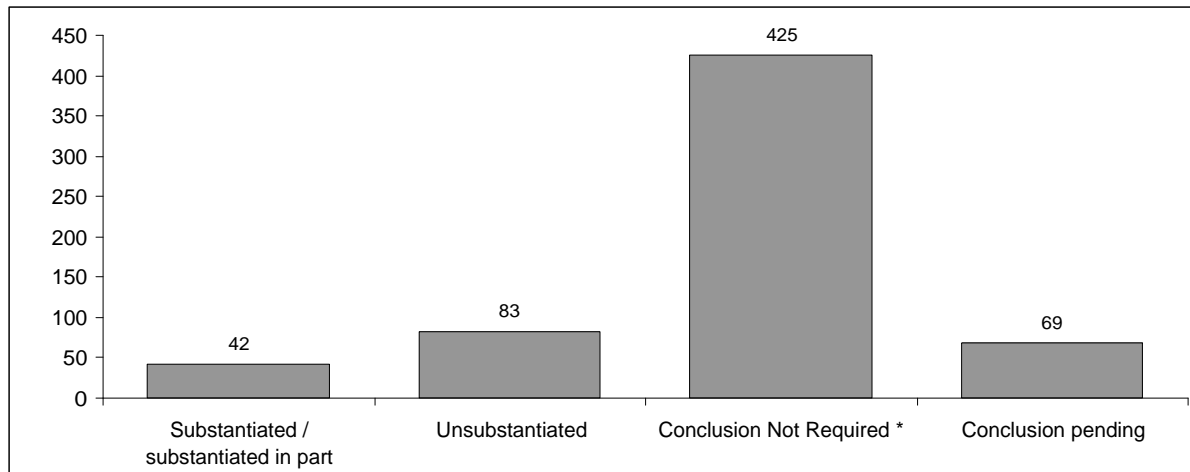
In all cases where a review or investigation is conducted, sufficient evidence is required to support the allegations and arrive at a fair and conclusive finding of wrongdoing, so that the complaint conclusion may be tracked as "substantiated".

Reviews and investigations highlight issues and risks of concern

In some cases, a determination is made that the evidence does not support a finding of wrongdoing and the complaint conclusion is tracked as "unsubstantiated". This does not mean that the complaint has no merit at all. In many cases, a review or investigation will highlight issues and risks that continue to be of concern.

Chart 4 provides a summary of the final resolution of complaints reported to the Auditor General's Office.

Chart 4 – Complaint Conclusions for 2008 Complaints



* Conclusion Not Required: a conclusion is not required when no action is taken or the matter is referred for information only.

19% of complaints investigated or referred are substantiated

Nineteen per cent (42 complaints) of all complaints investigated or referred to divisions (220 complaints) in 2008 have been substantiated in whole or in part. This number is expected to increase as outstanding 2008 complaints continue to be concluded in 2009.

Internal control weaknesses contributed to wrongdoing

Internal control weaknesses have contributed to or facilitated the wrongdoing in substantiated complaints. Divisions have addressed internal control weaknesses identified.

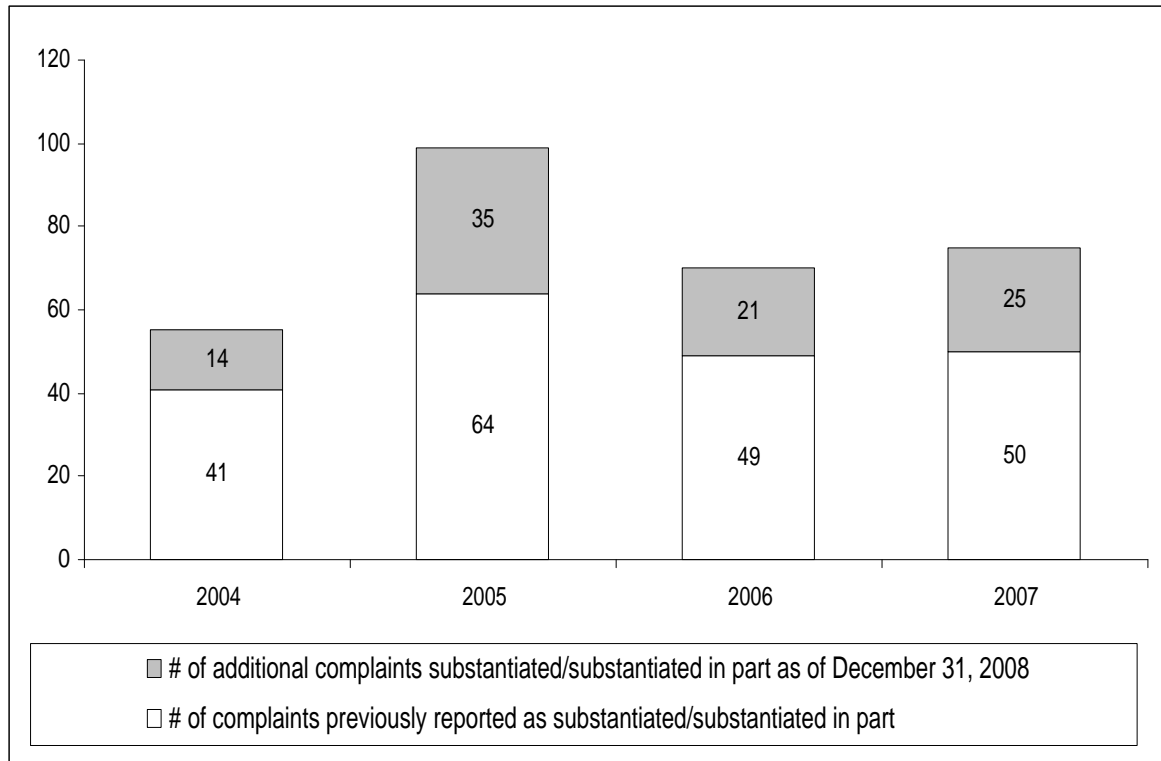
69 complaints remain outstanding

As indicated in Chart 4, a total of 69 complaints in 2008 have a conclusion pending as the review of the matter is ongoing. The final resolution of these pending items will be reported in the Auditor General's 2009 Annual Report.

Each year complaints received in previous years e.g., 2007 continue to be concluded in subsequent years e.g., 2008. When previous years' complaints are concluded and the final resolution determined, statistics are updated in our database to capture information such as whether the complaint was substantiated.

Chart 5 highlights the increase in the number of previous years' complaints substantiated as of December 31, 2008.

Chart 5 – Complaint Conclusions for Previous Years' Complaints



4.5 Disciplinary Action in Substantiated Complaints

Discipline is the responsibility of divisional management

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.

Discipline should be fair and consistent

An important consideration for management in disciplining employees is that discipline should be fair and consistent throughout the Corporation and should provide guidance on and reinforce acceptable conduct for all City employees.

Discipline was imposed in 15 incidents; in an additional 21 instances, other appropriate action was taken

In 2008, divisional management reported that discipline was imposed in 15 of the incidents reported to the Fraud and Waste Hotline Program. Discipline includes suspension, termination, demotion, restrictions on promotions and letters in the employee's file.

In an additional 21 instances, divisional management took other appropriate action including reinforcing expectations through communication or training initiatives.

4.6 Loss and Recovery

Measuring the total cost of fraud is difficult

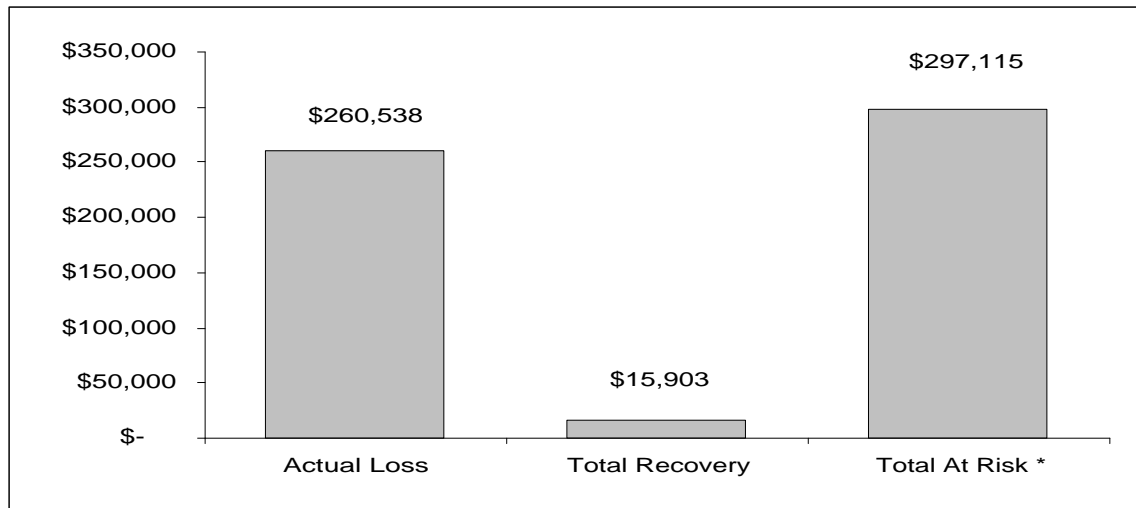
Measuring the total cost of fraud is difficult because fraud is concealed and can sometimes go undetected for many years. In some cases, because of the nature of the wrongdoing it may not be possible to determine the duration of the activity, thereby making it difficult to accurately quantify losses.

Management costs to investigate wrongdoing are significant

In addition to direct financial losses, organizations must deal with "management costs" which result from fraud or wrongdoing. This includes the reallocation of management time to investigate incidents of wrongdoing. This time can be significant.

Chart 6 summarizes the total quantifiable values and recoveries associated with complaints received in 2008.

Chart 6 – Value and Recovery in 2008



* Value of City funds “at risk” represents potential loss to the City. That is, had the incident of wrongdoing continued without being detected, the irregular activity may have resulted in an actual loss of funds to the City. The Total at Risk value is not included in the Actual Loss or Total Recovery figures.

Actual Losses

For complaints received in 2008, quantifiable actual losses to the City were \$260,538. This amount is expected to increase as outstanding 2008 complaints continue to be concluded in 2009.

Potential losses or at risk dollars

Also, in 2008, \$297,115 was identified as “at risk” dollars. This sum represents additional potential losses which could have resulted in actual losses to the City had the incident of wrongdoing continued without being detected. Again, this amount is expected to increase as outstanding complaints continue to be concluded in 2009.

Recovery of losses

Total recovery of losses for 2008 complaints was \$15, 903. This includes \$3,875 recovered through the City’s insurance provider

The City is self-insured and maintains an Insurance Reserve Fund which provides funding for insurance costs. A \$5 million self-insurance retention is maintained. Claims below \$5 million are funded from the Reserve Fund.

4.7 Loss and Recovery in Previous Years' Complaints (2005, 2006, 2007)

Information concerning complaint conclusion, resolution, or the determination of loss and recovery often occurs some time after the allegations are received. Charts 7 and 8 provide updated information on losses and recoveries previously reported.

Chart 7 – Loss in Previous Years' Complaints

	2007	2006	2005
Loss previously reported	\$118,451	\$83,014	\$346,063
Actual Loss as of December 31, 2008	\$138,138	\$199,370	\$448,268
Additional losses	\$19,687	\$116,356	\$102,205

Chart 8 – Recovery in Previous Years' Complaints

	2007	2006	2005
Recovery previously reported	\$37,329	\$33,196	\$224,481
Recovery as at December 31, 2008	\$62,042	\$43,269	\$295,586
Additional recoveries	\$24,713	\$10,073	\$71,105

4.8 Divisions or ABCs with Substantiated Complaints

As noted in Chart 7, complaints substantiated in 2008 included City Divisions, Agencies, Boards and Commissions.

Chart 9 – Divisions and ABCs with Substantiated Complaints*

Division/ABC	
Children's Services	Revenue Services
City Clerk's Office	Shelter, Support & Housing Administration
City Planning	Social Services
Court Services	Solid Waste Management Services
Emergency Medical Services	Technical Services
Fire Services	Toronto Community Housing Corporation
Municipal Licensing and Standards	Toronto Parking Authority
Parks, Forestry and Recreation	Toronto Water
Pension, Payroll and Employee Benefits	Toronto Zoo
Policy, Planning, Finance and Administration	Transportation Services
Purchasing and Materials Management	

* Substantiated complaints associated with a Division do not necessarily reflect wrongdoing on the part of employees of that Division. In certain cases, the wrongdoing may have been on the part of vendors or other members of the public.

4.9 Type of Substantiated Complaints

As shown in Chart 8, the type of complaints substantiated in 2008 included the following:

Chart 10 – Type of Substantiated Complaints

Nature of Substantiated Complaints	Description
Conflict of Interest	<ul style="list-style-type: none">▪ City training materials used by employee for personal business▪ Staff directing business to private companies▪ Staff cancelling parking tickets for acquaintances▪ Staff renting personally owned apartments to their City clients▪ Employee used and did not pay for City services for personal business
Fraud	<ul style="list-style-type: none">▪ Inappropriate payment of subsidies▪ Inappropriate service reimbursement claims▪ Theft of cash deposits▪ Theft of City property▪ Contractor billing for work not completed
Improper Employee Conduct	<ul style="list-style-type: none">▪ Alteration of medical notes▪ Unauthorized removal of City property▪ Irregular hiring
Irregular Employee Work Hours	<ul style="list-style-type: none">▪ Excessive overtime not monitored by management
Misuse of City funds and resources	<ul style="list-style-type: none">▪ Use of City vehicle for personal use▪ Inappropriate computer use

5.0 SUMMARIZED DETAILS OF SUBSTANTIATED COMPLAINTS

Attached as Exhibit 2 are summarized details of complaints investigated and concluded in 2008. These summaries are provided as requested by Audit Committee.

6.0 CONCLUSION

This report represents the Auditor General's eighth annual report on the activities of the Fraud and Waste Hotline Program. This report is for the period of January 1, 2008 to December 31, 2008.

Communication of the Hotline Program

***Communication
of the Hotline
Program is
essential 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.

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 Prevention Policy.

***Communication
initiatives have
continued in
2008***

Communication initiatives in 2008 have included:

- article and information in the February 18, 2008 edition of the Monday Morning News, electronic Corporate newsletter;
- continued display of information on the City's Internet/Intranet sites;
- continued display of a Fraud and Waste Hotline poster – advertising the Hotline telephone number 416-397-STOP;
- presentations at a number of public sector and government related conferences; and
- development of briefing package which provides an overview of the Forensic Unit's responsibilities with respect to investigations and provides guidance for divisional management who may be responsible for conducting investigations in to allegations of wrongdoing referred to them through the Hotline program.

Summarized Details of Substantiated Complaints

Below are summarized details of various reviews and investigations conducted during 2008. These summaries are required as requested by Audit Committee.

1. Excessive Overtime

In October 2007, the Auditor General's Office received allegations of a City employee incurring substantial amounts of unwarranted overtime. The employee had recorded over 400 hours of overtime in 2006 and close to 600 hours of overtime for 10 months in 2007, totaling close to \$50,000.

An investigation led by the Division substantiated the allegations and determined that the employee was conducting a significant amount of union business, as well as additional work not directly related to the employee's primary job function, causing the employee to fall behind in regular duties. Inadequate management supervision allowed the excessive overtime and did not ensure that the employee's time was productively used.

Corrective action included formalization of the processing of overtime forms, mandatory review of overtime and authorization of employee attendance at Union related meetings (during work hours) by the employee's direct manager.

Management staff was disciplined for failing to ensure the legitimacy of overtime claims, as well as failing to control and minimize the employee's overtime.

2. Conflict of Interest

A complaint received through the Hotline program alleged that City inspectors were recommending and referring City residents to a private company for emergency home repair services. At the time of receipt of this complaint, the Division was in the process of investigating a previous similar complaint received by the Hotline in 2006. The new complaint provided additional details, facilitating the Division's investigation of the matter.

As a result, two employees were disciplined and the Division continues to monitor the activities of its employees.

3. Conflict of Interest

In November 2007, Divisional management advised the Auditor General's Office that several City of Toronto employees from another Division were in a conflict of interest situation. It was alleged that the employees owned property and were renting it to City clients they were responsible for. The clients were also in receipt of benefits administered by another City division. It was also alleged that the employees were attempting to influence the administration of the clients' benefits by contacting the division responsible for the administration of the benefits.

The conflicts of interest were investigated and substantiated by Divisional management. Four employees were disciplined. Management has formally reminded staff of the City's Conflict of Interest Policy, as well as staff obligations related to Divisional policies.

4. Misuse of City Resources/Contravention of the Acceptable Use Policy

A complaint received through the Hotline program alleged that a City employee was contravening the Acceptable Use Policy by using corporate resources to store, download and print pornographic material during and outside business hours.

With the assistance of the Information and Technology Division, the Division investigated the matter and confirmed excessive and inappropriate personal use of the City's computer. The employee was found to have circumvented the City's restrictions.

The employee was disciplined as a result of the investigation. Information and Technology Division staff has provided information related to the sites to the City's Internet Service Provider and the sites in question have been re-categorized and are now restricted to prevent employee access.

5. Conflict of Interest - Use of City Training Materials

In January 2008, Divisional management advised the Auditor General's Office that a City employee, who was responsible for developing and delivering training on behalf of the City, was using City training materials for his personal business.

The employee's actions violated the City's Conflict of Interest Policy and the employee was disciplined.

6. Theft of City Property

Divisional management advised the Auditor General's Office of a matter involving irregular purchasing. The employee purchased various technical items. While the employee was on vacation, invoices for payment were received but invoiced items could not be located. The Division located numerous items, valued at approximately \$2,900 which exceeded the normal operational needs of the particular work location.

The Division advised it had procedures in place to deal with the purchase of supplies which included a further level of approval to ensure items were reviewed for suitability by management staff with technical knowledge. These controls were disregarded by the employee.

The employee investigation concluded that the employee had misappropriated the items and was subsequently disciplined.

7. Inappropriate Employee Conduct

In March 2008, a complaint was received through the Hotline Program alleging that a City employee was using a City vehicle to pick up and unload materials and appliances, and that these were later sold by the employee. The matter was forwarded to the Division for review.

Subsequently, in May 2008, the Auditor General's Office received an additional complaint which included similar allegations regarding the employee's alleged activities.

The Division investigated the matter and substantiated the allegations. The employee was disciplined.

8. Misuse of City Resources/Contravention of the Acceptable Use Policy

An employee reported alleged inappropriate Internet use to Divisional management. The employee had logged into a fellow employee's work station and discovered an image considered inappropriate and pornographic.

Together with Information and Technology staff, the Division conducted an investigation and found numerous inappropriate materials saved on the employee's computer.

The employee subsequently admitted to having used City computers and systems in contravention of the City Acceptable Use Policy. The employee was disciplined.

9. Fraud - False Membership Cards

In March 2008, Divisional management reported the use of false membership cards at City recreational facilities. Two City employees had presented the false membership cards on numerous occasions at City facilities, totaling approximately \$550 in usage. Staff at the facilities was unable to locate records verifying or confirming the employees' membership at the facilities.

The cards were subsequently confiscated. The employees both admitted to making the false membership cards, forging an authorizing signature on the cards and not paying for services. Both employees were disciplined.

10. Fraud - Subsidy Claim

Divisional management advised of a service provider inappropriately claiming attendance for a child in daycare. The child had been approved for a child care subsidy for five days a week, however, was only in attendance for three days every week. Over the course of two years, the service provider inappropriately reported attendance at the daycare for five days rather than the three days attended, totaling over \$6400 in fees.

The City has recovered the costs of the child care for two days a week for the period of two years.

The service provider has four child care programs involving an agreement for fee subsidy. As a result of the investigation, the Division is reviewing the attendance reporting practices for all four programs.

11. Conflict of Interest

Senior management reported to the Auditor General a matter involving an outstanding receivable for \$42,000 in printing services that was being considered for write off. The receivable was owed to the City by a company owned and operated by a City employee. The employee's company produced an annual publication that had been printed by the City. The matter also involved a potential undeclared conflict of interest by the employee relating to the employee's involvement in this publication.

The investigation in to this matter was led by the Internal Audit Division. It was determined that the outstanding receivable was transferred to a charitable foundation through the issuance of a revised invoice without authorization. The accounts receivable remains outstanding and is unlikely to be recovered by the City. City Legal Services has been consulted.

Internal control weaknesses were also identified during the investigation and have been brought to management's attention. We have been advised that management has addressed these weakness.

While this matter was under investigation by Internal Audit Division, a separate complaint relating to the same employee allegedly using a City vehicle for personal use was reported to the Hotline Program. The Auditor General's Office referred this complaint to the Division for review and the allegation was substantiated.

The employee no longer works for the City.

12. Substandard Contractor Work

In July 2008, Divisional management advised the Auditor General's Office of allegations made by a contractor (Contractor 1) involving substandard work by a second City contractor (Contractor 2). The Auditor General's Office subsequently received a similar complaint containing additional details. The allegations involved the removal of environmentally dangerous material and as such posed a liability for the City.

Upon investigation of the matter, it was determined that Contractor 2 had invoiced the City for \$170,000 worth of work not completed. As payment had not yet been rendered, the City pro-rated payment based on the actual work undertaken. A Contractor Performance Evaluation will be carried out at the completion of the project, which will reflect the findings of this investigation.

In a second complaint, Contractor 2 (who had been implicated in the allegations above), subsequently contacted the Auditor General's Office with new allegations of substandard work implicating Contractor 1.

An investigation into this matter also substantiated these allegations. The Division has taken action to prevent similar future occurrences.

13. Conflict of Interest

A complaint was received alleging an individual had received over 500 parking tickets that had been inappropriately cancelled, primarily by one City employee. The Auditor General's Office investigated the matter and determined that a numerous parking tickets had been cancelled. The investigation could not confirm the employee's involvement in the cancellation of the tickets as supporting documents that should have been maintained in secure files were routinely destroyed.

The investigation also raised Conflict of Interest issues relating to other City employees receiving minor gifts from the public while performing their normal duties. Management has reminded staff of the City's Conflict of Interest Policy.

The investigation also disclosed weaknesses in cash handling procedures. The Auditor General's Office made recommendations to develop and implement operational and security controls.

14. Conflict of Interest

A complaint received through the Fraud and Waste Hotline alleged a staff member requested that another City employee cancel parking tickets for friends and family. An investigation conducted by the Auditor General's Office confirmed that the tickets had been cancelled. Further investigation was conducted by Divisional management and the allegations were substantiated.

The investigations also disclosed potential breaches of the Acceptable Use Policy relating to excessive and inappropriate use of the City's e-mail.

A contravention of the Municipal Freedom of Information and Protection of Privacy Act (MFIPPA) was also discovered involving the inappropriate disclosure of City employees' personal information to third parties.

Two employees were disciplined as a result of the investigation.

15. Fraud

In May 2008, the Auditor General's Office was advised by a third party of allegations related to the theft of \$60,000 by the bookkeeper of an agency contracted by the City of Toronto.

The agency obtained a civil judgment against the implicated bookkeeper in December 2007, prior to advising the Division of the fraudulent activity in February 2008.

The agency indicated that it had conducted a review and instituted new practices designed at preventing future similar occurrences. Further, an annual audit of the agency did not previously disclose issues with regard to the financial practices of this agency. However, the Division determined that appropriate controls and processes had not been put in place, contrary to the agency's assertions, and subsequently hired a forensic auditor.

Further, the Division has advised it will now request agencies provide a management letter to include an auditor's assessment of the manner in which an agency maintains its records.

We have advised the Division to consult with Toronto Police Service, Fraud Squad, to determine whether this matter warrants criminal charges.