

AUDITOR GENERAL'S REPORT

**2012 ANNUAL REPORT ON FRAUD
INCLUDING THE OPERATIONS OF THE
FRAUD AND WASTE HOTLINE**

January 28, 2013

Jeffrey Griffiths, C.A., C.F.E.
Auditor General



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EXECUTIVE SUMMARY

Annual report on fraud activities

In June 2000, Audit Committee requested that the Auditor General submit an annual report on the status of fraud and related matters. This report represents the 2012 annual report relating to fraud activities at the City that have been communicated to the Auditor General. It does not represent an overall picture of fraud or other wrongdoing at the City as fraud, by its very nature, is concealed and often difficult to detect.

Fraud and Waste Hotline Program activities

In 2002, the City established a Fraud and Waste Hotline Program with Council's support to be operated by the Auditor General's Office. The Hotline Program provides an independent resource for employees or members of the public to report wrongdoing involving City resources, anonymously if preferred.

As well, in adopting last year's 2011 annual report on fraud and hotline activities, Audit Committee requested that the Auditor General report back on dollar amounts recovered as a result of investigations conducted. This information has been included in this year's annual report.

Integrity and accountability a top priority

Integrity and accountability remain a top priority for the City of Toronto. The most cost effective way to deal with fraud or other wrongdoing is to prevent it.

Devoting resources to prevention and detection of fraud critical

Devoting resources to prevention and detection measures, such as the Fraud and Waste Hotline Program is critical to preventing and detecting potential wrongdoing before it occurs.

One of the benefits of the annual report is to demonstrate to employees and the public that action is taken when issues of fraud and waste are reported to the Auditor General's Office.

Collective effort to manage fraud

Managing the business risk of fraud or wrongdoing must be a continuous and collective effort involving all employees and elected officials.

Fraud Prevention Policy

The City's Fraud Prevention Policy formalized the duty of employees to report allegations of fraud and includes a provision regarding whistle blower protection.

***Whistle Blower
Protection Policy***

In 2011, City Council reinforced its commitment to protect employees who disclose wrongdoing by adopting a separate Whistle Blower Protection Policy, effective June 15, 2011.

***Fraud Prevention
Policy needs to be
updated***

The Fraud Prevention Policy was last revised in March 2007 and has not been updated to specifically address the provision of the 2011 Whistle Blower Protection By-law, also enacted as a By-law. The By-law has been repealed but is expected to be re-enacted; in the interim, the Whistle Blower Policy remains in effect. In our 2011 Annual Report we recommended that the Fraud Prevention Policy be reviewed in order to ensure that its contents were consistent with the Whistle Blower Protection By-law. As of the date of this report this recommendation has not been addressed.

Further, the review of the Policy should clarify the reporting of incidents of fraud to the Auditor General's Office, particularly when the policy specifically states that the Auditor General's Office has primary responsibility for the investigation of all suspected fraud. In addition, the applicability of the Fraud Prevention Policy should be extended to the City's Agencies and Corporations. Finally, the current Policy makes reference to the process to be followed if a fraud is committed by a member of City Council, the Mayor, the City Manager, the City Clerk, the City Solicitor and the Auditor General. The policy should be updated to include the City's other Accountability Officers.

Recommendation:

The Auditor General recommends that:

- 1. City Council direct the City Manager to conduct a comprehensive review of the City's Fraud Prevention Policy. Such a review to incorporate:**
 - a. the provisions of the Whistle Blower Protection By-law**
 - b. the protocol for the reporting of fraud**
 - c. the extension of the Policy to the City's Agencies and Corporations**
 - d. the extension of the Policy to include the City's Accountability Officers**

The review and any revisions to the policy be completed by September 30, 2013.

Fraud Awareness Training critical

Fraud awareness training for all employees is critical to ensure that staff can identify suspected incidents of fraud or wrongdoing by employees or the public that should be reported.

Previous recommendations resulted in Mission, Values and Ethics training for all staff

In our 2006, 2009 and 2010 annual reports we recommended management provide mandatory ethics training for all employees including training on fraud, whistle blower protection and conflict of interest. This training has since been developed and in November 2012 the City Manager launched a mandatory e-learning course entitled Mission, Values and Ethics.

Benefits of the City's Hotline Program

The City's Hotline Program has helped reduce losses and resulted in the protection of City assets. There are additional benefits of the Hotline Program that cannot be quantified including:

- the deterrence of fraud or wrongdoing
- strengthened internal controls
- improvements in policies and procedures
- increased operational efficiencies
- the ability to use complaint data to identify trends, address risks and make action oriented recommendations to management.

Collecting, monitoring and analyzing complaint data may also help identify issues of concern that can point to more systemic problems. For example, in 2012 the Auditor General issued a report to Audit Committee, entitled "Improving Reporting and Monitoring of Employee Benefits." Even though the Auditor General's Work Plan did not include a project relating to employee benefits, the number of complaints received by the Hotline necessitated the preparation of a report on the management of employee benefits. The report included recommendations relating to improving the management of such benefits.

***Canadian and
U.S.
municipalities
have implemented
anonymous
hotlines***

Since the Hotline Program's implementation in 2002, the Auditor General's Office has provided advice and assistance to a number of Canadian and U.S. municipalities who have introduced or are contemplating similar programs. In 2012, we met with various government organizations to discuss mutual issues of concern. For example, we discussed construction fraud issues with the City of Montreal including the Commission of Inquiry on the Awarding and Management of Public Contracts in the Construction Industry (known as the Charbonneau Commission) and met with a Federal government Ministry to discuss operational strategies for managing a disclosure program.

The following Canadian Cities have introduced a hotline program:

- Calgary
- Edmonton
- Halifax
- Montreal
- Ottawa
- Windsor
- Winnipeg

Cities in the U.S. who have introduced a hotline program include:

- Atlanta
- Austin
- Dallas
- Kansas City
- Los Angeles
- Milwaukee
- Phoenix
- San Francisco
- Seattle

***Operation of the
hotline is complex***

Operation of the Hotline Program includes the administration of complaint intake, electronic tracking of complaint activity, evaluation and disposition of complaints received which includes conducting or coordinating investigations and reviews with various City divisions and Agencies and Corporations.

Activity relating to the Fraud and Waste Hotline has increased significantly since its inception. The need to maintain an adequate level of staff resources to effectively manage the Hotline Program is dealt with in the Auditor General's 2013 Budget report.

Investigations conducted or coordinated with management

Due to available staff resources and the volume of hotline related work, the Auditor General's Office is, by necessity, selective in the investigative work it conducts or takes a lead role in conducting.

The majority of investigations are coordinated with divisional management. In these circumstances, divisional management takes the lead role in the investigation. The Auditor General's Office provides advice, guidance and may participate in parts of the investigative work, such as conducting interviews and preparing or reviewing investigation plans.

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

Divisional management is required to report back to the Auditor General's Office on complaints referred to them for review or investigation. Divisional action and investigative findings are reviewed in detail 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 cases where the Auditor General's Office led the investigation or conducted a significant amount of investigative work, a separate report including recommendations may be issued to management.

Recommendation follow-up process

The Auditor General has implemented an annual follow-up process for recommendations made as a result of investigative work conducted, special reviews, or as part of the annual report on Fraud and Waste Hotline activity.

Discipline is a management responsibility

Information regarding disciplinary action taken is communicated to and tracked by the Auditor General's Office. However, decisions pertaining to the appropriate level of discipline are the sole responsibility of divisional management.

***Meetings held
with Toronto
Police Services
Fraud Squad***

Where there is sufficient evidence that a criminal act may have been committed, the Toronto Police Service is contacted. The Auditor General and senior staff from the Auditor General's Office meet regularly with the Toronto Police Financial Crimes Unit to address mutual issues of concern.

***Statistical
data of
Hotline Activity***

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

***Number of
Complaints***

In 2012, 774 complaints were received representing a six per cent decrease in the number of hotline complaints received in 2011. However, a number of complaints received included at least two or more allegations. As such, we estimate the actual number of complaints is in the range of 1,500.

Complaint activity may increase or decrease because of the dynamic nature of a hotline program and as a result of various factors. For example, activity may peak following coverage of an audit report or incidents of fraud in the media. For the most part, the decrease in complaint activity in 2012 relates to a decrease in the number of complaints involving the Toronto Community Housing Corporation (TCHC). In 2011, we received 121 complaints regarding TCHC in response to various high profile audit reports issued by the Auditor General's Office, while in 2012 we received 57 complaints. This decrease in the number of TCHC complaints may also be attributed to TCHC's implementation of an internal fraud hotline for staff, implemented in 2011.

***Disposition of
complaints***

Ultimately, the effectiveness of the City's Hotline Program does not depend on the number of complaints reported in any given year, but on the action taken to investigate, manage and reduce the risk of fraud.

The dispositions of complaints received is as follows:

No Action	181
Investigations	65
Investigative Inquires – Closed	181
Preliminary investigation conducted	2
Referrals to 311	6
Referrals to Agencies and Corporations	42
Referrals to Divisions	268
Referrals for Future Audit	6
Referrals to Internal Audit	1
Referrals to Ombudsman	1
Referrals to Outside Agencies	15
Not Yet Assigned	6
Total Complaints	774

Substantiated complaints

Fifteen per cent (50 out of 333) of all complaints referred to divisions or investigated in 2012 have been substantiated in whole or in part. This number is expected to increase as outstanding 2012 complaints continue to be concluded in 2013.

Trends

In 2012 a number of substantiated complaints continue to involve conflicts of interest, abuse of sick leave and eligibility of employees on Long Term Disability.

Discipline

In regard to the 50 complaints that were substantiated in whole or in part, divisional management reported that discipline was imposed in 25 instances. In the remaining 25 instances, divisional management took other appropriate action including reinforcing workplace expectations through training.

Impact of fraud exceeds dollar value

The impact of fraud on a corporation can exceed financial losses. Wrongdoing perpetrated in the workplace can damage the morale of co-workers and can negatively impact the reputation of the corporation. In addition, significant management time is required to investigate instances of fraud.

Actual and potential losses

We track actual and potential losses to the City for all complaints received.

For complaints received in 2012, quantifiable actual losses to the City were approximately \$500,000. This figure does not include potential losses that would have occurred had the incident of wrongdoing not been detected. This amount may increase as outstanding 2012 complaints are concluded in 2013.

We also track actual and potential losses to the City for complaints received in previous years but closed in 2012. For example, the cumulative total of actual losses for the last five years (for complaints received in 2007 to 2011) is more than \$2.1 million.

Recoveries

Total recovery of actual losses for 2012 complaints was in the range of \$257,000. These amounts are expected to increase as outstanding complaints are concluded in 2012.

We also track recoveries for previous years complaints closed in 2012. The cumulative total of recoveries for the last five years (for complaints received in 2007 to 2011) is more than \$1,365,000.

While this figure on its face may appear to be low, the Association of Certified Fraud Examiners (a global professional organization) has reported in its *2012 Report to the Nations on Occupational Fraud and Abuse* that less than 50 per cent of victim organizations recover any of their fraud losses.

Recurring losses not quantified

The value of recurring losses, the amount of the actual loss that would have resulted if the wrongdoing had remained undetected, have not been quantified for purposes of this report. If quantified, these amounts would be significant.

Investigation summaries

Summarized details of certain substantiated complaints in 2012 are included as Exhibit 2. These summaries are provided as requested by Audit Committee.

ANNUAL REPORT

1.0 ANNUAL REPORTING

13th annual report

This report represents the Auditor General's thirteenth annual report on the status of fraud activities. The requirement for annual reporting was a directive of Audit Committee.

Statistical data concerning the activities of the Fraud and Waste Hotline is contained in this report. As requested by Audit Committee, we have provided in Exhibit 2 details of certain complaints substantiated in 2012.

2.0 FRAUD PREVENTION POLICY

Policies are key part of control framework

Management is responsible for establishing and maintaining a system of internal controls to detect and prevent fraud, waste and other wrongdoing. Policies and procedures are a key part of a management control framework.

Fraud Prevention Policy

The City of Toronto's Fraud Prevention Policy formalized the duty of employees to report allegations of fraud and wrongdoing involving City resources and set out reporting protocols and procedures. The Policy also includes a provision on whistle blower protection.

Whistle Blower Protection Policy

A separate Whistle Blower Protection Policy was adopted by City Council, effective June 15, 2011.

Auditor General responsible to investigate reprisals

The policy sets out responsibilities for investigating allegations of reprisal. Under the Whistle Blower Protection Policy, the Auditor General has the responsibility to investigate allegations of reprisal that result from a complaint to the Fraud and Waste Hotline Program.

Fraud Prevention Policy needs to be updated

The Fraud Prevention Policy was last revised in March 2007 and has not been updated to specifically address the provision of the 2011 Whistle Blower Protection By-law. In our 2011 Annual Report, we recommended that the Fraud Prevention Policy be reviewed in order to ensure that its contents were consistent with the Whistle Blower Protection By-law. As of the date of this report this recommendation has not been addressed.

Further, the review of the Policy should clarify the reporting of incidents of fraud to the Auditor General's Office particularly when the policy specifically states that the Auditor General's Office has primary responsibility for the investigation of all suspected fraud.

In addition, the applicability of the Fraud's Prevention Policy should be extended to the City's Agencies and Corporations. Finally, the current Policy makes reference to the process to be followed up if a fraud is committed by a member of City Council, the Mayor, the City Manager, the City Clerk, the City Solicitor and the Auditor General. The policy should be updated to include the City's other Accountability Officers.

3.0 THE FRAUD AND WASTE HOTLINE PROGRAM

The most cost-effective way to deal with fraud or wrongdoing is to prevent it. The establishment of an anonymous hotline in an organization, used to report wrongdoing, enhances accountability and minimizes the risk of fraud and wrongdoing involving corporate resources.

Devoting resources to prevention and detection measures, such as the Fraud and Waste Hotline Program is critical to preventing and detecting potential wrongdoing before it occurs.

3.1 Operation of the Hotline Program

***Forensic Unit
operates Hotline***

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

***Operation of the
hotline is complex***

Operation of the Hotline Program includes the administration of complaint intake and the evaluation and disposition of complaints received which includes conducting or coordinating investigations and reviews with various City divisions and Agencies and Corporations.

Staff Resources used to operate Hotline

Activity relating to the Fraud and Waste Hotline has increased significantly since its inception.

The need to maintain an appropriate level of staff resources to effectively manage the Hotline Program is dealt with in the Auditor General’s 2013 Budget report.

3.2 Benefits of the Hotline Program

Quantifiable and non-quantifiable benefits of the City’s Hotline Program

The City’s Hotline Program has helped reduce losses and resulted in the protection of City assets. The issue of estimated savings associated with investigative work conducted by the Auditor General’s staff (as opposed to those investigations conducted by Divisional management) is dealt with in the Auditor General’s 2012 annual benefits report entitled “Demonstrating the Value of the Auditor General’s Office”.

There are additional benefits of the Hotline Program that cannot be quantified, including:

- The resolution of complaints leads to improvements to internal controls, policies and procedures and mitigates potential misuse of City resources.
- Employees and the public are encouraged to report complaints, anonymously if preferred. This encourages the reporting of wrongdoing to help detect and stop further losses to the City.
- The Hotline Program is a key component in deterring fraud or wrongdoing by increasing the perception of detection.
- The Hotline Program promotes ethical conduct and in turn strengthens the corporate culture of integrity at the City.
- Complaint data is used to identify trends and address risks.

3.3 Hotline Effectiveness

Hotline data used to identify trends

Collecting data on complaints received is important in measuring the effectiveness of the Hotline Program. Monitoring and analyzing this data helps to identify areas of concern and trends within the City, such as internal control weaknesses, conflict of interest, sick leave abuse and retribution.

Trends used to develop recommendations and Auditor General's Work plan

As well, the identification of trends assists in the development of action oriented recommendations which may contribute to the development of an ethical corporate culture.

For example, as a result of complaint trends, in our 2006, 2009 and 2010 annual reports we recommended management provide mandatory ethics training for all employees including training on fraud, whistleblower protection and conflict of interest. This training has since been developed and in November 2012 the City Manager launched a mandatory e-learning course entitled Mission, Values and Ethics.

Complaint data may also help identify issues of concern that can point to more systemic problems. For example, in 2012 the Auditor General issued a report entitled "Improving Reporting and Monitoring of Employee Benefits" which included two recommendations to improve management of benefit fraud.

Trends identified are also considered in the Auditor General's annual audit workplan planning process. For example, calls to the Fraud and Waste Hotline were one of the contributing factors that led to a number of audits of the Toronto Community Housing Corporation in both 2011 and 2012.

2012 trends included abuse of sick leave

In 2012, a number of substantiated complaints continue to involve employees' abuse of sick leave and employees on Long Term Disability who were required to return to work, as a result of investigations conducted.

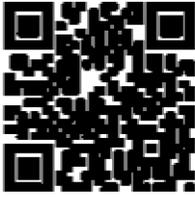
Conflict of interest issues a continuing concern

As well, in 2012 complaints involving conflicts of interest continued as an area of concern. This trend has been identified in previous annual reports.

3.4 Communication of the Hotline Program

Communication of the Hotline Program is essential to its effectiveness

Operation of the Hotline Program also includes coordinating the marketing and communication of the Hotline Program. Marketing and communicating the positive benefits of the Hotline Program is essential to its effectiveness. If marketed effectively, a hotline will convey to employees and the public that the City of Toronto is committed to the detection and prevention of fraud and other wrongdoing.



Hotline QR Code

In 2012, communication initiatives included the redesign of a Fraud and Waste Hotline poster. The poster will include a Quick Response or QR Code which will enable smartphone users to read a displayed code and be redirected to the Fraud and Waste Hotline website.

Details of all communication initiatives coordinated by the Auditor General's Office in 2012 are provided in Exhibit 1.

3.5 Investigations

Investigations conducted and coordinated with divisional management

Due to staff resources and the volume of hotline related work, the Auditor General's Office is, by necessity, selective in the investigative work it conducts, including which investigations it will take a lead role in conducting.

The majority of investigations are coordinated with divisional management. In these circumstances, divisional management takes the lead role in the investigation. The Auditor General's Office provides advice and guidance and may participate in parts of the investigative work, such as conducting interviews and preparing investigation plans.

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

Divisional management is required to report back to the Auditor General's Office on complaints referred to them for review or investigation. Divisional action and investigative findings are reviewed in detail 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 cases where the Auditor General's Office led the investigation or conducted a significant amount of investigative work, a separate report including recommendations may be issued to management.

3.6 Recommendation Follow-up Process

The Auditor General conducts an annual follow-up process for recommendations made in audit reports issued pursuant to the Auditor General's annual work plan.

A similar process exists for recommendations made as a result of investigative work conducted, special reviews, or as part of the annual report on Fraud and Waste Hotline activity.

The Auditor General will follow-up directly with management on the status of implementation of recommendations made in the context of reviews which were reported directly to Senior Management.

4.0 STATISTICAL SUMMARY

4.1 Total Complaints

Number of complaints do not reflect complete picture of fraud

The number of complaints or allegations received does not provide a complete picture of fraud or wrongdoing at the City, as fraud, by its very nature, is concealed and often difficult to detect.

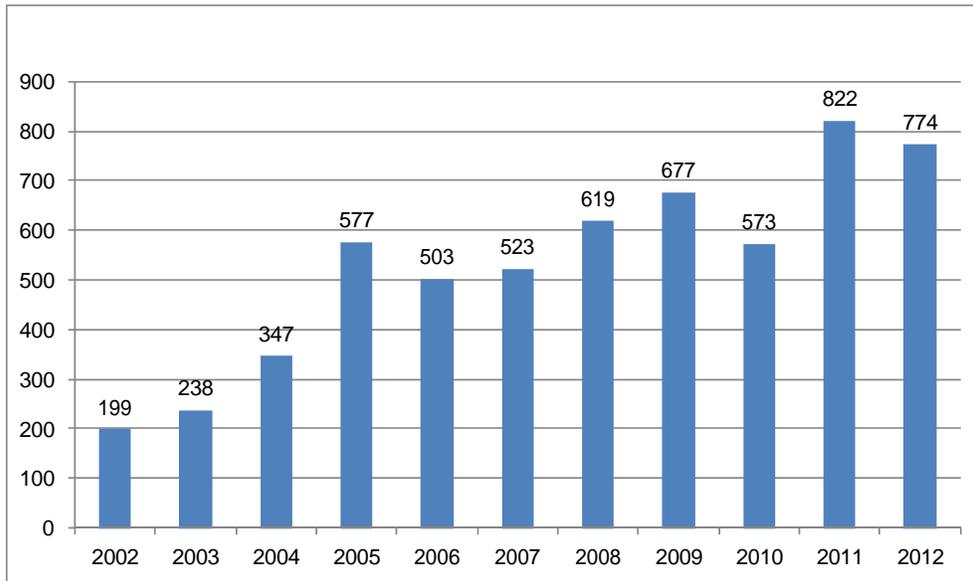
774 complaints received represents approximately 1,300 allegations

Since the Fraud and Waste Hotline Program was initiated in 2002, the Auditor General's Office has handled more than 5,800 complaints. Each complaint may in turn contain multiple allegations.

In 2012, the Auditor General's Office received 774 complaints. We do not track precisely the individual number of allegations received per complaint. More than 35 per cent included at least two or more allegations. This represents approximately 1,300 allegations received.

Chart 1 outlines the trends in the number of complaints reported from 2002 to date.

Chart 1 – Complaints Reported - 2002 to 2012



Decrease in complaints – dynamic nature of hotline

In 2012, 774 complaints were received representing a six per cent decrease in the number of hotline complaints received in 2011.

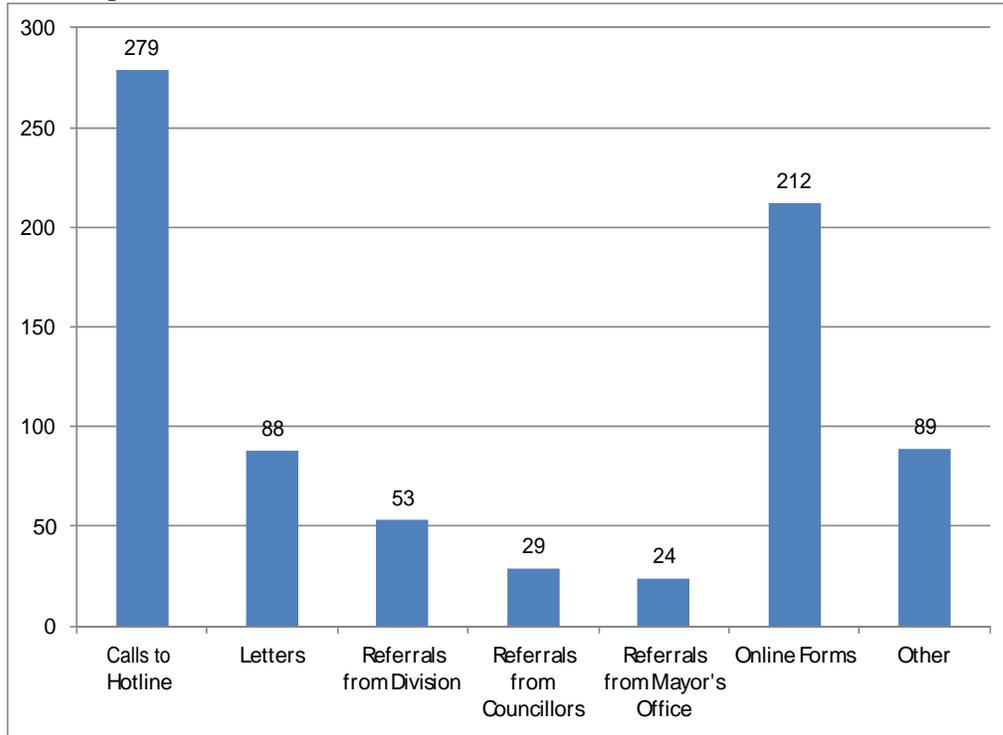
Complaint activity may increase or decrease because of the dynamic nature of a hotline program and as a result of various factors. For example, activity may peak following coverage of an audit report or incidents of fraud in the media. For the most part, the decrease in complaint activity in 2012 relates to a decrease in the number of complaints involving the Toronto Community Housing Corporation (TCHC). In 2011 we received 121 complaints regarding TCHC in response to various high profile audit reports issued by the Auditor General’s Office, while in 2012 we received 57 complaints.

4.2 Source of Complaints

Chart 2 provides a summary of the methods used to report complaints to the Fraud and Waste Hotline Program in 2012.

Chart 2 – Source of Complaints

Total complaints:



* **Other Sources includes telephone calls to the Auditor General Office's general phone line, e-mails, faxes and walk-ins.**

More than 63 per cent of all complaints were received via the Auditor General's on-line complaint form and direct telephone calls to the Hotline.

4.3 Disposition of Complaints

All complaints received are screened by designated staff of the Auditor General's Office.

Preliminary investigative inquiries conducted in 64% of complaints

In many complaints, preliminary investigative inquiries are conducted by the Auditor General's Office to determine whether allegations may have merit, prior to determining the disposition or action to be taken. In 2012, the Auditor General's Office conducted preliminary investigative inquiries in 495 complaints (64 per cent of all complaints received.)

Professional judgment used to determine the disposition of a complaint

The unique circumstances of each complaint require the application of professional judgment to determine the appropriate disposition in each particular case.

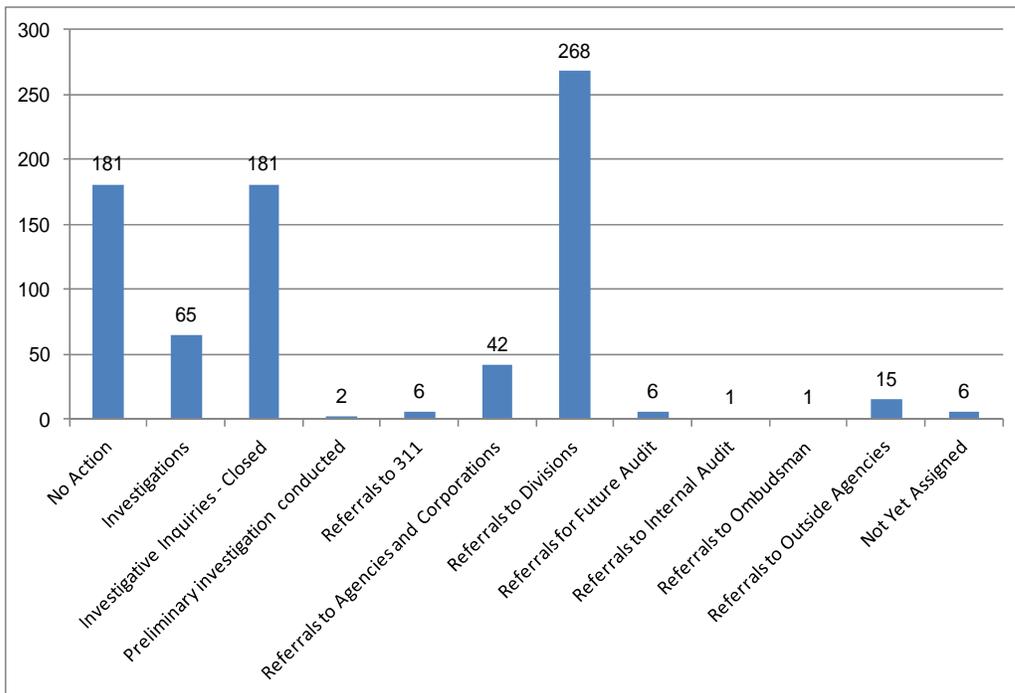
The dispositions of all complaints are reviewed and approved by the Director of the Forensic Unit. Depending on the circumstances discussion pertaining to the disposition of complaints is also conducted with the Auditor General.

Allegations with limited detail or merit may be held in abeyance until further details are reported.

Based on the initial screening and the results of preliminary investigative inquiries, complaints are reviewed and investigated in accordance with internal protocols, procedures and guidelines.

Chart 3 provides a breakdown of the disposition of complaints received in 2012.

Chart 3 – Disposition of Complaints



As noted in Chart 3, eight per cent of all complaints received (65 complaints) resulted in an investigation conducted by the Auditor General's Office or Divisional management.

Referrals to Divisions

Thirty-five per cent of all complaints (268 complaints) were referred to Divisions for review and appropriate action or for information only. Complaints that are significant enough to require a response from divisional management are monitored until the necessary action is taken.

No Action

In 23 per cent of complaints (181 complaints), the final disposition was "No Action" because of insufficient information, the matter was outside our jurisdiction or because preliminary inquiries by the Auditor General's Office determined the complaint was not actionable.

4.4 Complaint Conclusion

Chart 4 provides a summary of the final resolution of complaints reported to the Auditor General's Office in 2012.

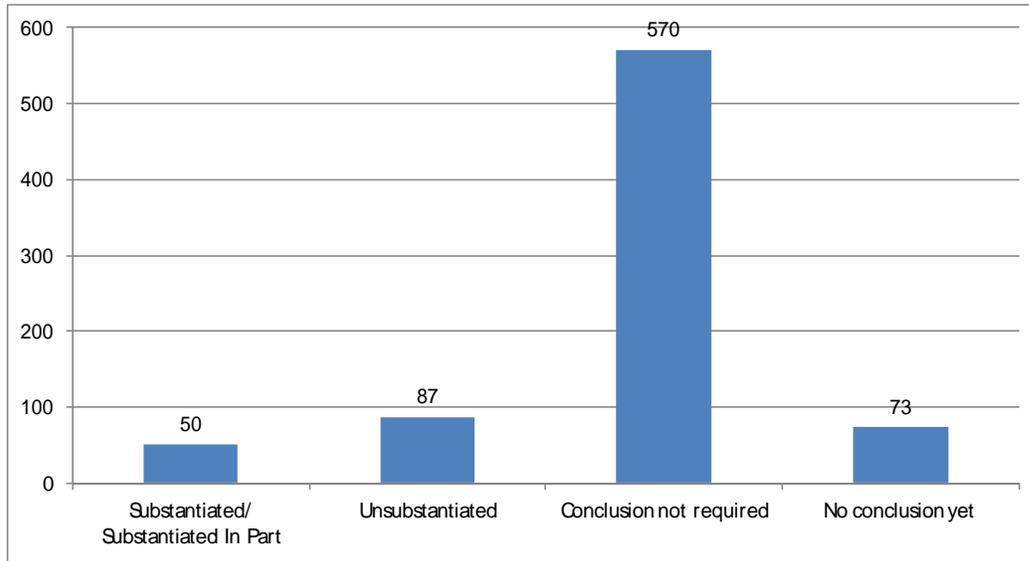
All complaints are managed until they are resolved or concluded

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.

Issues of concern may be highlighted in unsubstantiated complaints

In cases where the evidence does not support a finding of wrongdoing, the complaint conclusion is tracked as "unsubstantiated." In some cases, a determination is made that the evidence does not support a finding of wrongdoing; however, this does not mean that the complaint is without merit. In many of these cases, a review or investigation can highlight internal management control issues and risks that are of concern.

Chart 4 – Complaint Conclusions for 2012 Complaints



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

** **No Conclusion Yet:** resolution of the complaint is outstanding.

Fifteen per cent of complaints (investigated or referred) substantiated

Fifteen per cent (50 complaints) of all complaints investigated or referred to divisions in 2012 have been substantiated in whole or in part. This number is expected to increase as outstanding 2012 complaints continue to be concluded in 2013.

Internal control weaknesses addressed

Where internal control weaknesses have contributed to or facilitated the wrongdoing in substantiated complaints, divisions have addressed the internal control weaknesses.

Previous years' complaints continue to be concluded in subsequent years

Complaints received in previous years continue to be concluded in subsequent years. 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 and whether there was a loss to the City. For example, in 2011, we reported 53 complaints had been substantiated as of December 31, 2011. Nineteen additional 2011 complaints were concluded and substantiated in 2012.

4.5 Disciplinary Action in Substantiated Complaints

Discipline is a Management responsibility

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 imposed in 25 complaints

In 2012, divisional management reported that discipline was imposed in 25 of the substantiated incidents reported to the Fraud and Waste Hotline Program.

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

Other appropriate action was taken in 25 other complaints

In an additional 25 instances, divisional management took other appropriate action including reinforcing workplace expectations through training.

Police contacted if criminal activity

Where there is sufficient evidence that a criminal act may have been committed, the Toronto Police Service or other law enforcement agencies are contacted. The Auditor General Office's Forensic Unit has provided 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.

Auditor General's Office meets with Toronto Police

The Auditor General and senior staff meet with the Toronto Police Services Financial Crimes Unit in order to address mutual issues of concern.

4.6 Loss and Recovery

Cost of fraud is difficult to measure

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

Management costs to investigate wrongdoing

In addition to direct financial losses, organizations must also deal with “management costs” which include the reallocation of management time to investigate incidents of fraud or wrongdoing. This time can be significant.

Impact of fraud can exceed the dollar value

The impact of fraud on a corporation however can exceed financial losses. Wrongdoing perpetrated in the workplace can damage the morale of co-workers and can negatively impact the reputation of the corporation.

Actual Losses \$507,000

For complaints received in 2012, quantifiable actual losses to the City were in the range of \$507,000. This amount may increase as outstanding 2012 complaints are concluded in 2013.

Recurring losses not quantified

The value of recurring losses, the amount of the actual loss that would have resulted if the wrongdoing had remained undetected, have not been quantified for purposes of this report. If quantified, these amounts would be significant.

Recovery of losses \$257,000

Total recovery of actual losses for 2012 complaints was approximately \$257,000. Again, this amount is expected to increase as outstanding complaints are concluded in 2013.

Previous year losses and recoveries

Information concerning complaint conclusion, resolution, or the determination of loss and recovery often occurs some time after the allegations are received. Certain complaints received in previous years and subsequently concluded have resulted in additional losses to the City which we track.

4.7 Divisions, Agencies and Corporations with Substantiated Complaints

Chart 5 provides a summary of substantiated complaints associated with Divisions, Agencies and Corporations. It does not necessarily reflect wrongdoing on the part of employees of these entities. In certain cases, the wrongdoing may have been on the part of vendors or other members of the public.

Chart 5 – Divisions and Agencies and Corporations with Substantiated Complaints

3-1-1 Project Office	Long Term Care Homes and Services
Accounting Services	Municipal Licensing and Standards
Affordable Housing Office	Parks, Forestry and Recreation
Building	Pension, Payroll and Employee Benefits
Children's Services	Policy, Planning, Finance and Administration
City Manager's Office	Public Health
Corporate Finance	Revenue Services
Court Services	Shelter, Support and Housing Administration
Emergency Medical Services	Solid Waste Management Services
Employment and Social Services	Toronto Public Library
Facilities Management	Toronto Water
Fire Services	Toronto Zoo
Information and Technology	Transportation Services

5.0 SUMMARIZED DETAILS OF SUBSTANTIATED COMPLAINTS

Attached as Exhibit 2 are summarized details of certain complaints investigated and concluded in 2012. These summaries are provided as requested by Audit Committee.

6.0 CONCLUSION

This report represents the Auditor General's annual report on fraud and the activities of the Fraud and Waste Hotline Program.

EXHIBIT 1 – COMMUNICATION OF 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.

In 2012, the Auditor General's Office has continued to develop communication strategies, in consultation with the City's Corporate Communications Division.

Communication initiatives have continued in 2012

Communication initiatives in 2012 have included:

- information related to the Fraud and Waste Hotline was featured as a *Monday Morning News general item*
- information related to the Fraud and Waste Hotline and City policies regarding reporting fraud - whistle blower protection was featured as a *Monday Morning News general item*
- feature Hotline poster in City Insider Newsletter
- continued display of information on the City's Internet/Intranet sites
- redesigned and continued display of Fraud and Waste Hotline poster advertising Hotline number 416-397-STOP and tag line "Committed to Integrity and Accountability"
- presentations at a number of public sector and government related conferences.

EXHIBIT 2 – SUBSTANTIATED COMPLAINT SUMMARIES

Below are summarized details of various reviews and investigations concluded in 2012 including disciplinary action taken by Divisional Management. The extent and nature of discipline is the responsibility of management and not the Auditor General's Office.

These summaries have been requested by Audit Committee.

1. Fraud Relating to Subsidy Claims

The Auditor General received a complaint alleging seven clients (members of the public) were receiving subsidies through fraudulent claims.

The Auditor General conducted preliminary investigative work and forwarded the matter to the division for further investigation. The investigation concluded that three clients received subsidies for which they were ineligible. In one case the client submitted fraudulent documents to qualify for subsidy.

A review of the current policies, processes and internal management controls has been conducted. Enhanced controls in the Division have been implemented.

The loss to the City was approximately \$80,000. The recovery of this amount is being pursued by the City. The Division is in the process of providing information to the Toronto Police Service.

2. Employee Benefits Fraud

A City Division advised the Auditor General's Office of a complaint received alleging fraudulent benefits claims for extended employee health benefits.

The investigation was led by the Division, in consultation with the Human Resources Division and City Legal Services. The Auditor General's Office provided advice throughout the investigation.

The investigation concluded that a City employee had submitted fraudulent extended health care benefit claims totaling almost \$25,000. The City has recovered an amount equal to almost one half of the value of the improperly submitted claims.

The employee was terminated and the matter has been referred to the appropriate regional Police Service.

3. Fraud Incurred by an Employee of a City Vendor

A City division reported to the Auditor General's Office a fraud committed by a City vendor's employee involving payment of fraudulent claims made against the City. Funds related to these claims were misappropriated by the employee.

The City has been reimbursed over \$225,000 by the vendor which includes the full amount of the fraudulent claims, as well as the associated fees the City was charged by the vendor for processing the false claims.

The employee left the vendor's employment before the fraud was discovered. The matter has been reported to the appropriate regional Police Service. Policies and procedures have been amended to minimize the potential of any re-occurrence.

4. Abuse of Employee Benefits

A complaint was received through the Fraud and Waste Hotline Program alleging an employee on Long Term Disability (LTD) was committing fraud by regularly engaging in work activities for a second employer.

The investigation of the matter was referred to the City's Benefits Provider by the Pension Payroll & Employee Benefits Division following consultation with the Auditor General's Office.

The investigation by the City's Benefits Provider could not conclusively conclude that the employee committed fraud but as a result of the investigation it was determined that the employee was no longer eligible for LTD. At that point the employee returned to work at the City. The employee was relatively close to retirement and consequently it is likely that the LTD would have continued until that date. It was estimated that the Division would have spent an additional \$375,000 if it had to continue to backfill the employee's position until retirement.

As a result of the investigation, the Auditor General's Office identified the need to improve the reporting and monitoring of benefit fraud by the City's Benefits provider. A separate report was issued to Audit Committee in 2012.

5. Misuse of City's Vehicle

The Auditor General's Office received a complaint alleging an employee, who had been provided with a City vehicle for work purposes, had removed from the vehicle City decals and drove the truck home regularly contrary to management's direction.

The investigation led by the division in consultation with City Legal Services, Labour Relations and the Auditor General's Office, substantiated the allegations.

The employee resigned from the City.

6. Conflict of Interest

A City division reported to the Auditor General's Office a conflict of interest involving an employee using his position with the City to further his own personal interests and those of his private company, using access to confidential and proprietary information.

The investigation was led by the Division, in consultation with the Human Resources Division and City Legal Services. The Auditor General's Office provided advice throughout the investigation.

The investigation concluded that the City employee had violated the City's Conflict of Interest and Acceptable Use Policies.

Management advised that recommendations made by internal staff through an independent risk assessment process have been implemented.

The employee was terminated.

7. Misuse of City Computer Facilities

Divisional management notified the Auditor General's Office that they had received a complaint alleging misuse of a City computer by an employee involving pornographic material.

The investigation was led by the Division, in consultation with the Auditor General's Office, City Legal Services and the Information and Technology and Human Resources Divisions. Given the nature of the pornographic material, the Toronto Police Services was also consulted on this matter.

The Division's investigation concluded that the employee had violated the City's Acceptable Use Policy.

The employee was terminated.

8. Misappropriation of Funds

Divisional management advised the Auditor General's Office of a complaint received from a supplier alleging that their account was not being paid.

The investigation was led by the Division, in consultation with the City Manager's Office, the Human Resources Divisions and City Legal Services. The Auditor General's Office provided advice throughout the investigation.

The investigation concluded that a City employee, who managed fundraising activities for a City sponsored charitable organization had defrauded the charity and various vendors of almost \$50,000 over a six year period.

Recommendations have been made to strengthen the City's controls over fundraising activities.

More than one half of the misappropriated amount has been recovered and litigation has been commenced to recover the remaining amount.

The employee is no longer with the City and the matter has been referred to the Toronto Police Service.

9. Misappropriation of Funds and Conflict of Interest

The City, through a City Service Corporation, assumed ownership, and operation of an independent community recreation facility in June 2011. City Services Corporation management became aware of significant revenue discrepancies going back to the period the facility was owned and managed by the previous owners, which was subsequently verified by their external auditors.

An investigation was led by City Service Corporation board and City management in consultation with the Board's external legal counsel. The investigation concluded that staff of the former corporation were responsible for theft of cash, inappropriate payment of personal expenses and benefits, and were in a conflict of interest position in conducting some of these activities. The former corporation did not have a formalized conflict of interest policy.

City Service Corporation management has advised that improvements to strengthen governance oversight and financial controls have been implemented.

Two staff were terminated and the City is pursuing recovery of almost \$33,000.

The Board of the former Corporation has informed the current Board that they intend to follow up with the Toronto Police Services relating to this matter.

10. Inappropriate Inspection Activities

Divisional Management notified the Auditor General's Office of misconduct by a City employee conducting inspection work over a two year period in 2010 and 2011 that included the use of incorrect materials, inaccurate measurement of materials, duplicate cost sheets and approval of cost sheets for payment of work not performed.

The investigation was led by the Division, in consultation with the Human Resources Division and Legal Services. The Auditor General's Office was involved throughout the investigation.

The investigation substantiated the allegations. An amount of \$83,000, which was supposedly due to the contractor, was not paid.

Internal controls and supervisory oversight has been enhanced to prevent future similar occurrences. At the request of the Auditor General, Management also reviewed the work of this inspector for the two prior years in order to determine whether or not there were any previous inappropriate inspections. None were noted.

The employee was terminated from his employment with the City. The matter has been referred to the Police.

11. Payroll Fraud and Unauthorized Overtime

A division reported to the Auditor General's Office alleged irregularities with an employee's payroll payments involving unapproved overtime.

The division led the investigation in consultation with the Human Resources Division. The investigation concluded that the employee had worked overtime without appropriate approvals. In addition, further overtime payments which had been made had no supporting documentation. The unsupported overtime approximated \$1,300. The Division has recovered the funds.

The division has implemented controls to improve payroll authorization processes.

The employee is no longer employed with the City.

12. Conflict of Interest

Divisional management notified the Auditor General's Office of an allegation of a conflict of interest involving a City employee who was also an employee of a City funded community agency.

The division conducted an investigation in consultation with the Human Resources Division and Legal Services.

The investigation concluded that the employee had been conducting business for the community agency on City time and had contravened the City's Conflict of Interest Policy. A recovery of almost \$4,000 in wages is being pursued.

The employee has been terminated.

13. Land Transfer Tax Fraud

The Auditor General's Office was notified of allegations involving fraudulent provincial and municipal Land Transfer Tax rebate claims by a lawyer, on behalf of his clients, involving various real estate transactions.

The investigation was led by Ontario's Ministry of Finance, in consultation with the Auditor General's Office and the City's Revenue Services Division. The investigation resulted in Land Transfer Tax Act charges against the lawyer.

We have been advised by the Division that controls to prevent future similar incidents have been implemented.

This matter is still before the courts. The recovery of more than \$137,000 is being pursued.

14. Misappropriation of Funds

Divisional management notified the Auditor General's Office of a missing bank deposit in excess of \$25,000.

The investigation was led by the Division, in consultation with the Human Resources Division, Legal Services and the Auditor General's Office.

The investigation concluded that a City employee had misappropriated the bank deposit.

The Division requested that the City Manager's Internal Audit Division conduct a review of bank deposit processes. This review has been completed and the Division is in the process of implementing the related recommendations.

The employee has been terminated. Charges have been laid by the Toronto Police Services and the court process has commenced.

15. Attempts to Bribe a City Employee

Divisional Management notified the Auditor General's Office of an offer of a \$2,000 bribe to a City Inspector by a contractor during a house inspection. The City Inspector reported the attempted bribery to divisional management.

The matter was immediately referred to the Toronto Police Service and the Auditor General's Office co-ordinated the gathering of evidence for the criminal investigation.

The contractor was charged with bribery-related charges. The matter has been dealt with by the Courts.