



**AUDITOR GENERAL'S  
REPORT  
INFORMATION ONLY**

**2014 Interim Report on Fraud Including the Operations  
of the Fraud and Waste Hotline**

<b>Date:</b>	June 9, 2014
<b>To:</b>	Audit Committee
<b>From:</b>	Auditor General
<b>Wards:</b>	All
<b>Reference Number:</b>	

**SUMMARY**

---

The Auditor General submits an annual report on the status of fraud and related matters. The Auditor General's 2013 Annual Report on Fraud Including the Operations of the Fraud and Waste Hotline was adopted by Council at its meeting of April 1, 2014. This report represents an interim update on fraud-related activities for the period January 1, 2014 through to May 31, 2014.

In view of the fact that Audit Committee will likely not meet until early 2015, it was deemed appropriate to provide this update at this time. Further, Committee should be aware that the number of complaints has increased significantly in 2014 compared to last year.

**Financial Impact**

There are no direct financial implications resulting from the adoption of this report.

The City's Hotline Program has continued to help reduce losses and resulted in the protection of City assets. Investigations or reviews conducted by management and/or the Auditor General's Office as a result of various communications to the Fraud and Waste Hotline Program have resulted, in certain cases, in the recovery of funds to the City.

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 increased operational efficiencies. These benefits may in turn assist in the detection and prevention of future wrongdoing involving City resources.

## DECISION HISTORY

In June 2000, Audit Committee requested that the Auditor General submit an annual report on the status of fraud and related matters in response to an investigation that arose during a cash controls review in the then Parks and Recreation Division.

The Auditor General's first annual report on the status of fraud and related matters was considered by Council at its meeting of October 3, 2000.

The City's Fraud and Waste Hotline Program administered by the Auditor General's Office began as a six-month pilot program starting March 1, 2002. City Council approved it as a permanent program at its meeting of November 6, 2002, along with the recommendation that the Auditor General report to the Audit Committee on the operation and activities of the Hotline Program, as part of the annual report on the status of fraud and related matters.

## COMMENTS

Collecting data on complaints 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. Trends in turn assist in the development of action-oriented recommendations and in developing the Auditor General's annual audit work plan.

Highlights of the statistics up to May 31, 2014 are as follows:

***378 Complaints  
represent 760  
allegations***

From January 1 to May 31, 2014, 378 complaints were received representing a 35 per cent increase compared to the same period in 2013.

A number of complaints received in 2014 included at least two or more allegations. In these cases, allegations are not tracked separately. However, we estimate the actual number of complaints as at May 31, 2014 to be in the range of 760 compared to 470 during the same period last year.

***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.

***Preliminary  
investigative work  
conducted is  
significant***

The Auditor General's Office conducted a significant amount of preliminary investigative work or inquiries to determine whether allegations have merit, prior to determining the disposition or action to be taken on a complaint.

The disposition of complaints received to date in 2014 is as follows:

No Action	99
Investigations	20
Preliminary Investigative Inquires – Closed	100
Preliminary Investigation Conducted	6
Referrals to 311	3
Referrals to Agencies and Corporations	15
Referrals to Divisions	104
Referrals to Outside Agencies	3
Not Yet Assigned	28
<b>Total Complaints</b>	<b>378</b>

***Substantiated complaints***

Sixteen per cent (20 out of 124) of all complaints referred to divisions or investigated in 2014 have been substantiated in whole or in part. This number is expected to increase as complaints continue to be concluded in 2014.

***Discipline imposed in 7 complaints***

In regard to the 20 complaints that were substantiated in whole or in part, divisional management reported that discipline was imposed in 7 instances. In the remaining 13 instances, divisional management took other appropriate action including reinforcing workplace expectations through training.

***Impact of fraud exceeds dollar values***

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***

For complaints received to date in 2014, quantifiable actual losses to the City were approximately \$34,400. This amount may increase as complaints continue to be concluded in 2014. Potential losses to the City or dollars at risk that could have resulted in actual losses to the City, had the incident of wrongdoing not been detected, totaled \$90,600.

***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, has not been quantified for purposes of this report. If quantified, these amounts would be significant.

***Losses from previous years***

We also track actual and potential losses to the City for complaints received in previous years but closed in 2014. For example, the cumulative total of actual losses for the last five years (for complaints received in 2008 to 2013) is more than \$3,509,600.

***Recoveries***

Total recovery of actual losses for 2014 complaints to date was in the range of \$10,300. These amounts are expected to increase as outstanding complaints are concluded in 2014.

***Recoveries for previous years***

We also track recoveries for previous years complaints closed in 2014. The cumulative total of recoveries for the last five years (for complaints received in 2008 to 2013) is more than \$1,781,400.

***Investigation summaries***

Summarized details of certain substantiated complaints as requested by Audit Committee, will be included in the 2014 annual report tabled at the first Audit Committee meeting in 2015.

**CONCLUSION**

The Auditor General will submit the 2014 annual report on the status of fraud and related matters in early 2015.

This report represents an interim report on fraud including the operations of the Fraud and Waste Hotline for the period January 1 to May 31, 2014.

The number of complaints received to date in 2014 represent a significant increase in the number of allegations received, compared to the same period in 2013.

**CONTACT**

Carmelina Di Mondo, Director, Forensic Unit, Auditor General's Office  
Tel: 416-397-7625, Fax: 416-392-3754, E-mail: [cdimond@toronto.ca](mailto:cdimond@toronto.ca)

**SIGNATURE**

---

Jeff Griffiths, Auditor General