

# TORONTO STAFF REPORT

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February 4, 2004

To: Audit Committee

From: Auditor General

Subject: Second Supplementary Report to the Auditor General's "Annual Report on the Status of Fraud and Related Matters, Including the Operation of the Fraud & Waste Hotline Program" (September 3, 2003).

## Purpose:

As required by the Audit Committee, to report further on: the total amount recovered from "14 substantiated complaints" (received by the Auditor General's Office and referred to City departments for action); on whether "departmental changes in operations took place" when these complaints were substantiated; on the "possibility of offering a reward for cases where substantial savings/recovery occurred as a result of a complaint to the hotline".

## Financial Implications and Impact Statement:

Complaints received by the Auditor General's Office may be referred to City departments for action, as summarized in this report. In some cases, substantiated complaints have or may result in the recovery of resources or funds to the City. In addition, complaints referred to departments for review and appropriate action on substantiated complaints, will reduce the risk of fraudulent activities and other improprieties, thereby mitigating potential losses to the City.

## Recommendation:

It is recommended that this report be received for information.

## Background

The Auditor General's "Annual Report on the Status of Fraud and Related Matters, Including the Operation of the Fraud & Waste Hotline Program" was received by the Audit Committee (at its meeting of September 16, 2003) with three additional recommendations, including that "the Auditor General be requested to submit to the Audit Committee a detailed breakdown of the eight investigations conducted by his office and of the 114 complaints referred to Departments."

City Council received the Auditor General's report, as submitted by the Audit Committee, at its meetings of September 22, 23, 24 and 25, 2003.

A further report entitled Supplementary Report to the Auditor General's "Annual Report on the Status of Fraud and Related Matters, Including the Operation of the Fraud & Waste Hotline Program" (December 19, 2003) was received by the Audit Committee (at its meeting of January 21, 2004) with a further request that the Auditor General further report on:

- (i) the total amount recovered from the 14 substantiated complaints;
- (ii) whether departmental changes in operations took place when the complaint was substantiated but had no monetary amount involved, and to report where no departmental operational changes took place; and
- (iii) the possibility of offering a reward for cases where substantial savings/recovery occurred as a result of a complaint to the hotline.

This report has been prepared by the Auditor General's Office, pursuant to the Audit Committee's foregoing request for further information in relation to 14 complaints that were received by the Auditor General's Office and "substantiated" upon being referred to City departments for review and appropriate action. In addition, the possibility of offering a reward for certain substantiated hotline complaints is discussed.

### Comments

As previously reported, the operation of the Fraud & Waste Hotline Program includes the administration of complaint intake, tracking of complaints and the disposition of complaints received. All complaints received are screened by designated staff of the Auditor General's Office and may in turn result in no action, referrals to departments, referrals to outside agencies or investigations being conducted.

In our December 19, 2003 "Supplementary Report to the Auditor General's Annual Report on the Status of Fraud and Related Matters, Including the Operation of the Fraud & Waste Hotline Program", we reported further details on investigations conducted. As well, our report included details on 114 complaints that were received by our Office and referred to City departments for review and appropriate action.

Upon receiving our Supplementary Report, audit committee requested we report back further to provide additional information with respect to 14 of the referrals to departments that had been "substantiated" (namely, information on amounts recovered from "substantiated" complaints referred to departments and related departmental changes in operations).

### 114 Complaints Referred to Departments:

We have summarized the outcomes of the 114 complaints we referred to departments within the report period (September 1, 2002 through to August 31, 2003) as follows:

<b>Summary of Outcomes – Complaints Referred to Departments</b>	<b>Number of Referrals</b>
Substantiated and resulted in departments taking disciplinary action against employees	6
Substantiated and resulted in departments taking action to address the complaints	8
Disposition changed to investigation  (Changed from Referral to department to investigation; to be reported in 2004 annual report)	6
Addressed in future audits to be conducted by the Auditor General's Office	2
Referred to outside Agency	1
Referred to Social Services (involve social assistance matters)	25
Allegations unsubstantiated (no evidence or activity appropriate) or of a general nature that were provided to departmental management for information purposes only	67
<b>Total</b>	<b>114</b>

**Substantiated Complaints – Amounts Recovered – Changes to Departmental Operations:**

We have summarized the amounts recovered and operational changes made in the 14 substantiated complaints referred to departments (within the report period, as outlined above) as follows:

<b>6 Referrals to Departments – Substantiated – Employees Disciplined</b>		
<b>Total Amount Recovered</b>	<b>Operational Changes Made</b>	<b>No Operational Changes</b>
\$1,440.00  (value of hours recovered equivalent days forfeited from employees' vacation banks)	4	2

<b>8 Referrals to Departments – Substantiated — Departmental Action to Address Complaints</b>		
<b>Total Amount Recovered</b>	<b>Operational Changes Made</b>	<b>No Operational Changes – Departmental Action Taken</b>
	4	3

Even when complaints referred to departments (for review and appropriate action) do not result in recovery of resources in substantiated cases or are found to be unsubstantiated, reviews conducted have identified areas where internal controls need to be modified or enhanced (with a view to improving City operations) and have resulted in enhanced protection of City resources.

We have previously reported on the issue of tangible cost savings and the more important benefits provided by reviews conducted of complaints received by the Auditor General's Office, namely as they relate to the avoidance of future costs, as well as the protection of City assets. As well, in our recent budget report ("2004 Operating Plan and Budget – Auditor General's Office",

January 13, 2004) we reported a tangible cost savings of \$467,000 as a result of fraud and related investigations conducted. Certain of these costs are one time, while others are ongoing annual savings.

#### Offering Rewards for Substantiated Complaints with Substantial Savings

As previously reported, anonymous hotlines have proven to be an effective way to report irregularities and tips or complaints received by an organization from an employee, customer, vendor or anonymous source have been identified as the single most effective means of detecting fraud or other irregularities.

Our research indicates that employees are willing to report irregular conduct in the workplace without incentives provided to do so.

Moreover, we benchmarked various municipalities with hotlines on the issue of whether they offer monetary rewards for substantiated complaints and found that none offered any hotline reporting incentives.

All City of Toronto staff have a formal responsibility to report irregular activity involving City resources, pursuant to the City's Fraud Policy, whether or not a monetary reward is offered; as such, and having regard to the foregoing, we do not recommend the City offer any rewards for substantiated hotline complaints.

#### Conclusions:

The Auditor General's "Annual Report on the Status of Fraud and Related Matters, Including the Operation of the Fraud & Waste Hotline Program" (dated September 3, 2003), was received by the Audit Committee with three additional recommendations, including that "the Auditor General be requested to submit to the Audit Committee a detailed breakdown of the eight investigations conducted by his office and of the 114 complaints referred to Departments."

City Council approved the Auditor General's report, as submitted by the Audit Committee, at its meetings of September 22, 23, 24 and 25, 2003.

A further report entitled "Supplementary Report to the Auditor General's "Annual Report on the Status of Fraud and Related Matters, Including the Operation of the Fraud & Waste Hotline Program" was received by the Audit Committee (at its meeting of January 21, 2004) with a further request for information.

This report has been prepared by the Auditor General's Office, pursuant to the Audit Committee's request for further information in relation to 14 complaints that were received by the Auditor General's Office (and "substantiated" upon being referred to City departments for action), and regarding the possibility of offering a reward for certain substantiated hotline complaints.

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