

# TORONTO STAFF REPORT

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February 9, 2006

To: Audit Committee

From: Auditor General

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

Purpose:

To submit, as requested by the Audit Committee, an annual report on the status of fraud and related matters, including the operation and activities of the Fraud and Waste Hotline Program.

Financial Implications and Impact Statement:

Complaints received by the Auditor General's Office (related to suspected fraud, waste or irregular activity involving City resources) may result in an investigation being conducted or may also be referred to City divisions for review, as summarized in this report. In some cases, substantiated complaints have or may result in the recovery of funds to the City. In addition, recommendations made to management resulting from investigations conducted and complaints referred to divisions for review and appropriate action, should minimize the risk of fraudulent activities and other improprieties, thereby mitigating potential losses to the City.

Recommendations:

It is recommended that this report be received for information.

Background:

This report represents the Auditor General's annual report to the Audit Committee on the status of fraud and related matters, including the operation and activities of the Fraud and Waste Hotline Program.

Prevalence of Fraud and Other Irregular Activities

Fraud or other irregular activities in the workplace is a continuing concern in government and private sectors.

Professional literature and surveys/studies continue to highlight the prevalence of this problem, as does the media's coverage of such incidents in both the public and private sector.

What organizations are doing internally to combat irregular activities has become a sensitive issue in corporate governance, reinforcing the importance for continued efforts by organizations to enhance initiatives to combat irregular activity within their corporate workplace environments.

#### Legislated Impetus to Establish Anonymous Reporting Mechanisms

As previously reported, the City's establishment of an anonymous reporting program is aligned with a legislated impetus that has, in some jurisdictions, mandated the use of a hotline or other anonymous reporting mechanisms as an effective means of detecting irregularities.

In response to various corporate scandals in the United States, the Sarbanes-Oxley corporate reform law was passed in 2002 requiring public company audit committees to establish confidential reporting mechanisms for employees. Related implementation rules on receiving and addressing confidential and anonymous complaints from employees were adopted by the U.S. Securities and Exchange Commission. As of 2004, Canadian securities legislation requires all publicly-listed companies to provide an anonymous reporting service to employees.

Recent amendments to the Canadian Criminal Code were designed to protect employees from employment-related retribution due to whistle-blowing. Also, with additional amendments to the Criminal Code, senior company officers may be held personally and criminally responsible for workplace injuries or fraud where there has been negligence or a lack of care, highlighting an employer's need to pay attention to complaints about health and safety issues.

At the Canadian federal level, the government has reintroduced legislation entitled "The Public Servants Disclosure Protection Act" (Bill C-11), a Canadian federal Act to establish a procedure for the disclosure of wrongdoings in the public sector, including the protection of persons who disclose the wrongdoing (received its first reading in the House of Commons on October 8, 2004), the impact of which has yet to be determined.

This legislated impetus, along with initiatives by internal audit organizations, media coverage and professional literature, require private and government organizations to focus on enhancing corporate governance practices and seem to have all contributed to the use of a hotline (or other anonymous reporting mechanism) becoming a best practice.

A significant number of U.S. municipal and state governments operate a fraud and waste hotline. Since we last reported, the City of Ottawa and the City of Windsor have implemented a hotline program while other Canadian cities (i.e., Edmonton and Brampton) are actively considering the establishment of such a program. We have provided significant background information to both the City of Edmonton and the City of Brampton in connection with the program.

### Anonymous Reporting Mechanisms – Effective Means of Detecting Fraud or Irregularities

The most cost-effective way to deal with fraud or irregularities involving City resources is to prevent it. Establishment of an anonymous hotline in an organization to report inappropriate or unethical conduct is one initiative that may enhance control and accountability bringing an organization one step closer to minimizing the risk of irregular conduct involving corporate resources.

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

The Association of Certified Fraud Examiners (a U.S. based global professional association), in its comprehensive study entitled “2004 Report to the Nation on Occupational Fraud and Abuse” indicates that while frauds may be detected through various sources, the greatest percentage of frauds detected were as a result of a tip.

In a recent global survey (PricewaterhouseCoopers Global Economic Crime Survey 2005), country specific findings indicated that approximately one quarter of Canadian cases were found to be uncovered by chance and internal or external tip off. A further 10 per cent were uncovered by a whistle-blower hotline.

### Toronto Computer Leasing Inquiry and the Toronto External Contracts Inquiry Acknowledges Anonymous Reporting

On September 12, 2005, Justice Denise Bellamy issued her four-volume report on the Toronto Computer Leasing Inquiry and the Toronto External Contracts Inquiry. The Inquiry process and Justice Bellamy’s findings received extensive media coverage. The Inquiry provided an opportunity for the City of Toronto to evaluate its ethical culture and take initiatives over the last three years to enhance its ethics portfolio which included, in 2002, the implementation of a fraud policy and a telephone hotline.

Justice Bellamy acknowledged the value of anonymous reporting in the context of facilitating complaints regarding elected officials (to the City’s Integrity Commissioner). In this context, Justice Bellamy’s recommended that:

“Members of the public should be allowed to make complaints to the integrity commissioner. Complaints can be anonymous and need not be in the form of sworn affidavits.”

The City’s Fraud and Waste Hotline Program, administered by the Auditor General’s Office, is aligned with the spirit of Justice Bellamy’s Good Governance recommendations and demonstrates to the public and staff that the City of Toronto takes complaints involving City resources seriously.

### Reporting Incidents of Fraud or Other Irregularities

Fraud detection and reporting are an important component in an organization's system of internal controls. The City of Toronto's Policy on Fraud and Other Similar Irregularities (the Fraud Policy) formalized the duty of employees to report all allegations of fraud or other irregularity involving City resources to the Auditor General's Office.

Suspected incidents of fraud or other improprieties are brought to the attention of the Auditor General by City staff, suppliers or the public. These incidents may be reported to the Auditor General directly by City staff, by mail, through an anonymous telephone Hotline (416-397-STOP (7868) with 24-hour voice-mail) or via the Internet using a secure on-line form. The Auditor General may also identify incidents in the course of conducting audits.

### Comments:

#### City's Fraud and Waste Hotline Program

The City of Toronto's Fraud and Waste Hotline Program (the Hotline Program) is an ongoing initiative operated by the Auditor General's Office, established as a centralized facility for anonymous reporting of allegations of fraud, waste and other irregularities involving City resources (referred to as complaints). Operation of the Hotline Program includes administration of complaint intake, electronic tracking of complaints, disposition of complaints received, and the annual reporting on the activity of the Hotline Program.

The Hotline Program began as an anonymous telephone resource (with 24-hour voice messaging). A six-month pilot was conducted (from March 1, 2002 to August 31, 2002) with operation continuing after the pilot ended. City Council approved the initiative as a permanent program in November 2002.

The Hotline Program has since been expanded through the development of a reporting and data management application that permits anonymous reporting of complaints on-line while providing a database solution for managing all complaints received by the Auditor General's Office. In addition to being a valuable management tool, the database was necessary to provide the level of reporting requested by the City's Audit Committee. In September 2003, the Fraud and Waste Hotline Program's on-line complaint form and data-management application was implemented allowing timely electronic tracking of complaint activity.

In the context of operating the Hotline Program, the Auditor General's Office continues to receive inquiries from other municipalities in Canada and the U.S. and provides information on establishing and administering a hotline program. In addition, staff has made presentations at a number of fraud-related conferences in relation to the City's Hotline Program.

### Hotline Reporting and Data Management Application – City’s New Administrative Structure

The Fraud and Waste Hotline reporting and data management application (used to track complaint activity and compile information for reporting purposes) is maintained by designated audit staff with the on-going support of Information Technology (IT) staff. Modifications and enhancements are generally made to the application, as required, to ensure the integrity and reliability of the data.

The City of Toronto’s new administrative structure took effect on April 15, 2005 with implementation of the administrative reorganization continuing throughout the late spring and summer. As a result, changes to the City’s Fraud and Waste Hotline reporting and data management application were required. These changes were made in early January 2006 for various reasons including the timing of the reorganization, to ensure the integrity of complaint data tracked (in 2005) and following our discussions with Information Technology staff. On a go forward basis, we will track and report complaint activity based on the City’s new administrative structure.

However, as this report covers the 12-month period from January 1 through to December 31, 2005, it includes data tracked in 2005 based on the City’s old administrative structure. As such, we have also included references to City departments (now City divisions, as a result of the City of Toronto new administrative structure).

### Forensic Unit – Auditor General’s Office

Due to the ever increasing volume of hotline complaints and associated workload over the last three years, an increase in audit staff resources were being utilized. Various workload issues resulted with audit resources being transferred from audit work to accommodate the increasing number of complaints and the operation of the Hotline Program. Consequently, in July of 2005, a dedicated Forensic Unit was established within the Auditor General’s Office. The Unit bears primary responsibility for the operation of the Fraud and Waste Hotline Program and for conducting investigations directed at the detection of fraud, waste and other irregularities involving City resources. These investigations may be broad in scope and may be the subject of City Council or media interest.

### Communication Strategies for Hotline Program

Continued communication of the Hotline Program is essential to its effectiveness.

A formal communication strategy to appropriately promote the permanent 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, we have continued, in consultation with the City’s Corporate Communications Division, to enhance the awareness of the Hotline Program to City staff, suppliers and the public. Communication strategies to promote the existence of the permanent

Hotline Program have been combined with initiatives to enhance awareness of the City's Fraud Policy.

Communication initiatives employed over the course of this last year have included:

- information in the City's Corporate Newsletter;
- information on the City's Internet/intranet sites;
- display of a Hotline poster – advertising the Hotline telephone number 416-397-STOP;
- e-mail communications reinforcing awareness of the need to display the Hotline poster in all City workplaces and facilities; and
- e-mail communication to departmental and relevant Agencies, Boards and Commissions, management circulating the new on-line questionnaire used by the Auditor General's Office to collect information required for annual reporting purposes.

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

#### Disposition of Complaints

Complaints received by the Auditor General's Office may result in the following dispositions:

- no action;
- investigations;
- referrals to Departments, Agencies, Boards and Commissions;
- referrals to other City hotline program's (including the City's Social Services' hotline that handles complaints regarding social assistance fraud); or
- referrals to outside agencies (Provincial/Federal).

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

## Investigations

Since the Auditor General last reported on the status of fraud and related matters (report dated December 31, 2004) the office has continued to conduct a number of investigations which have involved the collection of evidence related to suspected fraudulent or irregular activity perpetrated by City employees and, in some cases, by external third parties. While the Auditor General takes the lead role in conducting investigations, they are conducted in consultation with appropriate City Legal, Human Resources and departmental staff.

As well, investigations may be coordinated with departmental management staff having regard to the nature of the allegations, management staff's expertise and staff levels. Management staff is often asked to conduct the necessary steps and procedures to compile information as the lead in an investigation, in consultation with the Auditor General's Office, i.e., regarding appropriate investigative steps, or reporting back to the Auditor General on any action taken. Departmental action and investigative findings are reviewed by the Auditor General's Office. Based on this review, a determination is made as to the sufficiency of the information provided and whether additional action is required by a department prior to the Auditor General's Office closing the complaint. While information regarding disciplinary action taken is tracked by the Auditor General's Office, decisions pertaining to the appropriate level of discipline are the sole responsibility of departmental management.

In some cases, the services of outside investigators have been employed by departments to conduct investigations within a department, again having regard to the nature of the allegations and staff levels.

There have been some instances in which departments have conducted investigations and then subsequently notified the Auditor General of the incident and departmental action taken. We recognize that departments may wish to conduct some preliminary enquiries to confirm suspicions of an irregular incident prior to contacting the Auditor General. However, in accordance with the Fraud Policy, once the department has reason to suspect there has been an irregular incident, then our Office should be notified on a timely basis.

In addition, informal protocols have been established with the City's Internal Audit Division, City Manager's Office, with respect to that Division's investigation of fraud (or other irregularities) referred to them by the Auditor General's Office.

Protocols have also been discussed with the City's Integrity Commissioner in relation to issues of mutual concern and respective responsibilities. Both parties are committed to working together to address issues of concern and meet, as appropriate.

Lastly, in cases where there is sufficient evidence that a crime may have been committed, the Toronto Police Service is contacted. The Auditor General's Office has worked co-operatively with departments and the Toronto Police Service to ensure that evidence is documented to a level that is sufficient to substantiate the laying of charges. Where charges are laid, staff from the Auditor General's Office and City staff has appeared as witnesses at court proceedings.

Referral to Departments, Agencies, Boards and Commissions

In certain cases, due to the nature of the allegations, complaints are referred to City Departments (now Divisions) with a request that management conduct a review of the allegations and report back to the Auditor General’s Office on any action taken within a set time frame. In other less substantive cases, the Auditor General may determine a response from management is not required. All requests for responses are tracked by the Auditor General’s Office and follow-up is conducted if responses are outstanding. Each response is reviewed by the Auditor General’s Office to ensure that appropriate action has been taken. In circumstances where the Auditor General’s Office is not satisfied with the response, additional information or further action is requested.

Complaints referred to departments have included such matters as allegations of unwarranted overtime, allegations of inappropriate hiring practices, irregular benefit claims, unauthorized personal use of City assets (e.g., misuse of Internet) and complaints regarding City services.

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

Summary of Complaints Received – January 1, 2005 through to December 31, 2005

This report covers a twelve-month period from January 1, 2005 through December 31, 2005.

This report also provides updated information on the status of all 2003 and 2004 complaints previously reported (in terms of total complaint and disposition figures) to the Audit Committee, however, concluded in 2005. Updated information provided includes quantifiable value/recovery figures and internal control weaknesses identified.

The tables below provide a summary of complaints received by the Auditor General’s Office during 2005.

Table 1 Source of Complaint

	Jan. 1 to Dec. 31 2005	Jan. 1 to Dec. 31 2004
Fraud and Waste Hotline (416-397-STOP)	184	89
Letters	114	39
On-line Complaint Forms (via Internet)	125	92
Referrals from Departments	32	34
Referrals from Councillors	19	8
Other Sources (i.e., calls/e-mails/faxes, walk ins)	103	85
Total Complaints Received	577†	347
† Additional complaints received close to the 2005 year end may not have been processed until 2006 and will be reported out in next year’s annual report.		



From a comparative perspective, there were 347 complaints received for the 12-month period ended December 31, 2004. The number of complaints received by the Auditor General’s Office for the 12 month period ending December 31, 2005 was 577, representing a 66 per cent increase in the volume of complaints. In 2004, we reported an approximately 70 per cent increase in complaint activity which had occurred over the previous year (2003).

The continued increase in complaint activity may be attributed to:

- increased awareness of the existence of the Fraud and Waste Hotline;
- action taken by the Auditor General’s Office and departments in responding to complaints which indicates to employees and the public that the City treats complaints seriously; and
- media coverage of various incidents

Table 2 Disposition of Complaints

	Jan. 1 to Dec. 31 2005		Jan. 1 to Dec. 31 2004	
	Total	% of Total	Total	% of Total
No Action (Includes not enough information provided, based on preliminary enquiries allegation not actionable)	253	43.8%	120	34.6%
Referrals to Departments (Includes complaints referred to Social Assistance Hotline, complaints referred for information only)	192	33.3%	146	42.1%
Investigations (Includes on-going investigations)	99	17.2%	59	17.0%
Referrals to Internal Audit	7	1.2%	1	0.3%
Referrals to ABCs	3	0.5%	3	0.9%
Referrals to Outside Agencies (Includes Provincial/Federal agencies)	22	3.8%	17	4.9%
Not yet assigned	1	0.2%	1	0.3%
Total	577	100%	347	100%

It should be noted that a complaint is categorized as “No Action” if determined to be:

- additional information regarding an existing complaint;
- duplicate of previous complaint;
- referred for future audit;
- not enough information provided;
- outside the Auditor General’s jurisdiction; and
- other (i.e., complaint not actionable based on preliminary enquiries conducted).

Table 3 Complaint Conclusion

	Jan. 1 to Dec. 31 2005	Jan. 1 to Dec. 31 2004
Substantiated (by both the Department and the Auditor General)	64	41
Unsubstantiated	72	54
Conclusion Not Required	331	220
Conclusion Pending (currently under review, conclusion pending)	110	32
Total	577	347

It should be noted that for a complaint to be closed, a conclusion must be determined. A complaint is categorized as “Conclusion Not Required” if a determination is not made as to whether a complaint is “substantiated” or “unsubstantiated” because:

- no action taken (for reasons described above);
- referred for information only (generally involve departmental services issues with no reporting back to Auditor General);
- referred to Social Assistance Hotline (no reporting back to Auditor General);
- referred to Internal Audit;
- referred to Agencies, Boards and Commissions (no reporting back in most cases); or
- referred to outside agency, i.e., federal or provincial agencies.

Table 3 above provides a total of 110 complaints in 2005 that have a “conclusion pending” (the conclusion had not yet been determined, i.e., substantiated, unsubstantiated). We will report out on the final resolution of these pending items in the Auditor General’s 2006 annual report.

Further, since we last reported, the disposition of nine of the 2004 complaints was subsequently changed to “conclusion pending” as we determined further action was required. Of the complaints in 2004 that had a “conclusion pending”, 16 complaints have been substantiated. In addition, two complaints received in 2003 were concluded in 2005 with one having been substantiated.

Every complaint received, whether it is brought to the Auditor General’s attention through the Hotline Program or otherwise, is dealt with pursuant to the Auditor General’s Office mandate and in accordance with the City of Toronto’s Policy on Fraud and Other Similar Irregularities.

### Staff Resources Required to Operate the Fraud and Waste Hotline Program

Audit staff time employed to operate and administer the Hotline Program includes:

1. documenting and monitoring all complaints received;
2. performing preliminary enquiries regarding complaints prior to determining appropriate disposition (including referrals to departments or potential investigations);
3. making determination as to disposition for all complaints received and action to be taken;
4. forwarding complaints to departments for appropriate review and action (includes follow-up with departments as to review conducted and action taken);
5. investigating complaints or co-ordinating investigations with departments, as appropriate;
6. tracking of complaint activity (from receipt to final disposition);
7. reporting out on activity of Hotline Program;
8. monitoring/maintenance of Hotline Program's on-line data-management application;
9. establishing new procedures, as required, streamlining Hotline Program procedures; and
10. coordinating the marketing and communication of the Hotline Program.

The total amount of audit staff time utilized on the foregoing activities in 2005 was approximately 6,300 hours representing a significant increase in resources being utilized over the previous year (in 2004 approximately 3,700 hours).

In addition, significant administrative staff resources have been utilized to support the administration of the Hotline Program.

### Cost of Operating Fraud and Waste Hotline Program

#### Audit Staff Resources

As previously reported in the Auditor General's 2006 Budget, dated October 19, 2005, activity relating to the Fraud and Waste Hotline has increased significantly since its inception. It was recognized and acknowledged that during its initial phase, the Hotline could be accommodated with existing resources until the extent of activity was determined. In 2005, we added one position to deal with the workload created by the Fraud and Waste Hotline. It is apparent that the significant and high profile projects arising out of this Council initiative warrant additional senior audit staff in order to ensure that issues identified as a result of the Fraud and Waste Hotline are addressed appropriately. For example, many investigations, due to the level of resources, are being referred to Divisions for follow-up rather than being investigated by staff of the Auditor General's Office. In order to maintain the integrity of the Hotline, it is important that investigations, for the most part, are conducted independently.

We have continued to monitor the level of audit resources required to operate the Hotline Program and administer the volume of complaints which increased by 66 per cent over the previous year.

For 2005, approximately the equivalent of five dedicated full-time audit staff were required to operate the Hotline Program and investigate complaints received. This represents an increase of two full-time staff over last year. It is also worth noting that this represents only staff in the Auditor General's Office and in addition to these resources, many departmental resources have been utilized to investigate and respond to complaints received through the Hotline Program.

Due to the increasing volume of hotline complaints and associated workload over the last three years, more staff resources are being utilized. Various workload issues have resulted in audit resources being transferred from audit work to accommodate administration and investigation of the increasing number of complaints.

As a result, in July of 2005, a Forensic Unit was established within the Auditor General's Office. The Unit is dedicated to the operation of the Fraud and Waste Hotline Program and to conducting investigations directed at the detection of fraud, waste and other irregularities involving City resources.

The Forensic Unit operates with four staff, which includes a manager (reporting directly to the Auditor General), a senior audit manager, an audit manager and an auditor. Administrative support for the Unit was accommodated using existing staff resources despite the significant increase in complaint volume and corresponding demand for administrative support. In addition, following the establishment of the separate Unit, workload issues attributed to the continued increase in complaint volume have been compounded by significant and high profile projects over the last year. As a result, additional audit staff resources continue to be transferred from audit work to accommodate the administration of the Hotline Program and provide support to the Unit.

Consequently, the Auditor General has requested two additional audit staff resources as part of the 2006 budget process, with one of the two being assigned to the operation of the Hotline Program in order to accommodate the approximately 66 per cent increase in complaint activity which has occurred over the last year.

As well, with a view to streamlining the administrative complaint intake component, improve the quality of actionable complaint information (i.e., by having live interviewers canvass hotline callers for the appropriate level of information to ensure a complaint is actionable) and reduce the cost associated with using professional audit staff to perform administrative intake duties, the Auditor General's Office is currently considering outsourcing a component of the complaint intake function. We are in the preliminary stages of this process and will consult, as appropriate, with divisional staff, including Legal Services, Purchasing and Materials Management and Information Technology.

### Administrative Staff Resources

As previously mentioned, a significant amount of administrative staff resources have also been utilized to support the administration of the Hotline Program. The Auditor General's Office has continued to absorb the additional administrative workload since the permanent establishment of the Hotline Program in 2002. However, this has created various workload issues as the increasing number of hotline complaints has resulted in administrative staff resources being transferred from audit related work and other duties to accommodate the Hotline Program. As such, we will be considering additional funding during the 2007 budget process towards additional administrative resources subject to determining the impact of any outsourcing on these requirements.

### Benefits of the Fraud and Waste Hotline Program

Our research continues to indicate that tips or complaints received by an organization remain the most common means of detecting fraud, while anonymous reporting mechanisms have shown the greatest impact on limiting fraud losses (by increasing the likelihood of incidents being reported and detected).

The City's Hotline Program has provided several benefits. One of the key benefits of the permanent Fraud and Waste Hotline Program is that complaints received have resulted in actions that have reduced losses attributed to incidents of fraud, waste or other irregularities by terminating substantiated incidences, and by strengthening controls to reduce the risk of future losses. Even when a finding of fraud or irregularity is not substantiated, investigations conducted have identified areas where internal controls need to be strengthened (to improve City operations) or better protection of City resources. Research also indicates that a further benefit of operating a hotline is that it may assist in deterring irregular conduct by increasing the perception of being detected.

### Impact of Fraud and Waste Hotline Program – Management Initiatives

Information from reviews and investigations of hotline complaints has also promoted and enhanced accountability for the management and utilization of City resources while in some cases highlighting the need for making needed policy and administrative changes. In response to hotline complaints being reviewed or investigated and previous audit recommendations made by the Auditor General's Office, the City Manager's Office has taken a number of initiatives.

We acknowledge the various management initiatives, over the last year, which have also contributed to reinforcing the City's ethical tone including:

- new City policy for acceptable use of information technology resources outlining proper use of resources including computers, internet access and e-mail;
- formal communication to City staff of workplace expectations including: adhering to assigned rest period times, reporting to and being ready for work at scheduled times and not spending excessive periods of time at non-work locations;

- development and communication of guidelines designed to improve contract management by the City's administration and ensure contracts are properly managed (a contract management improvement project was approved in 2004 to oversee this initiative); and
- development of divisional action plans to identify and address risks each division is most susceptible to with a view to taking action to prevent and detect inappropriate behaviour. Internal Audit is currently in the process of assessing the adequacy of these divisional action plans.

#### Savings – Recoveries – Internal Control Weaknesses

We have previously reported the estimated savings and recoveries as a result of the Hotline Program and associated investigations as being in the range of \$500,000 (a cumulative total, reported during the 2004 and 2005 budget processes, up to the period ending December 31, 2003).

The estimated \$500,000 savings was recently reported to the Audit Committee in the Auditor General's Annual Report and 2005 Budget document, dated October 29, 2004. The reported savings were the result of identifying excessive overtime, consulting expenses and inappropriate disbursements and grant payments, etc.

As further reported, the City's forensic audit section of the external auditors, Ernst & Young, had advised us that their estimate of the amount of savings would be significantly greater than the \$500,000 identified, taking into account that if the irregular activity had not been identified the extent of the loss to the City may have continued for a significant period of time.

In a report entitled "Auditor General's Audit Reports – Benefits to the City of Toronto" the Auditor General provided further information on potential future savings to the City, including those attributed to the review of fraud related matters, to the Audit Committee at its meeting of January 17, 2005.

The following tables summarize the total quantifiable values/recoveries associated with complaint activity and the number of complaints in which internal control weaknesses were identified and associated operational changes made for the report period covered by this report (for complaints concluded in 2005):

Table 4 – A 2005 Substantiated Complaints (Actual Loss)

Substantiated Complaints	Jan. 1 to Dec. 31 2005	Jan. 1 to Dec. 31 2004
Total Quantifiable Value (actual loss)	\$346,063	\$213,019
Total Recovery	\$224,481	\$80,860
Internal Control Weaknesses Identified	22	21
Operational Changes Made by Department	22	21

The foregoing table provides a total for 2005 complaints identified as having resulted in an actual loss of funds to the City of Toronto.

Table 4 – B 2005 Substantiated Complaints (At Risk Funds)

Substantiated Complaints	Jan. 1 to Dec. 31 2005
Total Quantifiable Value (at risk )	\$394, 117
Internal Control Weaknesses Identified	1
Operational Changes Made by Department	1

The foregoing table provides a total for 2005 complaints identified as having placed City funds “at risk” and but for detection, the irregular activity may have continued and resulted in an actual loss of funds to the City.

Table 4 – C Substantiated Complaints – 2003/2004 Concluded in 2005

Substantiated Complaints	Jan. 1 to Dec. 31 2004	Jan. 1 to Dec. 31 2003
Total Quantifiable Value (actual loss)	\$166,304 †	\$2,860
Total Recovery	\$155,440	0
Internal Control Weaknesses Identified	6	0
Operational Changes Made by Department	6	0
† Includes values for complaints received in 2004 and substantiated in 2005.		

The foregoing table provides a total for previous years’ complaints substantiated in 2005 and identified as having resulted in an actual loss of funds to the City of Toronto. It should be noted that we previously reported approximately \$75,000 of the 2004 value in last year’s annual report.

Referral to Departments – Complaint Highlights

Complaints referred to departments and subsequently substantiated within the report period included the following City Departments, Agencies, Boards and Commissions:

Table 5 Substantiated Complaints - Areas Affected  
(January 1, 2005 to December 31, 2005)

Department or ABC	Division
Chief Administrator's Office	Internal Audit
Community and Neighbourhood Services	Children's Services Homes for the Aged Public Health Shelter Housing and Support Social Services Toronto Public Library
Corporate Services	Facilities and Real Estate Fleet Management Services Human Resources Information and Technology
Economic Development Culture and Tourism	Administrative Support Services Parks and Recreation Special Events
Finance	Accounting Services Purchasing and Materials Management Revenue Services
Toronto Police Service	Parking Tag Operations
Toronto Zoo	Membership Office Retail and Rides
Urban Development Services	Building Municipal Licensing and Standards
Works and Emergency Services	Emergency Medical Services Solid Waste Services Support Services Technical Services Transportation Services Water and Waste Water Services

In addition to the foregoing, in mid-December 2005, the Auditor General became aware of an internal incident involving an alleged contravention of the City's Acceptable Use Policy. The investigation into this matter began in late December and had not yet been concluded at the time of writing this report. As a result, the disposition and details of this investigation will be reported out in 2006. The Auditor General has discussed this matter with the Chair of the Audit Committee and the City Manager.

The nature of substantiated complaints referred to the foregoing departments has been summarized below as follows:



Table 6 Substantiated Complaints - Nature of Complaints

Nature of Substantiated Complaints	Allegations, which include:
Conflict of Interest	City employment being used to secure benefit from vendor
Fraud	City cheques are being fraudulently altered and cashed by third parties
Human Resource	Inappropriate hiring practices
Improper Employee Conduct	Employees being impaired or participating in illegal activities
Inappropriate Use of Corporate Resources	Inappropriate use of City computers and cell phones
Irregular Benefit Claims	Abuse of sick time and other benefits
Irregular Employee Work Hours	False attendance records, extended breaks and inappropriate business hours
Irregular Purchasing	Activities contrary to City purchasing policies
Loss of City Revenue	Revenue owed to the City not being collected
Waste	Inappropriate use of City water from hydrants, and malfunctioning street lights

The Auditor General has consulted with the City Solicitor who advises that any details of the investigations undertaken by the Auditor General's Office ought to be discussed in camera, as they pertain to potential or actual litigation matters, pursuant to the provisions of the Municipal Act and Council's Procedural By-law.

Conclusions:

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

All City of Toronto staff has a responsibility to report improper activity involving City resources, pursuant to the City's Fraud Policy. The Auditor General's Office continues to work with the City Manager and Division Heads to increase the level of awareness among City employees with respect to the identification and reporting of fraud and other improprieties involving City resources.

While the Auditor General takes the lead role in conducting investigations, they are conducted in consultation with appropriate City Legal, Human Resources and divisional staff. As well, investigations may be coordinated with divisional management staff having regard to the nature of the allegations, management staff's expertise and staff levels. Management staff may be asked to conduct the necessary steps and procedures to compile information as the lead in an

investigation, in consultation with the Auditor General's Office, reporting back to the Auditor General on any action taken.

The primary responsibility for maintaining appropriate internal controls to prevent and detect fraud or other irregularity involving City resources remains with divisional management. In particular, appropriate and adequate supervision is an important component of administrative internal control.

As well, while information regarding disciplinary action taken is tracked by the Auditor General's Office, decisions pertaining to the appropriate level of discipline are the sole responsibility of divisional management.

Complaint activity relating to the Fraud and Waste Hotline Program has increased significantly since its inception. We have continued to monitor the level of audit resources required to operate the Hotline Program and administer the volume of complaints.

For 2005, approximately the equivalent of five dedicated full-time staff was required to operate the Hotline Program and investigate complaints received. This represents an increase of two full-time staff over last year.

In July of 2005, a Forensic Unit was established within the Auditor General's Office. The Unit is dedicated to the operation of the Fraud and Waste Hotline Program and for conducting investigations directed at the detection of fraud, waste and other irregularities involving City resources. Administrative support for the Unit was accommodated using existing staff resources despite the significant increase in complaint volume and corresponding demand for administrative support. Following the establishment of the separate Unit, continued increase in complaint volume has been compounded by significant and high profile projects over the last year. As a result, additional audit staff resources continue to be transferred from audit work to accommodate the administration of the Hotline Program and provide support to the Unit.

Consequently, the Auditor General has requested two additional audit staff resources as part of the 2006 budget process, with one of the two being assigned to the operation the Hotline Program in order to accommodate the approximately 66 per cent increase in complaint activity which has occurred over the last year. As well, we will be considering additional funding during the 2007 budget process towards additional administrative resources.

With a view to streamlining the administrative complaint intake component, improve the quality of actionable complaint information (i.e., by having live interviewers canvass hotline callers for appropriate information to ensure a complaint is actionable) and reduce the cost associated with using professional audit staff to perform administrative intake duties, the Auditor General's Office is currently considering outsourcing a component of the complaint intake function to a service provider.

We are currently in the preliminary stages of this process and anticipate meeting with appropriate divisional staff to discuss same, including Legal Services, Purchasing and Materials Management and Information Technology.

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