2009 ANNUAL REPORT
FRAUD AND WASTE HOTLINE

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Auditor General’s Office

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Auditor General
City of Toronto
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EXECUTIVE SUMMARY

9th annual report on Hotline activities

This report represents the Auditor General’s ninth annual report on the activities of the Fraud and Waste Hotline Program for the period from January 1 through to December 31, 2009. Annual Reporting of the activities of the Fraud and Waste Hotline Program was a directive of Audit Committee.

Fraud and Waste Hotline Program set up in 2002

The City of Toronto established a Fraud and Waste Hotline Program in 2002 with Council’s support to provide a practical tool for employees or members of the public to report wrongdoing involving City resources, anonymously if preferred. In accordance with the City’s Fraud Prevention Policy, City employees have a responsibility to report incidents of wrongdoing.

Whistleblower Protection

The risk and fear of retribution can deter individuals from reporting allegations of wrongdoing against a colleague, manager or a City vendor. The City’s Fraud Prevention Policy includes “Whistleblower Protection” and prohibits retribution against any employee who reported allegations of wrongdoing.

While the Auditor General’s Office is responsible for the operation of the City’s Hotline Program, management is responsible for ensuring employees who report allegations of wrongdoing may do so without reprisal. The importance of protecting those who report wrongdoing should be conveyed to all City employees, through the training process recommended in this report.

A number of Canadian Cities have implemented a similar program

Since the implementation of the hotline a number of Canadian municipalities have introduced similar anonymous fraud and waste hotline programs. These municipalities include Ottawa, Calgary, Edmonton and Windsor while London, Montreal and Winnipeg are considering the implementation of a fraud and waste hotline program. In addition, many cities in the U.S. operate such a program.
Anonymous hotlines are a best practice

Our research continues to indicate that anonymous reporting is an effective means of detecting irregularities, as tips or complaints received by an organization remain the most common means of detecting fraud. In fact, the Association of Certified Fraud Examiners in its biennial “Report to the Nation on Occupational Fraud and Abuse” indicates that “despite increased focus on anti-fraud controls in the wake of Sarbanes-Oxley, data indicates that occupational frauds are much more likely to be detected by a tip than by audits, controls or any other means”.

Benefits of the 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 increased operational efficiencies.

Hotline helps promote an ethical culture

The City’s Fraud and Waste Hotline Program is part of the City’s strategy to promote and reinforce an ethical corporate culture.

An ethical corporate culture essential to reducing business risk of fraud

An ethical corporate culture is one which encourages employees at all levels to act with integrity and actively discourages wrongdoing. Ensuring an ethical corporate culture is an essential step in managing and reducing the business risk of fraud and other wrongdoing, including conflicts of interest.

A number of substantiated complaints involved conflicts

In 2009, a number of substantiated complaints involved contraventions of the City’s Conflict of Interest Policy, while a number of other cases involved situations of potential or perceived conflicts.

In the 2006 Annual Report on the Status of Fraud and Related Matters including the Operation of the Fraud and Waste Hotline Program, the Auditor General made a recommendation that management expedite implementation of formal ethics training to all staff. This recommendation was made as a result of various complaints received and investigations conducted and was in line with the recommendations made by Madame Justice Bellamy in her 2005 report on the Toronto Computer Leasing Inquiry and the Toronto External Contracts Inquiry.
We understand ethics training has been provided to 2,200 City management staff and has been offered to all new full time employees since 2009. Also, in 2010, ethics training is being offered through the Toronto Public Service corporate course calendar. However, ethics training is not mandatory and to date, has not been provided to all City staff.

The recommendation in this report focuses on the original Bellamy recommendations and re-emphasizes the importance of all City staff being provided ethics training, particularly as it relates to conflict of interest matters.

A similar recommendation was also made by the Auditor General in a 2009 audit report entitled: “Effectively Managing the Recruitment of Non-Union Employees in the Toronto Public Service”.

**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:

In 2009, the 677 complaints received represent a nine per cent increase in the number of hotline complaints received in 2008.

Fifty-one complaints received resulted in investigations conducted by the Auditor General’s Office or divisional management.

**Substantiated complaints**

Forty-six complaints investigated or referred to divisions in 2009 have been substantiated in whole or in part. This number is expected to increase as outstanding 2009 complaints continue to be concluded in 2010.

Divisional management reported that discipline was imposed in 23 of the incidents reported to the Fraud and Waste Hotline Program. In an additional 20 instances, divisional management took other appropriate action.

**Discipline is the responsibility of divisional management**

Decisions pertaining to the appropriate level of discipline are the sole responsibility of divisional management. An important consideration for management in disciplining employees is to ensure that discipline is fair and consistent throughout the Corporation and should provide guidance on and reinforce acceptable conduct for all City employees.
<table>
<thead>
<tr>
<th><strong>Regular contact maintained with the Toronto Police Service</strong></th>
<th>In situations where an appropriate level of evidence indicates that fraudulent activity has taken place, contact is made with the Toronto Police Service. The Auditor General and senior staff meet on a quarterly basis with the Fraud Squad of the Toronto Police Service to discuss areas of mutual concern.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Losses and recovery</strong></td>
<td>For complaints received in 2009, quantifiable actual losses to the City, including its local boards were approximately $590,000. This amount may increase as outstanding 2009 complaints continue to be concluded in 2010. As well, it should be noted that the total quantifiable actual losses includes a value of $311,758 reported for one specific complaint. It is anticipated that a significant portion of this amount will be recovered through the City’s insurance provider. Certain complaints received in previous years and subsequently concluded have resulted in additional losses to the City. Since 2005, cumulative additional losses total $292,451. Restitution of funds in many cases continues to be outstanding as certain activities are in arbitration or before the court system.</td>
</tr>
<tr>
<td><strong>Potential losses or at risk dollars</strong></td>
<td>Also, in 2009, $155,949 was identified as “at risk” dollars. This sum represents additional potential losses which could have resulted in actual losses to the City had the incident of wrongdoing continued without being detected. Again, this amount is expected to increase as outstanding complaints continue to be concluded in 2010.</td>
</tr>
<tr>
<td><strong>Investigation summaries</strong></td>
<td>Summarized details of certain complaints investigated and concluded in 2009 are included as Exhibit 2. These summaries are provided as requested by Audit Committee.</td>
</tr>
</tbody>
</table>
1.0 ANNUAL REPORTING

*9th annual report on Hotline activities*  
This report represents the Auditor General’s ninth annual report on the activities of the Fraud and Waste Hotline Program for the period from January 1 through to December 31, 2009. The Annual Reporting of the activities of the Fraud and Waste Hotline Program 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 2009.

2.0 REINFORCING AN ETHICAL CORPORATE CULTURE

*An ethical corporate culture encourages employees to act with integrity*  
Ensuring an ethical corporate culture is an essential step in managing and reducing the business risk of fraud or other wrongdoing, including conflicts of interest. An ethical corporate culture is one which encourages employees at all levels to act with integrity, and actively discourages wrongdoing.

*Hotline Program is part of City’s strategy to promote an ethical culture*  
The City’s Fraud and Waste Hotline Program is part of the City’s strategy to promote an ethical culture by assisting in the detection and prevention of wrongdoing involving City resources. Under the provisions of the City’s Fraud Prevention Policy, City employees have a responsibility to report incidents of wrongdoing. The Hotline provides an avenue for employees and members of the public to report wrongdoing, anonymously if preferred.

*Management is essential in promoting ethical corporate culture*  
The active involvement of all levels of management is essential in successfully promoting an ethical corporate culture. Senior staff provides leadership and sets the “tone at the top.” Managers and supervisors implement and enforce the corporate tone in everyday decisions and interactions with employees.
Ongoing training serves to inform employees

Management’s role includes providing ongoing training which serves to inform and guide employees in making decisions which comply with City policies and procedures that govern acceptable conduct.

In the 2006 Annual Report on the Status of Fraud and Related Matters including Operation of the Fraud and Waste Hotline Program, the Auditor General made a recommendation regarding expediting implementation of formal ethics training to all City staff.

Ethics Awareness training

We understand ethics training has been provided to 2,200 City management staff and has been offered to all new full time employees since 2009. Also, in 2010, ethics training is being offered through the Toronto Public Service corporate course calendar. However, ethics training is not mandatory and to date, has not been provided to all City staff.

2.1 Conflict of Interest Matters

Conflicts of interest may arise from a wide range of employee behaviour and circumstances. The City’s Conflict of Interest Policy defines what a conflict of interest may involve. As well, it includes rules to guide employee conduct and provides examples of obvious conflicts that should be avoided. For example, employees are not allowed to engage in outside work activity that conflicts with their City duties, or use City equipment or resources for non-work related activities (without appropriate approval). In addition, employees may not disclose confidential information about the affairs of the City.

Potential or perceived conflicts can be as significant as actual conflicts

Employees of the City are expected to advance the interests of the Corporation and avoid and prevent situations that could give rise to conflicts of interest - actual, potential or perceived. The impact of potential or perceived conflicts of interest can be as significant as those of actual conflicts and undermine the public’s confidence in the integrity of the Toronto Public Service.

Identifying and managing conflicts of interest is key

Conflicts of interest are not necessarily unethical but they may become problematic if not properly identified and managed. Identifying and managing a conflict is important and failing to do so can result in misconduct that compromises the integrity of the City’s public service.
As such, it is essential that employees receive direction on how to identify and address conflicts that may, in fact or appearance, impair their responsibility to act in the public interest.

In 2009, a number of substantiated complaints involved contraventions of the City’s Conflict of Interest Policy, while a number of other cases involved situations of potential or perceived conflicts.

These conflicts may have been avoided through increased awareness of actual, potential or perceived conflicts and enforcement of the City’s Conflict of Interest Policy.

Madame Justice Bellamy in her 2005 report on the Toronto Computer Leasing Inquiry and the Toronto External Contracts Inquiry made recommendations relating to ethics at the City of Toronto, and included specific recommendations with regards to training, ongoing education and monitoring of matters of conduct.

The recommendation in this report focuses on the original Bellamy recommendations and re-emphasizes the importance of all City staff being provided on-going ethics training, particularly as it relates to conflict of interest matters.

**Recommendation:**

1. The City Manager review the recommendations contained in the Bellamy Report on the Toronto Computer Leasing and Toronto External Contracts Inquiries in order to ensure that all recommendations pertaining to ethics training are addressed. Further, training required as a result of the Bellamy recommendations be required to specifically address conflict of interest issues, and be made mandatory for all City staff.
3.0 THE FRAUD AND WASTE HOTLINE PROGRAM

Anonymous reporting is effective in detecting irregularities.

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 brings the organization one step closer to minimizing the risk of irregular conduct involving corporate resources.

The City of Toronto established a Fraud and Waste Hotline Program in 2002 with Council’s support to provide a practical tool for employees or members of the public to report wrongdoing involving City resources, anonymously if preferred.

3.1 Benefits of the 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 increased operational efficiencies.

3.2 Hotlines A Best Practice

Our research including the benchmarking of Canadian and U.S. municipal governments continues to indicate that anonymous reporting is an effective means of detecting irregularities, as tips or complaints received by an organization remain the most common means of detecting fraud.

The Association of Certified Fraud Examiners (ACFE), a global professional organization, in its comprehensive study entitled the “2008 Report to the Nation on Occupational Fraud and Abuse”, found that hotlines remain an effective fraud detection tool. According to the ACFE, organizations with a hotline reduce fraud losses by 60 per cent.
Canadian and U.S. municipalities have implemented anonymous hotlines over 55 per cent of government agencies participating in the ACFE study indicate that they have implemented an anonymous hotline.

Since the Hotline’s implementation in 2002, the Auditor General’s Office has provided advice to a number of Canadian and U.S. municipalities which have introduced or are contemplating similar programs. Canadian cities which operate a hotline program include Calgary, Edmonton, Ottawa and Windsor, while London, Montreal and Winnipeg are considering the implementation of a hotline program. In addition, many cities in the U.S. operate such a program.

3.3 Operation of the Hotline Program

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, electronic tracking of complaints, evaluation of the merits of all complaints and disposition of complaints received (including conducting and coordinating investigations or reviews with various City divisions). As well, we report annually on the activity of the Hotline Program.

3.4 Whistleblower Protection

The risk and fear of retribution can deter many people from reporting allegations of wrongdoing against a colleague, manager or a City vendor.

The City’s Fraud Policy includes “Whistleblower Protection” and prohibits retribution against any employee who reported allegations of wrongdoing.
While the Auditor General’s Office is responsible for the operation of the City’s Hotline Program, management is responsible for ensuring employees who report allegations of wrongdoing may do so without reprisal. The importance of protecting those who report wrongdoing should be conveyed to all City employees, through the training process recommended by the Auditor General.

3.5 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 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 takes the detection and prevention of fraud and other wrongdoing seriously.

In 2009, communication initiatives included the redesign of the Fraud and Waste Hotline Program poster, and the development of new tagline: *Committed to Integrity and Accountability*.

Further details of communication initiatives coordinated by the Auditor General’s Office in 2009 are provided in Exhibit 1.

3.6 Investigations

**Investigations are coordinated with divisional management**

Since the Auditor General’s last annual report on the Fraud and Waste Hotline, dated January 15, 2009, the Auditor General’s Office has been involved in investigative work which has included the collection of evidence related to alleged improprieties by City employees and, in some cases, by external third parties.

Based on limited 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 and where appropriate, the Auditor General’s Office provides advice and guidance or may participate in conducting part of the investigative work, such as conducting interviews.
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.

3.7 Discipline

Discipline is the responsibility of divisional management

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.

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

Where there is sufficient evidence that a criminal act may have been committed, the Toronto Police Service is contacted. The Auditor General’s Office 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.

3.8 Referrals to 311

With the implementation of 311 at the City of Toronto, the Auditor General’s Office is now referring service related complaints to 311 for central tracking and follow-up with the Divisions.

Previously, our Office referred service related complaints to the Divisions directly with no requirement to report back to our Office.
4.0 STATISTICAL SUMMARY

4.1 Total Complaints

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.

**Over 3,600 complaints handled since 2002**

Since the Fraud and Waste Hotline Program was initiated in 2002, the Auditor General’s Office has handled over 3,600 individual complaints. Each complaint may in turn contain numerous allegations.

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

**Chart 1 – Complaints Reported 2002 to 2009**

![Complaints Reported 2002 to 2009](chart)

In 2009, the 677 complaints received represent a nine per cent increase in the number of hotline complaints received in 2008.

4.2 Source of Complaints

Chart 2 provides a summary of the methods used to report complaints to the Fraud and Waste Hotline Program.
Chart 2 – Source of Complaints

<table>
<thead>
<tr>
<th>Source of Complaint</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>On-line Complaint Forms</td>
<td>203</td>
</tr>
<tr>
<td>Fraud and Waste Hotline (telephone calls)</td>
<td>150</td>
</tr>
<tr>
<td>Other Sources*</td>
<td>129</td>
</tr>
<tr>
<td>Letters</td>
<td>75</td>
</tr>
<tr>
<td>Referrals from Councillors</td>
<td>66</td>
</tr>
<tr>
<td>Referrals from Divisions</td>
<td>54</td>
</tr>
</tbody>
</table>

Total complaints: 677

* Other Sources includes telephone calls to the Auditor General’s general phone line, emails, faxes and walk-ins.

Over 50 per cent of all complaints were received via the Auditor General’s on-line complaint form and direct telephone calls to the Hotline.

Almost ten per cent of all complaints were referred to the Auditor General’s Office by Councillors. A further eight per cent of all complaints received were referred to the Auditor General’s Office by City Divisions.

4.3 Disposition of Complaints

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

Preliminary inquiries conducted

In many complaints, preliminary inquiries are conducted by the Auditor General’s Office to determine whether allegations may have merit or to obtain information required in order to make the matter actionable.

Professional judgement 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 disposition of all complaints is reviewed and approved by senior staff in the Auditor General’s Office.
Based on the initial screening and the results of preliminary inquiries, complaints are reviewed and investigated in accordance with internal protocols, procedures and guidelines.

Chart 3 provides a breakdown of the disposition of complaints in 2009.

**Chart 3 – Disposition of Complaints**

As noted in Chart 3, the disposition of eight per cent of all complaints received (51 complaints) resulted in an investigation conducted by the Auditor General’s Office or divisional management.

The disposition of 29 per cent of all complaints (197 complaints) was “Referrals to Divisions” for review and appropriate action or for information only.

In 57 per cent of complaints (383 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.

*Includes 40 complaints referred to Social Assistance Hotline and 52 complaints referred to Divisions for information only.
4.4 Complaint Conclusions

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

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.

Reviews and investigations highlight issues and risks of concern. 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 control issues and risks that are of concern.

Chart 4 – Complaint Conclusions for 2009 Complaints

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

18 per cent of complaints investigated or referred are substantiated. Eighteen per cent (46 complaints) of all complaints investigated or referred to divisions in 2009 have been substantiated in whole or in part. This number is expected to increase as outstanding 2009 complaints continue to be concluded in 2010.
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.

84 complaints remain outstanding
As indicated in Chart 4, a total of 84 complaints in 2009 have a conclusion pending as the review of the matter is ongoing. The final resolution of these pending items will be reported in the Auditor General’s 2010 Annual Report.

Previous years’ complaints continue to be concluded in subsequent years
Each year 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.

Chart 5 highlights the increase in the number of previous years’ complaints substantiated as of December 31, 2009.

Chart 5 – Complaint Conclusions for Previous Years’ Complaints

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4.5 Disciplinary Action in Substantiated Complaints

In 2009, divisional management reported that discipline was imposed in 23 of the incidents reported to the Fraud and Waste Hotline Program.

In an additional 20 instances, divisional management took other appropriate action including reinforcing workplace expectations through training.

Discipline is the responsibility of divisional management

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

Discipline should be fair and consistent

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

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 are significant

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

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.
Chart 6 summarizes the total quantifiable financial losses or values and recoveries associated with complaints received in 2009.

**Chart 6 – Loss and Recovery in 2009**

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

**Actual Losses**

For complaints received in 2009, quantifiable actual losses to the City were $590,067. This amount may increase as outstanding 2009 complaints continue to be concluded in 2010.

As well, it should be noted that the total quantifiable actual losses includes a value of $311,758 reported for a specific complaint. It is anticipated that a significant portion of this amount will be recovered through the City’s insurance provider.

**Potential losses or at risk dollars**

Also, in 2009, $155,949 was identified as “at risk” dollars. This amount represents additional potential losses which could have resulted in actual losses to the City had the incident of wrongdoing continued without being detected.

**Recovery of losses**

Total recovery of losses for 2009 complaints was $2,329. Again, this amount is expected to increase as outstanding complaints continue to be concluded in 2010. Recoveries of certain losses continues to be before the Courts.
4.7 Loss and Recovery in Previous Years’ Complaints

Information concerning complaint conclusion, resolution, or the determination of loss and recovery often occurs some time after the allegations are received.

In addition, information concerning complaint conclusion, resolution, or the determination of loss and recovery often occurs sometime after the allegations are received. Certain complaints received in previous years and subsequently concluded have resulted in additional losses to the City.

Since 2005, cumulative additional losses recorded total $292,451, as presented in Chart 7. Additional cumulative recoveries are provided below in Chart 8.

### Chart 7 – Loss in Previous Years’ Complaints

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss previously reported</td>
<td>$260,538</td>
<td>$118,451</td>
<td>$83,014</td>
<td>$346,063</td>
</tr>
<tr>
<td>Additional losses</td>
<td>$882</td>
<td>$71,727</td>
<td>$117,636</td>
<td>$102,206</td>
</tr>
<tr>
<td>Loss as at December 31, 2009</td>
<td>$261,420</td>
<td>$190,178</td>
<td>$200,650</td>
<td>$448,269</td>
</tr>
</tbody>
</table>

### Chart 8 – Recovery in Previous Years’ Complaints

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recovery previously reported</td>
<td>$15,903</td>
<td>$37,329</td>
<td>$33,196</td>
<td>$224,481</td>
</tr>
<tr>
<td>Additional recoveries</td>
<td>$14,252</td>
<td>$42,796</td>
<td>$10,073</td>
<td>$52,776</td>
</tr>
<tr>
<td>Recovery as at December 31, 2009</td>
<td>$30,155</td>
<td>$80,125</td>
<td>$43,269</td>
<td>$277,257</td>
</tr>
</tbody>
</table>
4.8 Divisions or Agencies, Boards and Commissions with Substantiated Complaints

As noted in Chart 9, complaints substantiated in 2009 included City Divisions, Agencies, Boards and Commissions.

Chart 9 – Divisions and ABCs with Substantiated Complaints

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

<table>
<thead>
<tr>
<th>Division/ABC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Children’s Services</td>
</tr>
<tr>
<td>Emergency Medical Services</td>
</tr>
<tr>
<td>Facilities and Real Estate</td>
</tr>
<tr>
<td>Employment and Social Services</td>
</tr>
<tr>
<td>Fleet Services</td>
</tr>
<tr>
<td>Long-Term Care Homes and Services</td>
</tr>
<tr>
<td>Municipal Licensing and Standards</td>
</tr>
<tr>
<td>Parks, Forestry and Recreation</td>
</tr>
<tr>
<td>Purchasing and Materials Management</td>
</tr>
</tbody>
</table>
4.9 Type of Substantiated Complaints

As shown in Chart 10, the type of complaints substantiated in 2009 included the following:

Chart 10 – Type of Substantiated Complaints

<table>
<thead>
<tr>
<th>Nature of Substantiated Complaints</th>
<th>Description</th>
</tr>
</thead>
</table>
| Conflict of Interest               | - Directing City business to a company which employed the employee’s spouse  
- Private business run by City staff and employing City employees  
- Client employed as a live in caregiver by City employee |
| Fraud                              | - Misappropriation of City property  
- Employee accepting payments from homeowners for utility service upgrade grant  
- Misappropriation of cash deposits  
- False rebate application filed  
- Submission of false invoices  
- Misappropriation of City water |
| Improper Employee Conduct          | - Employee authorizing own time sheets  
- Employee not following appropriate cash reconciliations leading to missing deposits  
- Permits being issued inappropriately  
- Unauthorized renovations to City facility |
| Irregular Benefit Claims           | - Submitting false invoices for services not received |
| Irregular Employee Work Hours      | - Duplicate timesheets submitted |
| Improper Purchasing Practices      | - Repetitive purchases made using DPOs to circumvent purchasing policies |
| Misuse of City funds and resources | - Use of City phones for personal long distance calls  
- Use of City phones to call inappropriate phone lines  
- Use of City vehicles for personal use  
- Unauthorized use of City training materials by a private institution |
5.0 SUMMARY DETAILS OF SUBSTANTIATED COMPLAINTS

Attached as Exhibit 2 are summarized details of certain complaints investigated and concluded in 2009. These summaries are provided as requested by Audit Committee.

6.0 CONCLUSION

This report represents the Auditor General’s ninth annual report on the activities of the Fraud and Waste Hotline Program. This report is for the period of January 1, 2009 to December 31, 2009.
COMMUNICATION OF THE HOTLINE PROGRAM

**Communication of the Hotline Program is essential to its effectiveness**

Continued communication of the Hotline Program is essential to its effectiveness. A formal communication strategy to promote the Fraud and Waste Hotline Program to City staff, suppliers and the public was developed in consultation with the City’s Corporate Communications Division.

In 2009, the Auditor General’s Office has continued to develop communication strategies, in consultation with the City’s Corporate Communications Division. The Auditor General’s Office is currently working on redesigning the Fraud and Waste Hotline website to increase awareness of the Hotline Program.

**Communication initiatives have continued in 2009**

Communication initiatives in 2009 have included:

- continued display of information on the City’s Internet/Intranet sites;
- continued display of a Fraud and Waste Hotline poster advertising the Hotline telephone number 416-397-STOP;
- presentations at a number of public sector and government related conferences;
- presentation of a Briefing Package to Divisional management specifically designed to provide management with tools, such as interview and investigation checklists, that may assist in the investigation of hotline complaints;
- article and information in the May 11, 2009 edition of the Monday Morning News, electronic Corporate newsletter:
- redesign of the Fraud and Waste Hotline Program identifier and poster, and the development of a new tagline: Committed to Integrity and Accountability.
SUMMARIZED DETAILS OF SUBSTANTIATED COMPLAINTS

Below are summarized details of various reviews and investigations conducted during 2009. These summaries are required as requested by Audit Committee.

1. Fraud

In September 2008, a homeowner contacted the City to report that an employee had attended the homeowner’s property for utility maintenance. The employee advised the homeowner that for a “fee” the homeowner could qualify for a utility service upgrade grant. Prior to this incident, the Division had received a similar complaint from another homeowner, in May 2008, which could not be substantiated.

The Division advised the Auditor General’s Office regarding these and other similar allegations. An investigation was conducted by the Division and the Auditor General’s Office. During the investigation, additional homeowners came forward with similar incidents. The Auditor General’s Office provided the necessary documentation to the Toronto Police Service and acted as the main contact. The investigation resulted in the arrest and conviction of the employee on three counts of Fraud.

The employee has been disciplined and is no longer with the City.

2. Misappropriation of Funds

In April 2009, Divisional management advised the Auditor General’s Office that an employee had admitted to the misappropriation of City funds.

The employee misappropriated petty cash and several money orders payable to the City of Toronto.

An investigation was conducted by the Division with the assistance of the Auditor General’s Office and in consultation with Labour Relations and City Legal Services.
The investigation revealed that the total funds misappropriated were in the range of $63,000. Immediately prior to the employee admitting the misappropriation, the Division advised that additional internal controls were being developed which would likely have detected the misappropriation.

The employee has been disciplined and is no longer with the City. The Toronto Police Service have been contacted and have been provided with appropriate documentation.

3. Misappropriation of City Assets

In April 2009, Divisional management reported a complaint to the Auditor General’s Office alleging a City employee had misappropriated City property and was using a City cell phone, digital camera and computer to conduct personal business.

The investigation, led by the Division, in consultation with the Auditor General’s Office, Labour Relations and City Legal Services confirmed that the employee did misappropriate City property and used City equipment to conduct personal business.

The employee has been disciplined and is no longer with the City. The Toronto Police Service have been contacted and have been provided with appropriate documentation.

4. Misappropriation of City Assets

Through a routine review of food budget expenditures, Divisional management identified certain over expenditures in 2008 and early 2009, totalling over $7,500. The matter was reported to the Auditor General in early 2009.

The Division’s review found that an employee ordered large quantities of food items, not normally ordered in high volumes. These items could not be located in the Division’s inventory.

The Division has since introduced controls to prevent similar occurrences and has developed a new Food Procurement and Inventory Control Policy.

The employee has been disciplined and is no longer with the City. The matter has also been reported to the Toronto Police Service.
5. **Fraudulent Benefit Claims**

In early 2009, the City’s benefits provider advised the City of alleged benefit claims fraud involving nine City employees.

The alleged fraud involved employees and their dependants submitting false invoices for services not received, totalling approximately $180,000. The benefit provider has a range of comprehensive controls in place in order to detect unauthorized claims. The controls in this case operated effectively as the benefit’s provider identified the irregular claims.

As a result of this matter, the City Manager formally requested an investigation be conducted by the Benefits provider into the audits, systems, processes and controls in place to monitor all City of Toronto benefit contracts. The Benefits provider subsequently met with various City staff including the City Manager’s Office, the Auditor General and City Legal Services, to address concerns regarding controls and processes in place to monitor and detect false benefit claims.

A complete report and background information has been filed by the Benefits provider with the Toronto Police Service. The matter is currently being investigated by the Toronto Police Service and continues to be outstanding.

The employees have been disciplined and are no longer with the City.

6. **Fraudulent Benefit Claims**

In December 2008, the City’s benefits provider advised the City of alleged benefit claims fraud totalling $47,000.

The alleged fraud involved two employees of a dental office, one of whom was the spouse of a City employee, submitting false claims for services not received. The City’s benefits provider confirmed there was no evidence to indicate the City employee was involved or had knowledge of the false claims.

A complete report and background information was filed by the benefits provider with the Toronto Police Service. The matter was investigated by the police and the investigation resulted in the arrest and conviction of the employees of the dental office.
7. Improper Employee Conduct and Misuse of City Resources

In December 2008, management advised the Auditor General’s Office of a matter involving the use of a City vehicle for personal use. The investigation revealed that an employee signed out the vehicle for a period of three days while not on duty and used the vehicle to travel to various locations.

The investigation further revealed that the employee had previously used City vehicles for personal use on other occasions and had used a City issued cell phone for personal local and long distance calls. The Division has advised they have enhanced a number of protocols and controls that govern the use of assets by staff.

The employee has been disciplined and is no longer with the City.

8. Improper Employee Conduct

Divisional management reported a matter to the Auditor General’s Office regarding duplicate timesheets submitted for an employee.

The Division’s review found that the employee reported, and was subsequently paid for, having worked at two work locations simultaneously. Further, the employee’s supervisor had made an informal arrangement with the employee to enable the employee to be paid while absent from work and make up the time at a later date.

In total, the employee was overpaid for eight days over a 10 month period, totalling $700. The employee has reimbursed the City in full.

Both the supervisor and the employee have been disciplined.

9. Improper Employee Conduct

A complaint was received through the Fraud and Waste Hotline regarding a City grant program. The Division led the review in consultation with the Auditor General’s Office.
The Division’s investigation included a comprehensive review of the grant program. The review found that records relating to four separate grant applications had been altered to qualify low income applicants for higher grants from the City. This resulted in grant overpayments of $14,000 to applicants that have not been recovered.

The Division’s review concluded that the grant program was significantly under-resourced and it could not be concluded who was responsible for altering the four separate grant applications that resulted in the overpayments.

Several recommendations were made and implemented in order to minimize risk, improve internal controls, apply consistency and improve service delivery. The staff resource issue has also been addressed.

10. Improper Purchasing Practices

As a result of various Hotline complaints related to purchasing activities, the Auditor General’s Office has proactively monitored minutes of meetings held by the City’s Purchasing Working Group.

During our review, we noted Divisional Purchase Orders (DPOs) were used to make similar repetitive purchases from a particular vendor. This raised concerns as to whether purchases were being split to keep them within the $50,000 DPO limit, a practice commonly referred to as DPO splitting.

The Auditor General’s Office conducted preliminary enquiries which raised additional concerns regarding other DPOs issued to the same vendor. As a result, a review led by the Auditor General’s Office was conducted.

The review found that three DPOs were issued for similar services at six different locations within a City Division. Each quotation was for two locations, which in our view suggested DPOs were being split to keep the total work within the $50,000 DPO limit.

As well, we found the Division did not provide sufficient justification as to why the use of DPOs was the most appropriate, cost effective and efficient method of procurement, as opposed to issuing a competitive request for proposal or quotation to bid.
Our review resulted in a recommendation that policy and procedures to control the $50,000 limit on DPOs be finalized and posted on the City’s Intranet. We have confirmed this has since been done and that the new PMMD policy sets out the process for repetitive purchases while prohibiting the use of DPOs to avoid obtaining competitive bids.

11. Improper Purchasing Practices

During our review of the above matter, the Auditor General’s staff found another instance of potential misuse of the DPO process.

A DPO was issued for $50,000 before tax for professional services. Divisional management explained that according to industry standards, these professional services are approximately 10 to 15 per cent of project costs. In this case the costs would have been estimated to be $100,000 to $150,000.

An Informal Quote was requested from various vendors using the DPO process. Vendors submitted quotations well above the $50,000 DPO limit.

A Divisional Manager evaluated the bids. Subsequently, in order to ensure that the total pricing did not exceed the maximum DPO limit of $50,000, the Manager made adjustments to bidders’ submitted quotations, reducing the original vendor bids.

Our review resulted in a recommendation that management ensure all City staff responsible for the acquisition of goods and/or services are aware that unilateral adjustments to a bidder’s quotation are not permitted, except in accordance with the terms and conditions of the bid document.

12. Misuse of City Resources

In January 2009, management became aware of telephone charges for numerous telephone calls made to an inappropriate phone line from several Divisional facilities. Telephone charges totalled over $950.
A review of the times, dates and locations of the inappropriate telephone calls revealed that only one employee was on duty on each occasion.

The employee has been disciplined and total restitution was made.

13. **Fraud**

In March 2009, the Toronto Police Service advised the Auditor General's Office of a potential fraud involving one of the City's Agencies, Boards and Commissions (ABCs).

Through a routine bank reconciliation process, management of the ABC noted two reversals of funds initially deposited by a third party service provider. The inappropriate reversals totalled approximately $273,000. In addition, approximately $47,000 belonging to the ABC was also being held by the third party.

The matter was investigated by the ABC and attempts to have the matter corrected and the funds returned have been unsuccessful. A report has been filed with the Toronto Police Service.

It is anticipated that a large portion of these funds will be recovered through the ABC's insurance provider.

This matter was reported at the Audit Committee meeting of October 20, 2009 in Ernst and Young's Report to the Board of Directors December 31, 2008.

14. **Improper Employee Conduct**

In April 2009, the Auditor General received a complaint through the Fraud and Waste Hotline alleging among other things, unauthorized renovations at a City facility. According to the complainant, the work, which was not tendered, was being completed by an outside contractor.

The matter was reviewed by the Division. The Division found the renovation work was completed at no cost to the City and funded through donations generated by a program partner.
It was determined that polices and procedures regarding donations were not followed. Further, construction protocols, in place to prevent the City’s exposure to potential health and safety liabilities, were not followed.

The Division has ordered the inspection of the renovated site and reiterated policies and protocols with facility staff and staff in similar facilities.

15. **Misappropriation of City Assets**

The Auditor General’s Office received a complaint through the Fraud and Waste Hotline regarding the misappropriation of City water. According to the complainant, a restaurant in downtown Toronto did not have a water meter and had been using City water without payment for at least eight years.

The matter was referred to Divisional management for review. Divisional staff confirmed water consumption at the location had not been billed or collected since 2004.

The Division ensured that a sealed, operational water meter was installed.

The Auditor General’s Office actively pursued the issue of recovery with City Divisions. As a result, we have been advised that uncollected water consumption at the location is estimated at approximately $10,000 and action has commenced to recover the full amount.

Although at present no formal controls exist to identify locations without water meters, City Divisions are developing strategies that will identify and minimize water theft.

16. **Improper Employee Conduct**

In June 2009, the Auditor General’s Office received a complaint through the Fraud and Waste Hotline that a City employee provided a false City address to obtain a parking permit, enabling them to park close to their job location.

The Auditor General’s Office conducted preliminary inquiries to determine whether there was merit to the allegations prior to referring it to the Division for further review.
The Division confirmed that the parking permit was issued based on false proof of residency.

The Division is expected to implement an updated computer system in 2010 to improve process controls. Also, we understand the Division has implemented a process designed to detect permits issued under improper circumstances.

The employee has been disciplined.

17. **Conflict of Interest**

In August 2009, the Auditor General's Office received a complaint through the Fraud and Waste Hotline alleging that two City employees ran a private business on corporate time, using City resources and employed other City staff. One of the employees who ran the personal business was a City Supervisor. It was alleged that certain City staff who had been hired in the personal business felt compelled to take the position, as they did not want to adversely impact their City work environment. The Auditor General had previously received similar allegations in 2008, but not enough information was provided to take action.

The Division, in consultation with the Auditor General's Office, led an investigation into the matter. It was determined that the two City employees ran a personal business offering courses to the public. The Division advised that the business was operated on personal time and did not use City resources. However, it was confirmed that City staff, who were directly supervised by one of the two employees in their City employment, were in fact hired in the personal business. This raises a potential conflict in contravention of the City's Conflict of Interest Policy, as there is a risk that the City working relationship may be adversely impacted by the personal business relationship. For example, if the City staff member's performance becomes an issue in the personal business, there is a risk the Supervisor's judgement may be affected when managing that City staff member at the City job.

The two employees who operated the business have been disciplined and have been required to take the necessary steps to ensure no conflict of interest activity continues.
18. **Conflict of Interest**

In 2009, the Auditor General’s Office received several complaints through the Fraud and Waste Hotline regarding allegations of a potential conflict of interest. It was alleged that a recently hired City employee had recommended a vendor be added to the City’s bidders list for a Request For Proposal (RFP). The employee had a previous business relationship with the vendor.

The Auditor General’s Office determined that the employee was also actively involved in the RFP process. For instance, the employee drafted the RFP specifications and was a member of the evaluation committee.

The employee’s involvement in the RFP process raised concerns of a potential and perceived conflict of interest in the award of the contract that should have been declared pursuant to the City’s Conflict of Interest Policy.

Our review found the employee, as a member of the RFP evaluation team, did sign Purchasing and Materials Management Division’s (PMM) Non-Disclosure and Conflict of Interest Declaration Form. However, the Form did not list former business associates as a circumstance to be declared, or make any reference to the City’s Conflict of Interest Policy.

The employee did not declare a conflict of interest, formally or otherwise and did not disclose the previous business association with the vendor to either PMMD or Divisional management.

The Auditor General’s Office referred the above matters to the employees’ Division and PMMD for further review.

No evidence of a conflict of interest in the eventual award of the RFP was found. However, the employee was advised that the potential or perceived conflict should have been formally declared to Divisional management.

Further, PMMD’s Non-Disclosure and Conflict of Interest Declaration Form has been revised to include former business associations, as a circumstance to be declared, and a new section has been added regarding the City’s Conflict of Interest Policy.
19. **Misappropriation of Funds**

Management became aware of three unauthorized purchases using a City issued fuel card in the amount of approximately $550.

The Division conducted an investigation and determined that two employees, on two separate occasions, failed to complete their required vehicle checklists - a standard procedure which would have alerted staff to a missing fuel card. The investigation however, did not find evidence to substantiate the inappropriate use of the fuel card by the employees.

Standard procedures with regard to vehicle checklists were reviewed with the two employees.

The two employees had reported the missing fuel card to their Supervisor. However, the Supervisor delayed in reporting the missing card to Fleet Services Division until several weeks following the unauthorized purchases.

The requirement to immediately cancel a City of Toronto fuel card, which has been reported as missing, was reinforced with supervisory staff.

The Divisional investigation was unable to identify who used the card to make the unauthorized purchases. The Toronto Police Service was advised of this issue by the Division.

20. **Misappropriation of Funds**

In September 2009, management at one of the City’s Agencies, Boards and Commissions advised the Auditor General’s Office of a matter involving the theft of admission fees.

The organization conducted a review and determined that a cashier, responsible for collection entry fees from patrons, did not register the sales. On a separate occasion, the same employee again collected entry fees from patrons but later voided the transactions.

The employee has been disciplined and is no longer with the organization.

The matter was reported to the Toronto Police Service and the employee was subsequently charged and convicted.