

**2010 ANNUAL REPORT
FRAUD AND WASTE HOTLINE**

January 18, 2011



Auditor General's Office

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EXECUTIVE SUMMARY

***10th annual report
on Hotline
activities***

This report represents the Auditor General's tenth annual report on the activities of the Fraud and Waste Hotline Program. The 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 an independent resource for employees or members of the public to report wrongdoing involving City resources, anonymously if preferred. 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.

***Benefits of the
City's Hotline
Program***

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

- the deterrence of fraud or wrongdoing;
- strengthened internal controls;
- improvements in policies, procedures; and
- increased operational efficiencies.

***Research indicates
that organizations
with hotlines
reduce losses***

Our research indicates that a hotline improves an organization's ability to detect fraud and limit fraud losses. The Association of Fraud Examiners (a global professional organization) has reported in its 2010 Annual Report that organizations with a hotline reduce fraud losses by close to 60 per cent.

Canadian and U.S. municipalities have implemented anonymous hotlines

Since the Hotline's implementation in 2002, the Auditor General's Office has provided advice to a number of Canadian and U.S. municipalities who have introduced or are contemplating similar programs. The following Canadian Cities now operate a hotline program:

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

We also understand that Winnipeg is in the process of establishing a hotline.

Fear of retribution deters reporting

The fear of retribution can deter many people 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.

Risk of retribution is an area of concern

How the City manages the risk of retribution and protects Whistleblowers remains an area of concern for the Auditor General's Office.

Previous A-G recommendations to provide training

The Auditor General has previously reported on the importance of Whistleblower Protection in the 2006 and 2009 annual Fraud and Waste Hotline reports.

Management responsibility to protect against reprisals

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 previously recommended by the Auditor General.

The Auditor General has recently issued a report entitled "Protecting Whistleblowers from Retribution" in relation to one particular case pertaining to Whistleblower retribution. The contents of this report is particularly disconcerting as the conclusions contained in this report indicate that without the intervention of the Auditor General's Office a Whistleblower would have been terminated.

Operation of the hotline is complex

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

Investigations concluded or coordinated with management

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

The majority of investigations are coordinated with divisional management. In these circumstances, divisional management takes the lead role in the investigation. The Auditor General's Office provides advice, guidance and may participate in 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.

Discipline is a management responsibility

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

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.

Meeting held with Toronto Police Services Fraud Squad

Where there is sufficient evidence that a criminal act may have been committed, the Toronto Police Service is contacted. The Auditor General and senior staff from the Auditor General's Office meet with the Toronto Police Services Fraud Squad on a quarterly basis, in order to address mutual issues of concern.

Recommendation follow-up process

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

In 2010, a similar process was implemented for recommendations made as a result of investigative work conducted, special reviews, or as part of the annual report on Fraud and Waste Hotline activity.

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 2010, 573 complaints were received representing a fifteen per cent decrease in the number of hotline complaints received in 2009. However, over 56 per cent of complaints received in 2010 included at least two or more allegations. This represents approximately 900 allegations received.

The dispositions of complaints received is as follows:

Referrals to Divisions	164
Investigations	31
Referrals to 311	20
Referrals to ABCs	20
Referrals to Outside Agencies	15
Referrals to Integrity Commissioner	1
No Action	228
No Action (based on Preliminary Inquiries)	94
Total Complaints	<u>573</u>

Substantiated complaints

Twenty-six per cent (50 complaints) of all complaints investigated or referred to divisions or that were subject to an investigation in 2010 have been substantiated in whole or in part. This number is expected to increase as outstanding 2010 complaints continue to be concluded in 2011.

Discipline

In regard to the 50 complaints that were substantiated, divisional management reported that discipline was imposed in 21 of the incidents. In the other 29 instances, divisional management took other appropriate action including reinforcing workplace expectations through training.

Impact of fraud exceeds dollar value

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

Losses and recoveries

For complaints received in 2010, quantifiable actual losses to the City were \$85,790. Total recovery of losses for 2010 complaints was \$2,267. These amounts are expected to increase as outstanding complaints are concluded in 2011.

For purposes of this report, we have not quantified the value of recurring losses, the amount of the actual loss that would have resulted if the wrongdoing had remained undetected.

Complaints received in previous years and subsequently concluded have resulted in additional losses to the City. Cumulative additional losses recorded for 2008 and 2009 complaints total \$13,018. Additional cumulative recoveries total \$233,059.

Potential losses or at risk dollars

Also, in 2010, \$21,228 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.

Complaints received in previous years and subsequently concluded have resulted in the identification of additional "at risk" dollars. Cumulative additional "at risk" dollars for 2009 complaints total \$119,000.

Investigation summaries

Summarized details of certain substantiated complaints in 2010 are included as Exhibit 2. These summaries are provided as requested by Audit Committee.

1.0 ANNUAL REPORTING

10th annual report on Hotline activities

This report represents the Auditor General's tenth annual report on the activities of the Fraud and Waste Hotline Program. 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 2010.

2.0 WHISTLEBLOWER RETRIBUTION

Fear of retribution deters reporting

The fear of retribution can deter many people 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.

Risk of retribution is an area of concern

How the City manages the risk of retribution and protects Whistleblowers remains an area of concern for the Auditor General's Office.

Complaint of retribution

In one particular matter, the complainant, who had been terminated without cause, alleged that the termination was related to a complaint to the Auditor General's Office. The complaint of retribution was substantiated and the employee's termination was rescinded.

See Exhibit 2 for a brief summary of this complaint. The Auditor General has issued a separate report to Audit Committee on this matter and has made recommendations with a view to addressing and reducing the risk of Whistleblower retribution.

Previous A-G recommendations to provide training on Whistleblower Protection

The Auditor General has previously reported on the importance of Whistleblower Protection in the 2006 and 2009 annual Fraud and Waste Hotline reports. The 2006 report included a recommendation to provide guidance and training related to Whistleblower Protection. The City Manager has implemented training entitled "Mission, Values and Ethics of the Toronto Public Service"; however, it does not provide specific guidance on Whistleblower Protection or retribution.

Management responsibility to ensure complainants do not experience reprisals

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 previously recommended by the Auditor General.

Recommendation:

- 1. The City Manager ensure ethics training, as recommended by the Auditor General in the 2006 and 2009 Annual Fraud and Waste Hotline reports, include guidance to all staff on what constitutes retribution and the importance of protecting employees who report allegations of wrongdoing.**

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 an independent resource for employees or members of the public to report wrongdoing involving City resources, anonymously if preferred.

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.

3.1 Benefits of the Hotline Program

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

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

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

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

3.2 Hotline Effectiveness

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

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

3.3 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.

Research indicates that organizations with hotlines reduce losses

The Association of Certified Fraud Examiners (ACFE), a global professional organization, in its comprehensive study entitled the “2010 Report to the Nations on Occupational Fraud and Abuse”, found that hotlines remain an effective fraud detection tool and can encourage tips from employees who might otherwise not report misconduct.

There is evidence that the presence of a hotline improves an organizations ability to detect fraud and limit fraud losses. According to the ACFE, organizations with a hotline reduce fraud losses by close to 60 per cent.

Canadian and U.S. municipalities have implemented anonymous hotlines

Approximately 50 per cent of corporations 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. Calgary, Edmonton, Montreal, Ottawa and Windsor and Halifax operate a hotline program as do many U.S. cities.

We understand that Winnipeg is in the process of establishing a hotline.

3.4 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 and disposition of complaints received, which includes conducting and coordinating investigations and reviews with various City divisions.

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.

Details of communication initiatives coordinated by the Auditor General's Office in 2010 are provided in Exhibit 1.

3.6 Investigations

Since the Auditor General's last annual report on the Fraud and Waste Hotline, dated January 7, 2010, 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.

Investigations conducted and coordinated with divisional management

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

The majority of investigations are coordinated with divisional management. In these circumstances, divisional management takes the lead role in the investigation. The Auditor General's Office provides advice and guidance and may participate in 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 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.

The Auditor General and senior staff meet with the Toronto Police Services Fraud Squad on a quarterly basis, in order to address mutual issues of concern.

3.8 Recommendation Follow-up Process

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

In 2010, a similar process was implemented for recommendations made as a result of investigative work conducted, special reviews, or as part of the annual report on Fraud and Waste Hotline activity.

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

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.

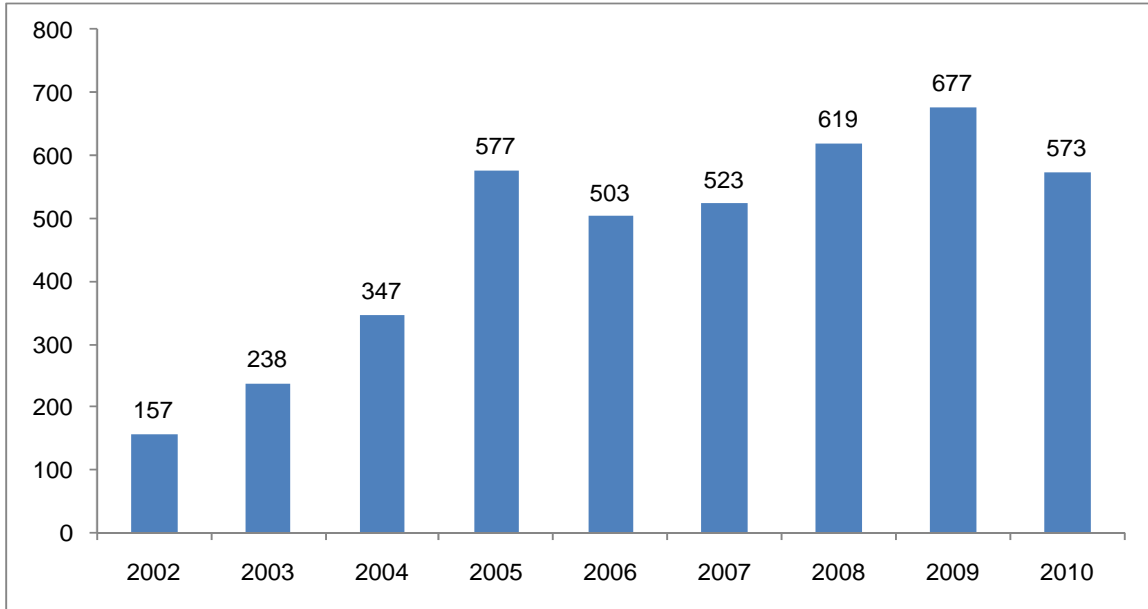
***Over 4,200
complaints
handled since
2002***

Since the Fraud and Waste Hotline Program was initiated in 2002, the Auditor General's Office has handled over 4,200 complaints. Each complaint may in turn contain multiple allegations.

We do not track precisely the individual number of allegations received per complaint. In 2010, the Auditor General's Office received 573 complaints. Over 56 per cent included at least two or more allegations. This represents approximately 900 allegations received.

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

Chart 1 – Complaints Reported 2002 to 2010



In 2010, the 573 complaints received represent a fifteen per cent decrease in the number of hotline complaints received in 2009.

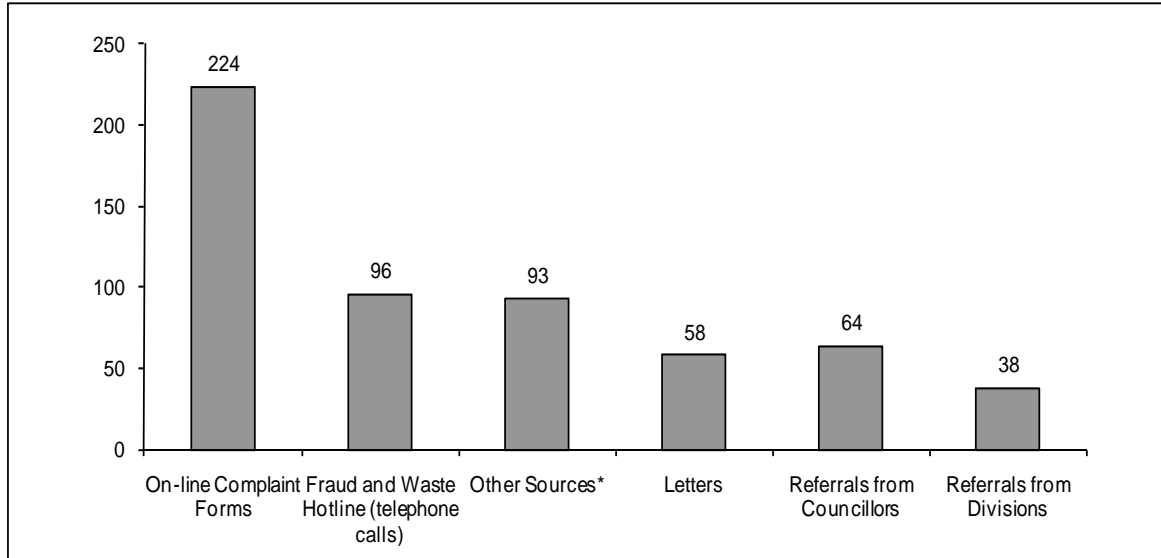
It is difficult to determine the reasons behind the decrease in the number of Hotline complaints. Our research indicates that because of the dynamic nature of a hotline program, complaint activity may increase or decrease as a result of various factors. For example, activity may peak following the coverage of the annual hotline report in the media or in response to enhanced marketing of the hotline within the corporation.

However, despite the decrease in the number of complaints in 2010, total staff hours required to operate the Hotline Program and manage complaint activity has continued to increase, generally because of the nature of the complaints, as well as the significant time required to conduct investigative work. In 2010, over 7,400 hours was required for operation of the Hotline and all Hotline related activities.

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



Total complaints: 573

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

Over 55 per cent of all complaints were received via the Auditor General's on-line complaint form and direct telephone calls to the Hotline.

Almost 11 per cent of all complaints were referred to the Auditor General's Office by Councillors. A further seven 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 judgment used to determine the disposition of a complaint

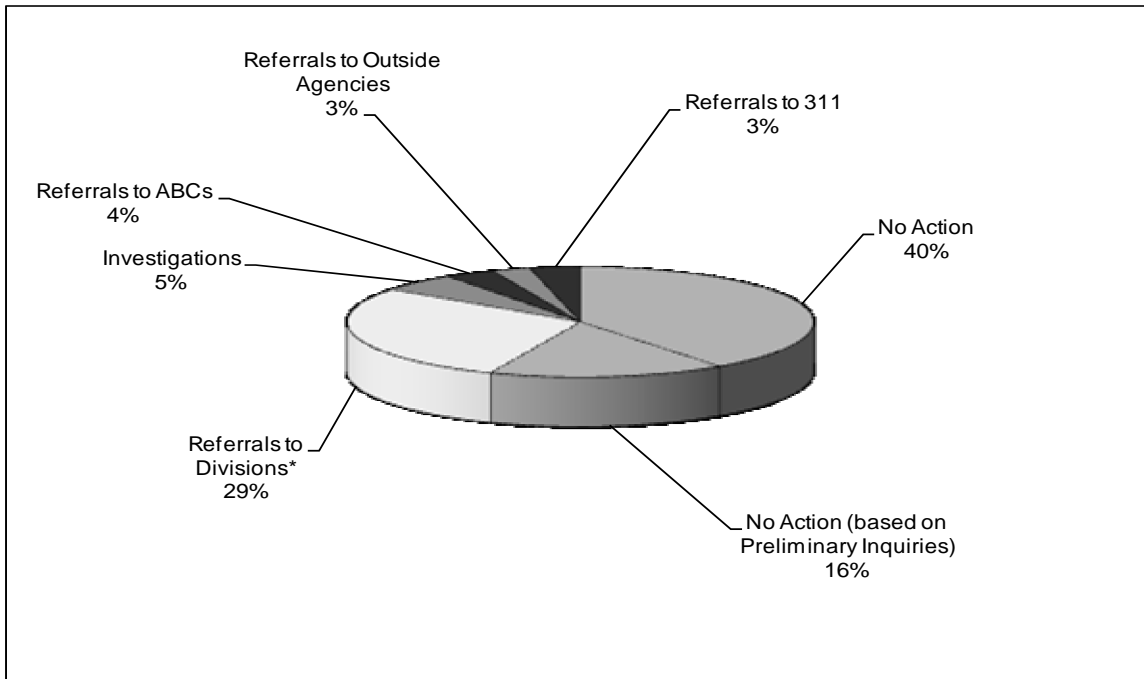
The unique circumstances of each complaint require the application of professional judgment to determine the appropriate disposition in each particular case.

The disposition of all complaints is reviewed and approved by a Director 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 2010.

Chart 3 – Disposition of Complaints



* Includes 20 complaints referred to Social Assistance Hotline and 21 complaints referred to Divisions for information only.

As noted in Chart 3, five per cent of all complaints received (31 complaints) resulted in an investigation conducted by the Auditor General’s Office or divisional management.

The disposition of 29 per cent of all complaints (164 complaints) was “Referrals to Divisions” for review and appropriate action or for information only.

In 56 per cent of complaints (322 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.

Preliminary inquiries are conducted to determine if there is merit to a complaint. In 2010, the Auditor General’s Office conducted preliminary inquiries in 418 complaints (73 per cent of all complaints received.)

4.4 Complaint Conclusions

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

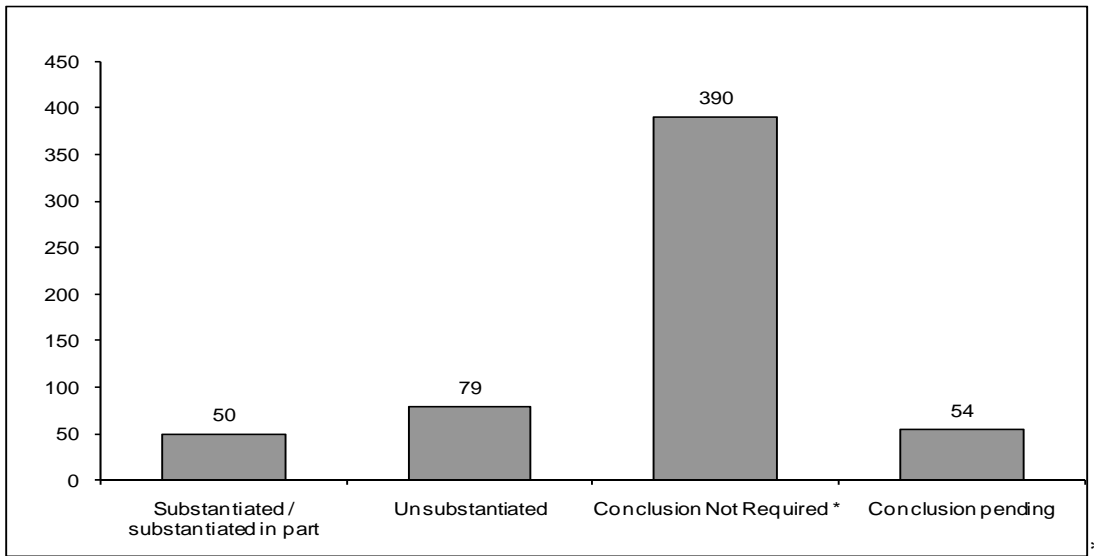
All complaints are managed until they are resolved or concluded

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 2010 Complaints



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

26 per cent of complaints (investigated or referred) substantiated

Twenty-six per cent (50 complaints) of all complaints investigated or referred to divisions in 2010, were substantiated in whole or in part. This number is expected to increase as outstanding 2010 complaints continue to be concluded in 2011.

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.

54 complaints remain outstanding

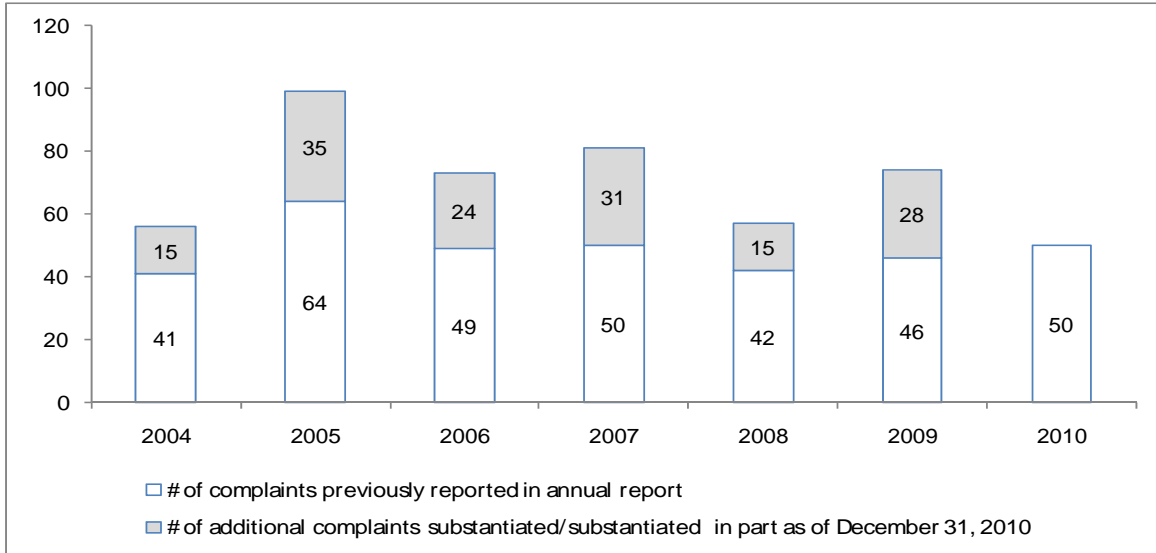
As indicated in Chart 4, a total of 54 complaints in 2010 have a conclusion pending, as the review of the matter is ongoing. The final resolution of these pending items will be reported in the Auditor General’s 2011 Annual Report.

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, 2010.

Chart 5 – Complaint Conclusions for Previous Years' Complaints



4.5 Disciplinary Action in Substantiated Complaints

In 2010, divisional management reported that discipline was imposed in 21 of the incidents reported to the Fraud and Waste Hotline Program.

In an additional 29 instances, divisional management took other appropriate action including reinforcing workplace expectations through training.

Discipline is a Management responsibility

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.

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.

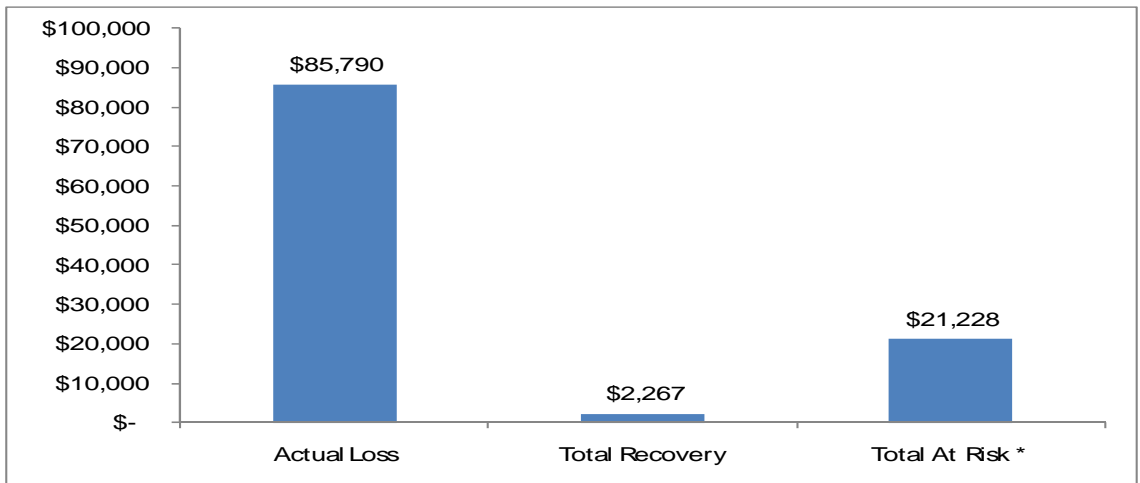
Impact of fraud can exceed the dollar value

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 2010.

For purposes of this report, we have not quantified the value of recurring losses, the amount of the actual loss that would have resulted if the wrongdoing had remained undetected.

Chart 6 – Loss and Recovery in 2010



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 2010, quantifiable actual losses to the City were \$85,790. This amount may increase as outstanding 2010 complaints are concluded in 2011.

Potential losses or at risk dollars

Also, in 2010, \$21,228 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 2010 complaints was \$2,267. Again, this amount is expected to increase as outstanding complaints are concluded in 2011.

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.

Certain complaints received in previous years and subsequently concluded have resulted in additional losses to the City.

For 2008 and 2009 complaints, cumulative additional losses recorded total \$13,018, as presented in Chart 7(a).

Chart 7 (a) – Loss in Previous Years’ Complaints

	2009	2008	Total
Loss previously reported	\$ 590,067	\$260,538	\$ 850,605
Additional losses	\$ 10,136	\$ 2,882	\$ 13,018
Loss as at December 31, 2010	\$ 601,103	\$263,420	\$ 864,523

In addition, certain complaints received in previous years and subsequently concluded have resulted in the identification of additional "at risk" dollars. Cumulative additional "at risk" dollars for 2009 complaints total \$119,000, as presented in Chart 7(b).

Chart 7 (b) – "At Risk" Loss in Previous Years’ Complaints

	2009
"At Risk" Loss previously reported	\$155,949
Additional "At Risk" losses	\$ 119,000
Total "At Risk" at December 31, 2010	\$275,641

For 2008 and 2009 complaints, cumulative additional recoveries total \$233,059, as presented in Chart 8.

Chart 8 – Recovery in Previous Years’ Complaints

	2009	2008	Total
Recovery previously reported	\$ 2,329	\$ 15,903	\$ 18,232
Additional recoveries	\$ 180,566	\$ 52,493	\$ 233,059
Recovery as at December 31, 2010	\$ 182,895	\$ 68,396	\$ 251,291

4.8 Divisions or Agencies, Boards and Commissions with Substantiated Complaints

As noted in Chart 9, complaints substantiated in 2010 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.

Division/ABC	
Building	Pension, Payroll and Employee Benefits
Children’s Services	Public Health
Councillor’s Office	Purchasing and Materials Management
Economic Development, Culture and Tourism	Revenue Services
Employment and Social Services	Shelter, Support & Housing Administration
Facilities Management	Solid Waste Management Services
Fleet Services	Technical Services
Long-Term Care Homes and Services	Toronto Community Housing Corporation
Information and Technology	Toronto Public Library
Municipal Licensing and Standards	Toronto Water
Parks, Forestry and Recreation	Transportation Services

4.9 Type of Substantiated Complaints

As shown in Chart 10, the type of complaints substantiated in 2010 included the following:

Chart 10 – Type of Substantiated Complaints

Nature of Substantiated Complaints	Description
Conflict of Interest	<ul style="list-style-type: none">▪ Conducting private business transactions during City time▪ Refer residents to private businesses▪ Staff supervising family members
Fraud	<ul style="list-style-type: none">▪ Submitted altered and falsified medical notes▪ Theft of City resources▪ Misappropriation of City property▪ Misappropriation of City water▪ Falsified daily work logs▪ Falsified kilometrage claims
Improper Employee Conduct	<ul style="list-style-type: none">▪ Irregular employee work hours▪ Inappropriate cash handling▪ Use of social media to post inappropriate messages
Irregular Benefit Claims	<ul style="list-style-type: none">▪ Claimed unwarranted sick time▪ False disability claims▪ Excessive overtime
Misuse of City funds and resources	<ul style="list-style-type: none">▪ Use of City vehicles for personal use▪ Use of City computers for personal use

5.0 SUMMARIZED DETAILS OF SUBSTANTIATED COMPLAINTS

Attached as Exhibit 2 are summarized details of certain complaints investigated and concluded in 2010. These summaries are provided as requested by Audit Committee.

6.0 CONCLUSION

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

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 2010, 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 2010

Communication initiatives in 2010 have included:

- information related to the Fraud and Waste Hotline included in the City's employee orientation guide *Welcome Aboard the Toronto Public Service*;
- continued display of information on the City's Internet/Intranet sites;
- email communication regarding the importance of the Fraud and Waste Hotline poster;
- distribution and display of new Fraud and Waste Hotline poster advertising Hotline number 416-397-STOP and new tag line "Committed to Integrity and Accountability"
- presentations at a number of public sector and government related conferences.

SUMMARIZED DETAILS OF SUBSTANTIATED COMPLAINTS

Below are summarized details of various reviews and investigations concluded in 2010. These summaries are required as requested by Audit Committee.

1. Fraud

In November 2008, Divisional management advised the Auditor General's Office of a complaint received alleging that a City employee had requested a payment from a member of the public (the complainant) to ensure a subsidy application was approved. Eligibility and fee subsidy amounts are determined based on the applicant's family net income. The matter was unsubstantiated due to insufficient evidence.

In November 2009, Divisional management subsequently advised the Auditor General's Office that during routine file reviews, discrepancies were discovered in various files handled by the same City employee who was the subject of the 2008 complaint.

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

The investigation confirmed that the employee knowingly altered documents to provide over \$49,000 in subsidies to clients who did not qualify. The City's portion of the overpaid subsidies is approximately \$10,000 (as costs to subsidize fees are shared with the Province). The Division has taken action to recover this amount.

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

The Toronto Police Service have been contacted in this matter.

A significant portion of the \$49,000 was attributed to one particular client that falsified information and was married to a second City employee that was complicit in the false information being provided to the City.

This second City employee has also been disciplined.

2. Retribution for a Complaint to Fraud & Waste Hotline

In November 2009, the Auditor General's Office received a complaint involving allegations of retribution in contravention of the City's Fraud Prevention Policy.

The complainant, who had been terminated without cause, alleged that the termination was related to a previous complaint they made to the Auditor General's Office.

Given the nature and sensitivity of the retribution complaint, the Auditor General escalated the matter directly to the City Manager for attention. Our Office coordinated with the Executive Director of Human Resources to investigate and resolve the complaint, in consultation with City Legal Services.

The complaint of retribution has been substantiated and the employee's termination has been rescinded.

Rescinding the employee's termination mitigated the City's costs associated with the termination. At risk dollars associated with this complaint are estimated to be approximately \$119,000.

The Auditor General has issued a separate report to Audit Committee on this matter with recommendations.

3. Fraud

In November 2009, Divisional management advised the Auditor General's Office of allegations involving an employee who had inappropriately solicited donations from community businesses for a fictitious Christmas event. The employee issued a letter for the purpose of solicitation of donations for the event. The letter was issued on City of Toronto letterhead.

An investigation led by the Division, in consultation with the Auditor General's Office, Human Resources and City Legal Services, confirmed the allegations.

The employee admitted to and accepted responsibility for the misconduct. Any donations received have been returned to donors.

The employee has attended rehabilitation for substance abuse and management's monitoring of this employee has been enhanced.

4. Improper Employee Conduct

In August 2010, Divisional management advised the Auditor General's Office of allegations that employees had posted inappropriate videos on a social networking site.

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

The investigation confirmed that employees created, participated and posted on social media sites inappropriate videos using City equipment on corporate time. As well, the employees used social media on personal time to post inappropriate videos about co-workers in contravention of various City policies.

The videos have been removed from the social networking site.

The employees have been disciplined.

The City has since issued and posted *The Application of City Policies to Social Media Use* providing guidance to employees on what City policies and legislation apply when using social media for business purposes, or for personal use when off duty.

5. Fraud

In December 2009, Divisional management advised the Auditor General's Office of allegations that a City employee removed City property without authorization.

The investigation, led by the Division in consultation with the Auditor General's Office and City Labour Relations, confirmed the employee did remove City property without authorization for personal gain. We were advised the property was valued at approximately \$100.

The employee has been disciplined. The Toronto Police Service were not contacted in this matter.

6. Conflict of Interest

In late 2009, the City Manager's Office advised the Auditor General's Office of circumstances which presented potential conflicts of interest. The matter involved two City staff whose family members were employed by a City contractor that conducted a significant amount of business with the City. The potential for conflict existed as the City employees' duties involved drafting bids for City work and overseeing the work once awarded to these contractors.

The Auditor General's Office assisted the Division in the review of this matter and it was confirmed that the employees did have relatives who worked for a City contractor.

We were advised that the employees had verbally informed a former manager about their family members' employment. However, neither employee had formally declared the potential conflict in writing to senior management, as required by the Conflict of Interest Policy.

Both employees have since formally declared the conflict. As well, Divisional management undertook to enhance supervision of projects worked on by these employees and manage any future potential conflicts on a case by case basis.

7. Questionable Purchasing Practices

In January 2009, a complaint was received through the Fraud and Waste Hotline involving the bid evaluation process for a Request for Quotation (RFQ).

The complainant had submitted a bid to the City in response to the RFQ and alleged that after a five month period and despite being the lowest bid, City staff relied on a twenty day delivery requirement within the RFQ in order to disqualify a particular firm.

The Auditor General's Office conducted investigative work to determine whether or not there was merit to the allegations, prior to referring the matter to the Division for further review.

The Division's review, conducted in consultation with the Auditor General's Office, determined there were delays by City staff in completing the bid evaluation process and less than adequate progress monitoring to identify and resolve issues during the bid evaluation process.

As well, due to a staff error, the vendor's bid was considered and evaluated as the low bid, when in fact the vendor's bid failed to meet the delivery requirement. After disqualification, the contract was awarded to the second lowest bidder who met the delivery requirements.

The Division has since revised procedures to improve the monitoring of bids and to address problems which arise during the bid evaluation and contract award process.

8. Fraud

In June 2010, Divisional management advised the Auditor General's Office of a matter involving a City employee who had allegedly altered several medical notes. The notes were requested by management following the employee's absence from the workplace due to illness.

In the course of investigating the matter, the Division confirmed that several of the notes, although written by the physician, appeared to have been altered.

Unwarranted sick time including benefits is estimated at over \$13,000. Recovery of the funds related to the employee's false claim is pending.

The employee was disciplined and is no longer employed with the City.

9. Fraud

In June 2010, Divisional management advised the Auditor General's Office of allegations involving an employee who had been accommodated in the workplace due to a medical condition causing physical restrictions.

The employee, who was on sick leave due to an aggravation of the condition at the time, was seen engaging in construction related activities.

The Division conducted an investigation of the matter in consultation with Human Resources and City Legal Services. The investigation confirmed the allegations and that the employee's claim of disability was false. The employee's claim is estimated at \$59,000. Recovery of the funds related to the false claim is pending.

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

10. Fraud

Divisional management advised the Auditor General's Office in June 2010 of an investigation which involved inaccuracies in an employee's daily work logs and supporting documentation.

According to Divisional management, the employee had for some time, and in contravention of Divisional guidelines, maintained personal notes regarding daily activity. This was in addition to keeping official notes, which are used for disclosure and evidence in court.

The investigation confirmed the employee deliberately altered business records in an effort to conceal his whereabouts.

The employee was disciplined and is no longer employed with the City of Toronto.

The Division is currently reviewing and revising guidelines and training programs to ensure all staff are aware of acceptable conduct.

11. Fraud

The Auditor General's Office was advised by Divisional management in July 2010 of allegations that a City employee conducted work on a private residential property during work hours.

During the course of the investigation, the employee admitted performing work on private property using City equipment and during work hours.

The employee has been disciplined.

The investigation also determined that the employee's supervisor had been previously apprised of this matter, but did not take any corrective action. As a result, the supervisor has also been disciplined.

12. Fraud and Conflict of Interest

In September 2010, a complaint was received through the Fraud and Waste Hotline alleging that two City employees were conducting personal businesses on City time, submitting false reports and false mileage claims in support of work responsibilities not completed.

The Auditor General's Office conducted preliminary inquiries to determine whether there was merit to the complaint. The matter was referred to the Division for further review.

The Division's investigation determined that one employee had engaged in activity outside his assigned City area, during work hours. As well, the investigation disclosed excessive personal use by this employee of a City cell phone in the amount of \$1,200, over a six month period.

Questionable mileage claims totaling \$2,100 were not paid out to the employee, as a result of the investigation.

The employee is no longer employed by the City.

The Division has implemented changes to enhance the review and supervision of staff and is continuing the investigation into the conduct of the second employee.

13. Fraud

In March 2010, a complaint was received through the Fraud and Waste Hotline alleging that a resident in a social housing unit misrepresented income sources and other criteria to the City's third party housing provider, resulting in the resident qualifying for a greater rent subsidy than they would otherwise have been entitled to.

The housing provider receives its funding from the City. A review conducted confirmed that the resident had been over-subsidized in excess of \$8,000.

The housing provider has entered into an agreement with the resident to recover this overpayment over a two year period.

14. Conflict of Interest

In May 2010, a complaint was received through the Fraud and Waste Hotline alleging that a City employee, in the course of job related duties, referred City residents to a private business, contrary to Divisional guidelines and the City's Conflict of Interest Policy.

The matter was referred to Divisional management for review and the allegations were confirmed.

The employee has been disciplined.

15. Irregular Employee Work Hours

In February 2010, a complaint was received through the Fraud and Waste Hotline alleging that a City employee maintained irregular work hours and used City equipment for personal use.

The matter was reviewed by Divisional management. In the course of the review, it was determined that the employee used City resources, including the photocopier and email, for personal use.

The employee was disciplined and is no longer employed with the City of Toronto.

16. Fraud

In November 2009, a complaint was received through the Fraud and Waste Hotline alleging that two City employees claimed unwarranted sick time to attend a second job with an outside employer.

The Auditor General's Office conducted preliminary inquiries to determine whether there was merit to the complaint. Subsequently, the matter was referred to the Division for further review.

The investigation determined that the first City employee had, on one occasion, claimed sick time at the City for an early shift but reported for a later shift at a second job outside the City.

Management staff has reviewed the City's workplace expectations with the employee.

The investigation also determined that over the last three years, on at least 22 occasions, the second City employee claimed sick time on the same day the employee worked a full shift for an outside employer. The cost associated with the unwarranted sick time is approximately \$3,500.

The employee was disciplined and is no longer employed with the City of Toronto.

The City has filed a management grievance to recover the cost of the unwarranted sick time.

17. Fraud

In November 2009, Divisional management advised the Auditor General's Office of irregularities related to program registration disclosed during an employee performance-related investigation.

The Auditor General's Office subsequently received an additional similar complaint through the Fraud and Waste Hotline program.

Staff at various locations, who resided outside of the City, registered themselves for City programs at a minimal cost, contrary to the Division's policies and practices.

Four employees were disciplined as a result of the investigation.

18. Fraud and Conflict of Interest

In May 2009, a complaint was received through the Fraud and Waste Hotline which raised numerous allegations including use of City resources for personal benefit and false overtime claims.

The Auditor General's Office conducted preliminary inquiries to determine whether there was merit to the allegations prior to referring the matter to the Division for further review.

The investigation, led by the Division in consultation with Human Resources and City Legal Services found that the employee:

- utilized a City-owned vehicle for personal use on a number of occasions;
- submitted and received payment for false and inaccurate claims of overtime
- entered false information into City systems
- misrepresented his whereabouts to management staff on various occasions; and
- failed to follow established Divisional protocols related to performance of duties.

The employee has been disciplined.

The Division has enhanced supervision of the employee who will be required to meet with management staff on a regular basis for the purpose of reviewing policies, practices, protocols, procedures and overall expectations of job performance.