



AUDITOR GENERAL'S REPORT ACTION REQUIRED

2011 Annual Report on Fraud Including the Operations of the Fraud and Waste Hotline

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| Date: | February 3, 2012 |
| To: | Audit Committee |
| From: | Jeff Griffiths, Auditor General |
| Wards: | All |
| Reference Number: | |

SUMMARY

In June 2000, Audit Committee requested that the Auditor General submit an annual report on the status of fraud and related matters. This report represents the Auditor General's twelfth annual report relating to fraud activities at the City.

The City 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 or disclose wrongdoing involving City resources, anonymously if preferred. Since that time the activities of the Fraud and Waste Hotline have been included in the annual report.

One of the benefits of the annual report is to demonstrate to employees and the public that action is taken when issues of fraud and waste are reported to the Auditor General's Office.

In 2011, 822 complaints were received representing a 44 per cent increase in the number of hotline complaints received in 2010. It should be noted however, that a majority of complaints received included at least two or more allegations. As such, we estimate the actual number of complaints is in the range of 1,700.

The City of Toronto's Fraud Prevention Policy formalized the duty of employees to report allegations of fraud and wrongdoing involving City resources and set out reporting protocols and procedures. The Policy also includes a provision on whistle blower protection.

A separate Whistle Blower Protection Policy has since been adopted by City Council and further enacted as a By-law in the City of Toronto Municipal Code, effective June 15, 2011.

As a result, the Auditor General's responsibility to investigate allegations of reprisal under the Whistle Blower Protection Policy, resulting from a complaint to the Fraud and Waste Hotline Program, is now legislated.

The City's Fraud Prevention Policy which was last revised in 2007 should be reviewed and updated to ensure it is consistent with the provisions of the 2011 Whistle Blower Protection Policy and By-law. As well, the current wording of the Fraud Prevention Policy does not communicate to employees that they have an option of reporting complaints directly to the Fraud and Waste Hotline Program, without having to first notify their immediate manager.

While the Auditor General's Office is responsible for the operation of the City's Hotline Program, management is responsible for ensuring corporate policies intended to provide guidance to employees on reporting wrongdoing are reviewed and updated on a regular basis.

RECOMMENDATION

The Auditor General recommends that:

1. The City Manager take appropriate action to review the Fraud Prevention Policy to ensure it is up to date, consistent with the 2011 Whistle Blower Protection By-law and clearly articulates that employees have the option to report complaints directly to the Auditor General's Office, without having to first notify their immediate manager.

Financial Impact

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

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

There are additional benefits of the Hotline Program that cannot be quantified, including the deterrence of fraud or wrongdoing, strengthened internal controls, improvements in policies and operational efficiencies. These benefits may in turn assist in the detection and prevention of future wrongdoing involving City resources.

DECISION HISTORY

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

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

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

COMMENTS

The Auditor General's report entitled "2011 Annual Report on Fraud Including the Operations of the Fraud and Waste Hotline" is attached as Appendix 1.

Summarized details of certain substantiated complaints in 2011 including disciplinary action taken, are included as Exhibit 2 to the report, as requested by Audit Committee. Any disciplinary action which may be required as a result of investigations is the responsibility of management and not the Auditor General's Office.

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SIGNATURE

Jeffrey Griffiths, Auditor General

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ATTACHMENTS

Appendix 1: 2011 Annual Report on Fraud Including the Operations of the Fraud and Waste Hotline

APPENDIX 1

**2011 ANNUAL REPORT ON FRAUD
INCLUDING THE OPERATIONS OF THE
FRAUD AND WASTE HOTLINE**

February 3, 2012



Auditor General's Office

Jeffrey Griffiths, C.A., C.F.E.
Auditor General
City of Toronto

TABLE OF CONTENTS

| | |
|--|----|
| EXECUTIVE SUMMARY | 1 |
| 1.0 ANNUAL REPORTING | 5 |
| 2.0 FRAUD PREVENTION POLICY | 5 |
| Recommendation..... | 7 |
| 3.0 THE FRAUD AND WASTE HOTLINE PROGRAM | 7 |
| 3.1 Operation of the Hotline Program..... | 7 |
| 3.2 Benefits of the Hotline Program | 8 |
| 3.3 Hotline Effectiveness | 8 |
| 3.4 Communication of the Hotline Program | 9 |
| 3.5 Investigations | 9 |
| 3.6 Recommendation Follow-up Process..... | 10 |
| 4.0 STATISTICAL SUMMARY | 10 |
| 4.1 Total Complaints..... | 10 |
| 4.2 Source of Complaints..... | 12 |
| 4.3 Disposition of Complaints..... | 12 |
| 4.4 Complaint Conclusion..... | 14 |
| 4.5 Disciplinary Action in Substantiated Complaints | 16 |
| 4.6 Loss and Recovery | 17 |
| 4.7 Divisions or ABCCs with Substantiated Complaints..... | 18 |
| 5.0 SUMMARIZED DETAILS OF SUBSTANIATED COMPLAINTS | 19 |
| 6.0 CONCLUSION | 19 |
| Exhibit 1: Communication of the Hotline Program | 20 |
| Exhibit 2: Substantiated Complaint Summaries | 21 |

EXECUTIVE SUMMARY

***12th annual
report on fraud
activities***

In June 2000, Audit Committee requested that the Auditor General submit an annual report on the status of fraud and related matters. This report represents the twelfth annual report relating to fraud activities at the City.

***Fraud and Waste
Hotline Program
set up in 2002***

The City 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 or disclose wrongdoing involving City resources, anonymously if preferred. Since that time the activities of the Fraud and Waste Hotline have been included in the annual report.

One of the benefits of the annual report is to demonstrate to employees and the public that action is taken when issues of fraud and waste are reported to the Auditor General's Office.

The City of Toronto is committed to enhancing public confidence in local government and its employees by providing for disclosure of wrongdoing involving City resources.

***Fraud
Prevention Policy***

The City's Fraud Prevention Policy formalized the duty of employees to report allegations of fraud and includes a provision regarding whistle blower protection.

***2011 Whistle
Blower Policy
and By-law***

In 2011, City Council reinforced its commitment to protect employees who disclose wrongdoing by adopting a separate Whistle Blower Protection Policy, further enacted as a By-law in the City of Toronto Municipal Code, effective June 15, 2011.

Recommendation

We have recommended in this report that the Fraud Prevention Policy, last revised in 2007, be reviewed to ensure it is up to date and consistent with the provisions of the new Whistle Blower Protection Policy and By-law.

***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;
- increased operational efficiencies; and
- the ability to use complaint data to identify trends and address risks.

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 Certified Fraud Examiners (a global professional organization) has reported in its *2010 Report to the Nations on Occupational Fraud and Abuse* that tips received through a hotline are the number one method of detecting fraud and 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 and assistance to a number of Canadian and U.S. municipalities who have introduced or are contemplating similar programs.

The following Canadian Cities have introduced a hotline program:

- Calgary
- Edmonton
- Montreal
- Ottawa
- Windsor

We understand that Halifax and Winnipeg are also in the process of implementing a Hotline Program.

Cities in the U.S. who have introduced a hotline program include:

- Atlanta
- Austin
- Dallas
- Kansas City
- Los Angeles
- Milwaukee
- Phoenix
- San Francisco
- Seattle

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 and Agencies, Boards, Commissions and Corporations.

Activity relating to the Fraud and Waste Hotline has increased significantly since its inception. The need to maintain an adequate level of staff resources to effectively manage the Hotline Program is dealt with in the Auditor General's 2012 Budget report.

Investigations conducted 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 parts of the investigative work, such as conducting interviews and preparing or reviewing investigation plans.

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.

Recommendation follow-up process

The Auditor General has implemented an annual follow-up process 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.

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.

Meetings 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 to address mutual issues of concern.

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:

Complaints increased 44%

In 2011, 822 complaints were received representing a 44 per cent increase in the number of hotline complaints received in 2010. However, a majority of complaints received included at least two or more allegations. As such, we estimate the actual number of complaints is in the range of 1,700.

The dispositions of complaints received is as follows:

| | |
|-------------------------------------|------------|
| Referrals to Divisions | 199 |
| Investigations | 46 |
| Referrals to 311 | 13 |
| Referrals to ABCCs | 45 |
| Referrals to Outside Agencies | 2 |
| Referrals to Integrity Commissioner | 3 |
| Investigative Inquiries – Closed | 133 |
| No Action | 289 |
| Refer for Future Audit | 88 |
| Not Yet Assigned | 4 |
| Total Complaints | <u>822</u> |

Of the 88 complaints referred for future audit, 70 were related to the Toronto Community Housing Corporation and were the subject of separate audits conducted by the Auditor General's Office.

Substantiated complaints

Twenty-two per cent (53 out of 245) of all complaints referred to divisions or investigated in 2011 have been substantiated in whole or in part. This number is expected to increase as outstanding 2011 complaints continue to be concluded in 2012.

Discipline

In regard to the 53 complaints that were substantiated in whole or in part, divisional management reported that discipline was imposed in 27 instances. In the other 26 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 required to investigate instances of fraud.

Losses or potential losses and recoveries

For complaints received in 2011, quantifiable actual losses to the City were approximately \$939,000.

Total recovery of losses for 2011 complaints was in the range of \$60,000.

These amounts are expected to increase as outstanding complaints are concluded in 2012.

Recurring losses not quantified

The value of recurring losses, the amount of the actual loss that would have resulted if the wrongdoing had remained undetected, have not been quantified for purposes of this report. If quantified, these amounts would be significant.

For example, in one complaint over \$80,000 in late payment charges were unnecessarily being paid to a vendor on an annual basis. The cumulative projected 5 year loss to the City would have been over \$400,000, had the activity not been stopped as a result of the investigation into this complaint.

Investigation summaries

Summarized details of certain substantiated complaints in 2011 are included as Exhibit 2. These summaries are provided as requested by Audit Committee.

ANNUAL REPORT

1.0 ANNUAL REPORTING

12th annual report

This report represents the Auditor General's twelfth annual report on the status of fraud activities. The requirement for annual reporting 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 2011.

2.0 FRAUD PREVENTION POLICY

Policies are key part of control framework

Management is responsible for establishing and maintaining a system of internal controls to detect and prevent fraud, waste and other wrongdoing. Policies and procedures are a key part of a management control framework.

Fraud Prevention Policy

The City of Toronto's Fraud Prevention Policy formalized the duty of employees to report allegations of fraud and wrongdoing involving City resources and set out reporting protocols and procedures. The Policy also includes a provision on whistle blower protection.

Whistle Blower Policy and By-law

A separate Whistle Blower Protection Policy has been adopted by City Council and further enacted as a By-law in the City of Toronto Municipal Code, effective June 15, 2011.

A-G responsible to investigate reprisals

As a result, the Auditor General's responsibility to investigate allegations of reprisal under the Whistle Blower Protection Policy, resulting from a complaint to the Fraud and Waste Hotline Program, is now legislated.

City Committed to protecting employees who report wrongdoing

The 2011 Whistle Blower Protection Policy reinforces the City's commitment to employees speaking out without fear of reprisal. The City's Fraud Prevention Policy provides guidance to employees on how to report complaints of suspected fraud or wrongdoing but also includes a provision on whistle blower protection. Both policies acknowledge that complaints may be reported through the City's Fraud and Waste Hotline Program.

Fraud Prevention Policy needs to be updated

The City's Fraud Prevention Policy which was last revised in 2007 should be reviewed and updated to ensure it is consistent with the provisions of the 2011 Whistle Blower Protection Policy and By-law. As well, the current wording of the Fraud Prevention Policy does not communicate to employees that they have an option of reporting complaints directly to the Fraud and Waste Hotline Program, without having to first notify their immediate manager. This is of particular concern given that the Hotline Program was established to provide a centralized mechanism for employees or members of the public to report complaints, anonymously if preferred.

Management Responsible for updating corporate policies

While the Auditor General's Office is responsible for the operation of the City's Hotline Program, management is responsible for ensuring corporate policies intended to provide guidance to employees on reporting wrongdoing are reviewed and updated on a regular basis.

Recommendation:

- 2. The City Manager take appropriate action to review the Fraud Prevention Policy to ensure it is up to date, consistent with the 2011 Whistle Blower Protection By-law and clearly articulates that employees have the option to report complaints directly to the Auditor General's Office, without having to first notify their immediate manager.**

3.0 THE FRAUD AND WASTE HOTLINE PROGRAM

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 fraud and wrongdoing involving corporate resources.

3.1 Operation of the Hotline Program

Forensic Unit operates Hotline

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 and the evaluation and disposition of complaints received which includes conducting or coordinating investigations and reviews with various City divisions.

Staff Resources used to operate Hotline

Activity relating to the Fraud and Waste Hotline has increased significantly since its inception.

The need to maintain an appropriate level of staff resources to effectively manage the Hotline Program is dealt with in the Auditor General's 2012 Budget report.

3.2 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 2011 annual report entitled "Demonstrating the Value of the Auditor General's Office".

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 if preferred. 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 detection.
- The Hotline Program promotes ethical conduct and in turn strengthens the corporate culture of integrity at the City.
- Complaint data is used to identify trends and address risks.

3.3 Hotline Effectiveness

Hotline data used to identify trends

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 and trends within the City, such as internal control weaknesses, conflict of interest, sick leave abuse and retribution.

Trends used to develop recommendations and A-G workplan

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. Trends identified are considered in the Auditor General's annual audit workplan planning process.

As a result of a number of complaints, the Auditor General's Office conducted audits of the Toronto Community Housing Corporation's (TCHC) procurement and employee expense practices which resulted in significant cost savings to the City. The Auditor General's Forensic Unit also provided advice to TCHC regarding the implementation of an ethics and compliance reporting hotline within TCHC.

2011 trends included abuse of sick leave

In 2011, a number of substantiated complaints involved employees' abuse of sick leave and employees on Long Term Disability who were required to return to work, as a result of investigations conducted.

Conflict of interest issues a continuing concern

As well, in 2011 complaints involving conflicts of interest continued as an area of concern. This trend was also identified in our 2009 Annual Hotline Report and as a result, a recommendation was made to ensure ethics training be made mandatory for all City staff. Management has taken action to develop this training and has advised it will be fully implemented in 2012.

3.4 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 Hotline 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 2011, communication initiatives included the redesign of the Auditor General's website which enhanced the content of the Fraud and Waste Hotline web pages to promote its use.

Details of all communication initiatives coordinated by the Auditor General's Office in 2011 are provided in Exhibit 1.

3.5 Investigations

Investigations conducted and coordinated with divisional management

Due to 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 parts of the investigative work, such as conducting interviews and preparing investigation plans.

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.

3.6 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.

A similar process exists 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 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.

Toronto's Hotline program receives a significantly greater volume of complaints than other Canadian municipalities. For example, in 2010 Montreal received 110 complaints, Calgary 100 and Edmonton 45.

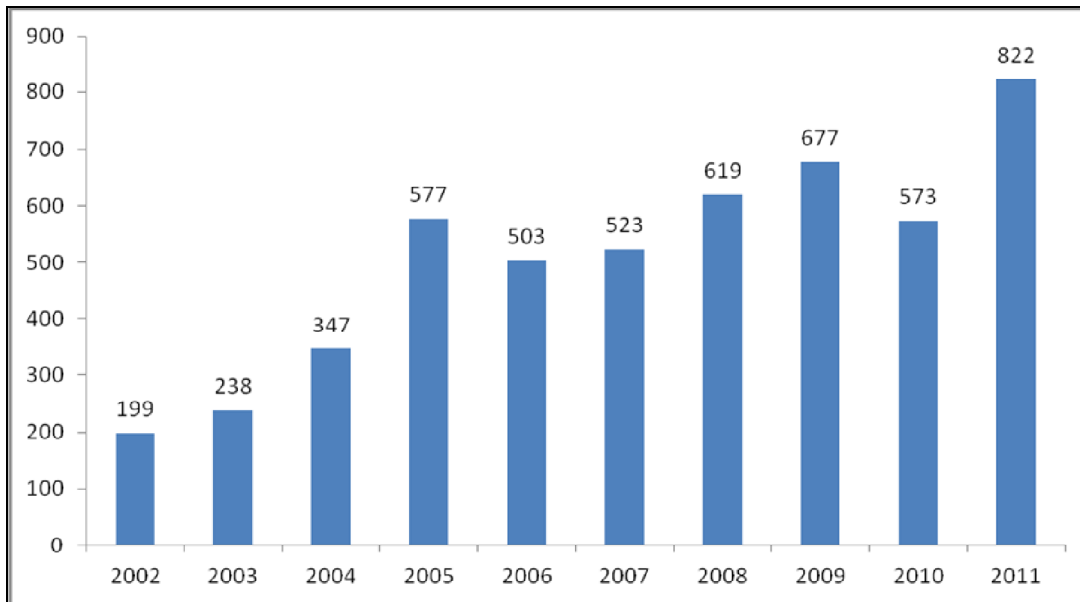
822 complaints received include multiple allegations

Since the Fraud and Waste Hotline Program was initiated in 2002, the Auditor General's Office has handled over 5000 complaints. Each complaint may in turn contain multiple allegations.

We do not track precisely the individual number of allegations received per complaint. In 2011, the Auditor General's Office received 822 complaints. Over 55 per cent included at least two or more allegations. This represents approximately 1700 allegations received.

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

Chart 1 – Complaints Reported 2002 to 2011



44 per cent increase in complaints

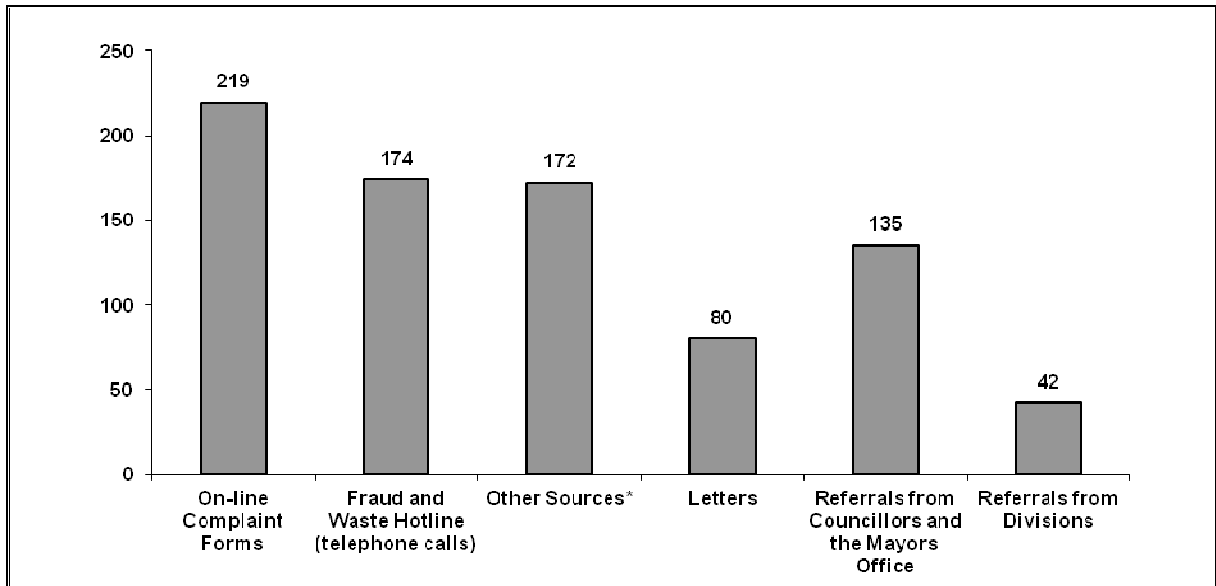
In 2011, the 822 complaints received represent a 44 per cent increase in the number of hotline complaints received in 2010.

It is difficult to determine the reasons behind the increase in the number of Hotline complaints. Due to 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 or of an audit report in the media. The Mayor's Office in 2011 has actively promoted the Hotline program and directly referred a number of complaints to the Auditor General's Office.

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: 822

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

Over 48 per cent of all complaints were received via the Auditor General's on-line complaint form and direct telephone calls to the Hotline.

4.3 Disposition of Complaints

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

Preliminary investigative inquiries

In many complaints, preliminary investigative inquiries are conducted by the Auditor General's Office to determine whether allegations may have merit or to obtain the information required 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.

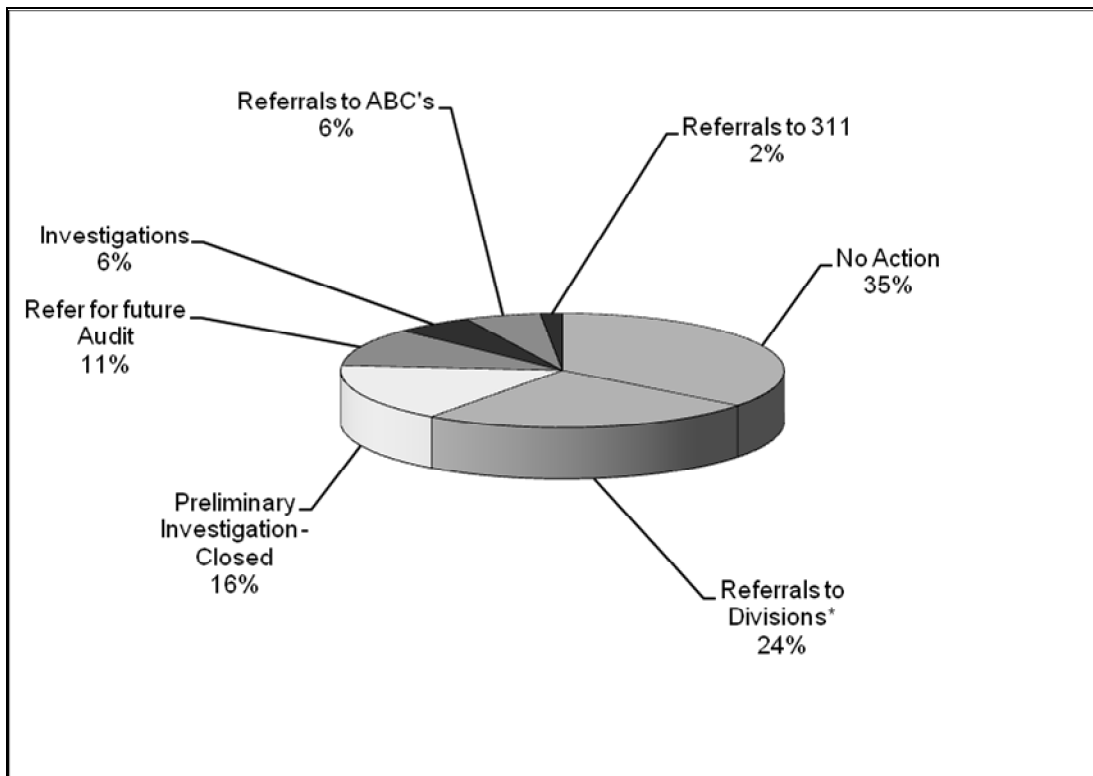
The disposition of all complaints is reviewed and approved by the Director of the Forensic Unit.

Complaints that are significant enough to require a response from divisional management are monitored until the necessary action is planned or taken. Allegations with limited detail or merit may be held until further details are reported. Complaints are analyzed to identify trends that should be considered in developing the Auditor General's workplan.

Based on the initial screening and the results of preliminary investigative 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 2011.

Chart 3 – Disposition of Complaints



* Includes 31 complaints referred to Social Assistance Hotline and 16 complaints referred to Divisions for information only.

Investigations

As noted in Chart 3, six per cent of all complaints received (46 complaints) resulted in an investigation conducted by the Auditor General's Office or divisional management.

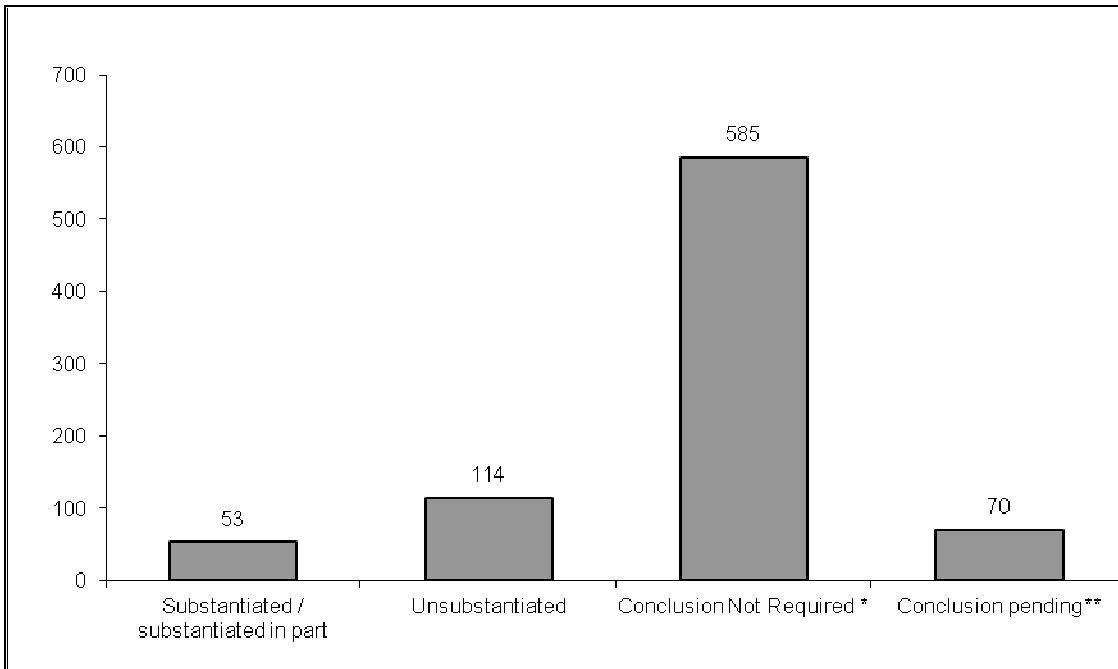
| | |
|---|---|
| <i>Referrals to Divisions</i> | Twenty-four per cent of all complaints (199 complaints) were referred to Divisions for review and appropriate action or for information only. |
| <i>Refer for Future Audit</i> | Eleven per cent of all complaints (88 complaints) were referred for future audit. Seventy of these complaints were related to the Toronto Community Housing Corporation and were the subject of separate audits conducted by the Auditor General's Office. |
| <i>No Action</i> | In 35 per cent of complaints (289 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. |
| <i>Preliminary investigation by Auditor General’s Office</i> | Preliminary investigative inquiries are conducted to determine if there is merit to a complaint. In 2011, the Auditor General’s Office conducted preliminary investigative inquiries in 133 complaints (16 per cent of all complaints received.) |

4.4 Complaint Conclusion

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

| | |
|--|---|
| <i>All complaints are managed until they are resolved or concluded</i> | Every complaint received by the Auditor General’s Office is dealt with pursuant to the Auditor General’s mandate and in accordance with the <i>City of Toronto’s Fraud Prevention Policy</i> . Each complaint is managed until it has been resolved or concluded. |
| <i>Issues of concern may be highlighted in unsubstantiated complaints</i> | 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 internal management control issues and risks that are of concern. |

Chart 4 – Complaint Conclusions for 2011 Complaints



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

****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 2012 Annual Report.**

22 per cent of complaints (investigated or referred) substantiated

Twenty-two per cent (53 complaints) of all complaints investigated or referred to divisions in 2011 have been substantiated in whole or in part. This number is expected to increase as outstanding 2011 complaints continue to be concluded in 2012.

Internal control weaknesses addressed

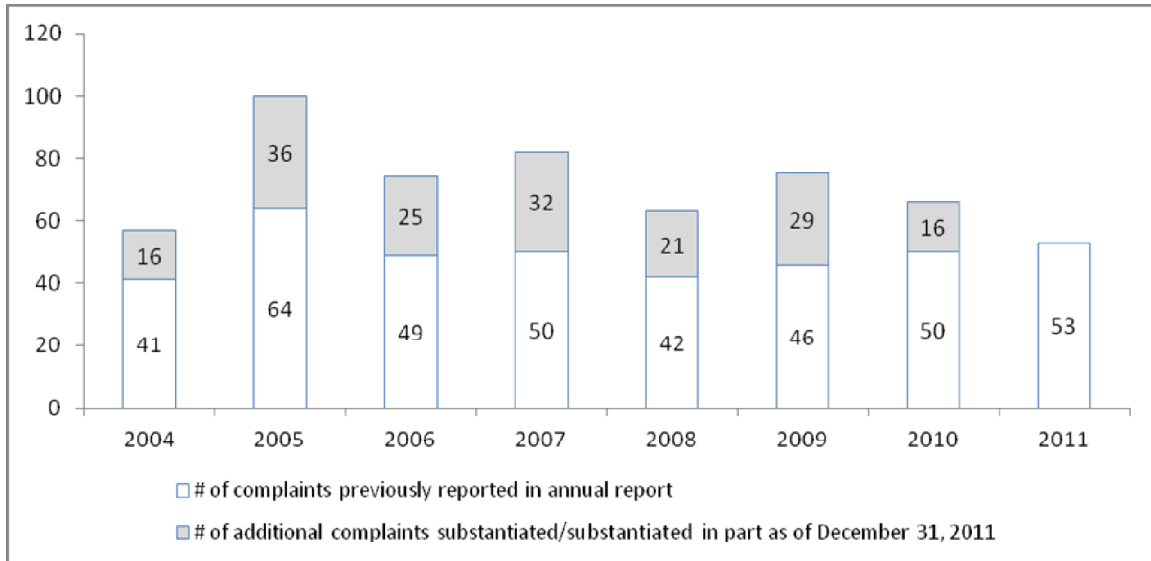
Where internal control weaknesses have contributed to or facilitated the wrongdoing in substantiated complaints, divisions have addressed the internal control weaknesses.

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 and whether there was a loss to the City.

Chart 5 highlights the increase in the number of previous years' complaints concluded and substantiated in 2011.

Chart 5 –Previous Years' Complaints Concluded and Substantiated in 2011



4.5 Disciplinary Action in Substantiated Complaints

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.

Discipline imposed in 27 complaints

In 2011, divisional management reported that discipline was imposed in 27 of the incidents reported to the Fraud and Waste Hotline Program.

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.

Other appropriate action was taken in 26 other complaints

In an additional 26 instances, divisional management took other appropriate action including reinforcing workplace expectations through training.

Police contacted if criminal activity

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

Auditor General's Office meets with Toronto Police

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

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

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.

Actual Losses \$960,000

For complaints received in 2011, quantifiable actual losses to the City were in the range of \$939,000. This amount may increase as outstanding 2011 complaints are concluded in 2012.

A significant portion of this amount is attributed to a fraud that occurred at one of the City's Agencies, Boards and Commissions and which was subsequently reported to the Auditor General.

Recurring losses not quantified

The value of recurring losses, the amount of the actual loss that would have resulted if the wrongdoing had remained undetected, have not been quantified for purposes of this report. If quantified, these amounts would be significant.

For example, in one complaint over \$80,000 in late payment charges were unnecessarily being paid to a vendor on an annual basis. The cumulative projected 5 year loss to the City would have been over \$400,000, had the activity not been stopped as a result of the investigation into this complaint.

Recovery of losses \$60,000 Total recovery of losses for 2011 complaints was approximately \$60,000. Again, this amount is expected to increase as outstanding complaints are concluded in 2012.

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

4.7 Divisions or Agencies, Boards, Commissions and Corporations with Substantiated Complaints

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

Chart 7 – Divisions and ABCCs with Substantiated Complaints

| Division/ABCC | |
|-----------------------------------|--|
| Building | Parks Forestry and Recreation |
| Children’s Services | Pension Payroll and Employee Benefits |
| City Clerk's Office | Revenue Services |
| City Council | Shelter Support and Housing Administration |
| Emergency Medical Services | Solid Waste Management Services |
| Employment and Social Services | Toronto Community Housing Corporation |
| Exhibition Place | Toronto Police Services |
| Facilities Management | Toronto Public Library |
| Fire Services | Toronto Transit Commission |
| Fleet Services | Toronto Water |
| Long Term Care Homes and Services | Toronto Zoo |
| Municipal Licensing and Standards | Transportation Services |
| Office of Emergency Management | |

5.0 SUMMARIZED DETAILS OF SUBSTANTIATED COMPLAINTS

Attached as Exhibit 2 are summarized details of certain complaints investigated and concluded in 2011. These summaries are provided as requested by Audit Committee.

6.0 CONCLUSION

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

EXHIBIT 1 – COMMUNICATION OF 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 2011, the Auditor General's Office has continued to develop communication strategies, in consultation with the City's Corporate Communications Division.

Communication initiatives have continued in 2011

Communication initiatives in 2011 have included:

- redesign of the Auditor General's website including the Fraud and Waste Hotline site to increase awareness of the Hotline Program;
- information related to the Fraud and Waste Hotline included in the City's employee orientation guide *Welcome Aboard the Toronto Public Service* and featured as a *Monday Morning News general item*;
- information related to the Fraud and Waste Hotline included in Employee Benefits News, in an article titled "*Your Responsibilities When Submitting a Health or Dental Claim*";
- article by Forensic Unit Director titled "*Whistle Blowers Hotlines – Questions & Answers*" included in the Association of Local Government Auditors' Winter Quarterly Newsletter;
- continued display of information on the City's Internet/Intranet sites;
- continued display of Fraud and Waste Hotline poster advertising Hotline number 416-397-STOP and tag line "Committed to Integrity and Accountability"
- presentations at a number of public sector and government related conferences.

EXHIBIT 2 – SUBSTANTIATED COMPLAINT SUMMARIES

Below are summarized details of various reviews and investigations concluded in 2011 including disciplinary action taken by Divisional Management. The extent and nature of discipline is the responsibility of management and not the Auditor General's Office.

These summaries have been requested by Audit Committee.

1. Fraud

Divisional management advised the Auditor General's Office that an investigation by the City's benefits provider had found that a City employee submitted and received payments for false benefit claims. The City is continuing its internal investigation.

The matter has been reported to York Regional Police.

The Auditor General's Office subsequently learned the employee had retired. A review of the circumstances leading up to the retirement indicated that the employee had received full retirement payouts, despite having been placed under suspension pending the completion of the City's investigation. In such circumstances, retirement payments should not have occurred until the investigation was complete.

The Auditor General has issued a separate management letter with recommendations to the City Manager to ensure that the internal control weaknesses identified are addressed.

2. Conflict of Interest and Fraud

A complaint was received through the Fraud and Waste Hotline alleging an employee was attending to personal matters on corporate time.

The Division led an investigation into this matter, in consultation with the Auditor General's Office, Human Resources and City Legal Services.

The investigation confirmed the allegations. As well, the employee was found to be working a second job outside the City, during his regular City work hours. The employee made deliberate attempts to conceal his activities by falsifying time logs.

The Division has enhanced supervision and monitoring of employee timekeeping and work responsibilities.

The employee was allowed to resign.

3. Conflict of Interest and Fraud

A complaint was received through the Fraud and Waste Hotline alleging an employee had been working a second job while simultaneously working for the City of Toronto.

An investigation led by the Division confirmed the allegations. The investigation found the employee had been paid by the City for various shifts that conflicted with shifts worked at the second job. In some cases, the employee claimed sick time while working at a second job on the same days.

The employee was terminated.

4. Mismanagement of City Contracts

Divisional management advised the Auditor General's Office of allegations that an employee responsible for administering contracts had authorized questionable payments to vendors.

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

The investigation concluded that City staff had signed off on contractor invoices that included a total of \$20,000 in additional costs to the City, as a result of contract management policies and requirements not being clearly understood by staff.

Two employees have received written letters of discipline.

5. Conflict of Interest

A complaint received through the Fraud and Waste Hotline alleged that a City vendor, who had a contract with a City Division, also employed two City employees from that Division on a part-time basis. It was alleged these employees were involved in the preparation and oversight of the vendor's contract, as part of their City job duties.

The Division led the investigation into this matter, in consultation with the Auditor General's Office.

The investigation confirmed the allegations.

The Division has taken action to reinforce the City's Conflict of Interest Policy with employees. Also, Purchasing and Materials Management formally communicated the vendor's obligation to declare conflicts when bidding on contracts with the City.

One of the employees has received a written letter of discipline and the other employee was allowed to retire.

6. Conflict of Interest and Fraud

A complaint was received through the Fraud and Waste Hotline that included allegations of personal use of City resources, irregular work hours and falsification of time logs.

The investigation, led by the Division, found that two employees had:

- submitted false and/or inaccurate information on daily log sheets;
- created database records for work not conducted;
- utilized city resources for personal use; and
- Committed time fraud by leaving work prior to the end of the shift.

The Division has enhanced supervision and monitoring of employee timekeeping and work responsibilities.

The two employees were suspended and issued letters of discipline.

7. Conflict of Interest, Fraud and Sick Leave Abuse

Divisional Management advised the Auditor General's Office that one of its employees had been off work due to illness but was allegedly working at another position external to the City.

The investigation, led by the Division, confirmed the employee was abusing sick leave for the purpose of working at a second job. This represented 28 hours for a total of \$970. This does not include other costs to the City that may have been incurred, for example, wages or overtime paid to cover the employee's shifts.

The employee was terminated.

8. Conflict of Interest and Fraud

A complaint was received through the Fraud and Waste Hotline Program alleging an employee was attending to personal matters on corporate time.

The Division led an investigation into this matter, in consultation with the Auditor General's Office, Human Resources and City Legal Services.

The investigation of the original complaint disclosed irregular activity by three other Divisional employees.

The investigation of these three employees confirmed that they were attending to personal matters on corporate time, while concealing their activities by falsifying time logs.

The Division has enhanced supervision and monitoring of employee timekeeping and work responsibilities.

The employees received disciplinary suspensions.

9. Conflict of Interest

A complaint was received through the Fraud & Waste Hotline alleging that two City employees had started a private consulting firm that offered services to clients which overlapped with services they should have been providing as part of their work responsibilities at the City.

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

The investigation concluded the two employees, one of whom reported directly to the other at the City, had a personal business relationship that should have been declared in writing, as required under the City's Conflict of Interest Policy.

As well, the investigation found that this private business relationship presented an on-going potential conflict between the Division's business needs and the employees' private business interests. Action taken by Divisional management to mitigate against these potential conflicts of interest included transferring one employee to another unit. The two employees were further directed and agreed in writing to disclose the general nature of future proposed private business contracts that might present a conflict of interest or bias in connections with their work duties.

Both employees received written letters of direction reaffirming their obligations under the Conflict of Interest Policy to report actual or potential conflicts of interest.

10. Conflict of Interest

Divisional management advised the Auditor General's Office that a City employee was alleged to have fraudulently accessed funds in a program funded by another level of government and was benefiting personally from decisions made under the program.

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

The investigation confirmed the City employee was operating a personal business during work hours using City resources.

The employee was terminated.

11. Misuse of City Funds

The Auditor General's Office received a complaint through the City's Fraud and Waste Hotline alleging that over \$80,000 in late payment charges were paid on a vendor's invoices in 2010 and similar amounts were incurred in 2009 for one of the City's Agencies, Boards, Commissions and Corporations (ABCC's).

Upon being notified of the complaint, ABCC management reviewed the matter and took steps to ensure no further late payment charges were incurred.

An investigation led by ABCC management confirmed that late payment charges of approximately \$88,000 were incurred in 2010 and \$90,000 in 2009. Administrative changes were made and no late payment charges were incurred on 2011 invoices.

ABCC management also met with the vendor who agreed to reimburse the ABCC for \$50,000 of the late charges that had been previously paid.

We were advised that the investigation found no evidence of employee misconduct.

12. Improper Employee Conduct

Divisional Management notified the Auditor General's Office that they had received a complaint of improper conduct by a City employee.

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

The Division's investigation concluded that the employee had used their authority as a City employee to obtain personal favours from a member of the public.

Toronto Police Service was contacted and the employee was subsequently arrested and charged.

The employee was terminated.

13. Misuse of City Resources and Conflict of Interest

The Auditor General's Office received a complaint alleging that an employee at one of the City's Agencies, Boards and Commissions had posted inappropriate messages on a social networking site.

An investigation was conducted by management, in consultation with Human Resources. The Auditor General's Office reviewed the investigation findings and provided additional advice.

The investigation confirmed that the employee had created and posted on social media sites inappropriate messages about the ABCC and work colleagues using City equipment on corporate time.

The messages were removed from the social networking site and we have requested management review the City's guidelines, "Application of City Policies for Social Media Use", for the purposes of drafting a similar policy that addresses the specific needs of the Agency, Board and Commission.

The employee has been disciplined.

14. Theft of Material

Divisional management advised the Auditor General's Office of allegations that a City employee had been misappropriating material from a contractor's work site located on City property.

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

The investigation concluded the City employee had misappropriated scrap materials valued at \$1,500.

The employee has been terminated.

15. Conflict of Interest, Abuse of Sick Leave

Divisional management advised the Auditor General's Office that a City employee was allegedly claiming sick days at the City while working a second job.

The Division's investigation concluded that the employee had called in sick and been paid on six occasions while working at a second job on the same days. This represented 48 hours for a total of \$1,908. This does not include other costs to the City that may have been incurred, for example, wages or overtime paid to cover the employee's shifts.

The employee has been terminated.

16. Conflict of Interest, Abuse of Sick Leave

Divisional Management advised the Auditor General's Office that a City employee was allegedly abusing sick days at the City.

The Division's investigation concluded that the employee inappropriately claimed eleven sick days to plan a personal event. This represented 55 hours for a total of \$2,136. This does not include other costs to the City that may have been incurred, for example, wages or overtime paid to cover the employee's shifts.

The employee has been terminated.

17. Conflict of Interest

A complaint was forwarded to the Fraud and Waste Hotline alleging an employee of a City Agencies, Boards, Commissions and Corporations (ABCC) was inappropriately directing work to a particular vendor who also conducted work on the employee's property.

The investigation was led by the ABCC with the assistance of the Auditor General's Office.

The investigation concluded the employee had been directing work to this particular vendor for operational reasons and had breached the ABCC's Conflict of Interest policy when he had some minor work conducted on his property by the vendor's employee.

The ABCC has advised it would reinforce the Conflict of Interest policy.

The employee has received a written letter of discipline.

18. Conflict of Interest and Inappropriate Hiring

In 2008, the Auditor General's Office received a complaint through the Fraud and Waste Hotline alleging that a City employee was in a personal relationship with a subordinate. It was further alleged that the employee had used their position to provide confidential information to the subordinate, in order to assist the subordinate in securing a promotion.

The Auditor General's Office conducted preliminary investigative work with Human Resources and the matter was referred to the Division for further investigation. The Division's investigation was unable to substantiate the allegations and the 2008 complaint was closed.

In 2011, the Auditor General's Office and the Division received a complaint that provided new information in support of the original 2008 allegations.

As a result, a further investigation was led by the Division, in consultation with Human Resources, Information and Technology Division and City Legal Services. The Auditor General's Office was also consulted and participated in the investigation. The investigation substantiated the original allegations of inappropriate hiring and also concluded the employee had violated the City's Conflict of Interest Policy, Acceptable Use of Information Technology Resources Policy and Human Rights and Harassment Policy.

The employee was terminated.

19. Fraud

In June 2011, ABCC management advised the Auditor General's Office that in July 2009 they began investigating an allegation of fraud involving an employee and a contractor, hired by the ABCC. The complaint alleged that the employee had approved contractor invoices that had been inflated or had been submitted for work which had not been performed. It was also alleged the employee received kickbacks from the contractor for doing so.

As a result of the investigation led by ABCC management, Toronto Police Service was contacted and the employee was subsequently arrested and charged.

The estimated loss to the City is \$675,000. The ABCC has commenced legal action to recover these funds from the contractor.

The Auditor General has since met with the ABCC's external auditor to review the controls over the management of contracts. Additional audit procedures have been developed in order to address the control concerns.

The employee was terminated.