



# AUDITOR GENERAL'S REPORT ACTION REQUIRED

## 2012 Annual Report on Fraud Including the Operations of the Fraud and Waste Hotline

<b>Date:</b>	January 28, 2013
<b>To:</b>	Audit Committee
<b>From:</b>	Jeff Griffiths, Auditor General
<b>Wards:</b>	All
<b>Reference Number:</b>	

### 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 2012 annual report relating to fraud activities at the City that have been communicated to the Auditor General. It does not represent an overall picture of fraud or other wrongdoing at the City as fraud, by its very nature, is concealed and often difficult to detect.

In 2002, the City established a Fraud and Waste Hotline Program with Council's support to be operated by the Auditor General's Office. The Hotline Program provides an independent resource for employees or members of the public to report wrongdoing involving City resources, anonymously if preferred. Since that time the activities of the Fraud and Waste Hotline Program have been included in the annual report.

In adopting last year's 2011 annual report on fraud and hotline activity, the Audit Committee requested that the Auditor General report back on dollar amounts recovered as a result of investigations conducted. This information has also been included in this year's annual report.

In 2012, 774 complaints were received representing a six per cent decrease in the number of hotline complaints received in 2011. It should be noted however, that a significant number of complaints received included at least two or more allegations. As such, we estimate the actual number of complaints is more than 1,500.

Integrity and accountability remain a top priority for the City of Toronto. The most cost effective way to deal with fraud or other wrongdoing is to prevent it. Devoting resources

to prevention and detection measures, such as the Fraud and Waste Hotline Program, is critical to preventing and detecting potential wrongdoing before it occurs. 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.

The Fraud Prevention Policy was last revised in March 2007 and has not been updated to specifically address the provisions of the 2011 Whistle Blower Protection Policy, also enacted as a By-law. The By-law has been repealed but is expected to be re-enacted; in the interim, the Whistle Blower Policy remains in effect. In our 2011 Annual Report we recommended that the Fraud Prevention Policy be reviewed in order to ensure that its contents were consistent with the Whistle Blower Protection By-law. As of the date of this report this recommendation has not been addressed.

Further, the review of the Policy should clarify the reporting of incidents of fraud to the Auditor General's Office, particularly when the policy specifically states that the Auditor General's Office has primary responsibility for the investigation of all suspected fraud.

In addition, the applicability of the Fraud's Prevention Policy should be extended to the City's Agencies and Corporations. Finally, the current Policy makes reference to the process to be followed if a fraud is committed by a member of City Council, the Mayor, the City Manager, the City Clerk, the City Solicitor and the Auditor General. The policy should be updated to include the City's other Accountability Officers.

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. City Council direct the City Manager to conduct a comprehensive review of the City's Fraud Prevention Policy. Such a review to incorporate:
  - a. the provisions of the Whistle Blower Protection By-law
  - b. the protocol for the reporting of fraud
  - c. the extension of the Policy to City's Agencies and Corporations
  - d. the extension of the Policy to include the City's Accountability Officers

The review and any revisions to the policy be completed by September 30, 2013.

## **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 increased 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 the annual report on the status of fraud and related matters.

## **COMMENTS**

One of the benefits of the annual report is to demonstrate to employees and the public that the City of Toronto is committed to taking action when issues of fraud, waste or other wrongdoing are reported to the Auditor General's Office.

The Auditor General's report entitled "2012 Annual Report on Fraud Including the Operations of the Fraud and Waste Hotline" is attached as Appendix 1.

Summaries of certain substantiated complaints in 2012 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.

## **CONTACT**

Carmelina Di Mondo, Director, Forensic Unit, Auditor General's Office  
Tel: 416-397-7625, Fax: 416-392-3754, E-mail: [cdimond@toronto.ca](mailto:cdimond@toronto.ca)

## **SIGNATURE**

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Jeffrey Griffiths, Auditor General

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## **ATTACHMENTS**

Appendix 1: 2012 Annual Report on Fraud Including the Operations of the Fraud and Waste Hotline