



AUDITOR GENERAL'S REPORT ACTION REQUIRED

2013 Annual Report on Fraud Including the Operations of the Fraud and Waste Hotline

Date:	February 5, 2014
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 2013 annual report relating to fraud activities at the City. This report only includes those activities reported 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 approval to be operated by the Auditor General's Office. One of the benefits of the Hotline Program is that it 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 2013, 643 complaints were received by the Auditor General's Office. 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 in the range of 1,000.

Fraud awareness training for all employees is critical to ensure that staff can identify suspected incidents of fraud or wrongdoing by employees or the public that should be reported.

In response to recommendations made by the Auditor General in the 2006, 2009 and 2010 annual reports, the City Manager launched mandatory e-learning courses for all employees. All City employees were required to complete the training by December 31, 2013.

However, this training has not been made available to the City's Agencies and Corporations. It is important that this training be made available to those entities as a priority.

The City of Toronto's Fraud Prevention Policy formalized the duty of employees to report allegations of fraud and wrongdoing involving City resources and sets out reporting protocols and procedures. The Policy also includes a provision on whistle blower protection. A separate Whistle Blower Protection Policy was also adopted by City Council effective June 2011.

There has since been an initiative to consolidate the City's Fraud Prevention and Whistle Blower policies, as part of the development of a proposed public service by-law.

At its meeting of November 27, 2012, City Council adopted recommendations made by the City Manager in a report entitled "Developing a Public Service By-law for Toronto" that included authorizing the City Manager to bring forward recommendations on the content of a public service by-law.

Following the adoption of the report by Council, the Auditor General's Office was consulted on a key element of the proposed public service by-law which was to establish a new framework for the disclosure and investigation of wrongdoing. The proposed framework initially restricted the Auditor General's authority to investigate a broad range of allegations including conflicts of interest, with the introduction of a new definition of wrongdoing. The new framework proposed that allegations of misconduct that did not meet the proposed new definition of wrongdoing would be handled by management.

Currently, the Auditor General's Office has authority to investigate and coordinate with management the resolution of a broad range of allegations received through the City's Fraud and Waste Hotline Program which is consistent with other U.S. and Canadian municipalities.

As a result of ongoing discussions with the City Manager's Office and concerns expressed by the Auditor General, a revised framework is being developed to ensure that the Auditor General's concerns with the effectiveness of the proposed disclosure of wrongdoing framework, including a restricted definition of wrongdoing, are addressed.

RECOMMENDATIONS

The Auditor General recommends that:

1. City Council direct the City Manager to make available to the City's Agencies and Corporations the e-learning training developed on ethics, conflict of interest, fraud prevention and whistle blower protection.
2. City Council direct the City Manager, in consultation with the Auditor General to report, prior to the adoption of any proposed Disclosure of Wrongdoing Framework, on:
 - a. Details of the proposed Disclosure of Wrongdoing Framework, including the definition of wrongdoing, to be included in the proposed Public Service By-law.
 - b. Details of the formal management framework designed to govern the handling of employee misconduct that does not meet the proposed definition of wrongdoing to be included in the proposed Public Service By-law including the administration, tracking, disposition and public reporting of such misconduct.

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 management and/or 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 City's 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 "2013 Annual Report on Fraud Including the Operations of the Fraud and Waste Hotline" is attached as Appendix 1.

Summaries of certain substantiated complaints in 2013, 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

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SIGNATURE

Jeffrey Griffiths, Auditor General

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ATTACHMENTS

Appendix 1: 2013 Annual Report on Fraud Including the Operations of the Fraud and Waste Hotline

AUDITOR GENERAL'S REPORT

**2013 ANNUAL REPORT ON FRAUD
INCLUDING THE OPERATIONS OF THE
FRAUD AND WASTE HOTLINE**

February 5, 2014

Jeffrey Griffiths, CPA, CA, CFE
Auditor General



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ANNUAL REPORT

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 2013 annual report relating to fraud activities at the City. It represents only those issues which 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.

Fraud and Waste Hotline Program activities

In 2002, the City established a Fraud and Waste Hotline Program with Council's support to be operated by the Auditor General's Office. One of the benefits of the Hotline Program is that it 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 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

Integrity, accountability and transparency 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 of fraud critical

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.

Fraud Awareness Training critical

Fraud awareness training for all employees is critical to ensure that staff can identify suspected incidents of fraud or wrongdoing by employees or the public that should be reported.

City training on ethics, conflict of interest, fraud prevention and whistle blower protection

In response to recommendations made in the Auditor General's 2006, 2009 and 2010 annual reports, the City Manager launched three mandatory e-learning courses for all employees entitled:

- Mission, Values and Ethics
- Conflict of Interest
- Fraud Prevention and Whistle Blower Protection

All City employees were required to complete the training by December 31, 2013.

Training for Agencies and Corporations

However, this training has not been made available to the City's Agencies and Corporations. Consequently, it is important that this training be made available to those entities as a priority.

A number of Agencies and Corporations have in fact contemplated the development of their own training. In this context, we have had discussions with both the City Manager's Office and certain Agencies and Corporations with a view to extending the City's training programs to Agencies and Corporations.

We see no merit in Agencies and Corporations developing their own training when training is available from the City.

Recommendation:

- 1. City Council direct the City Manager to make available to the City's Agencies and Corporations the e-learning training developed on ethics, conflict of interest, fraud prevention and whistle blower protection.**

Fraud Prevention Policy

The City's Fraud Prevention Policy formalized the duty of employees to report allegations of fraud. The Policy sets out reporting protocols and procedures for employees to report a broad range of allegations of fraud and other wrongdoing involving City resources. The policy also includes a provision regarding whistle blower protection.

Whistle Blower Protection Policy

In 2011, City Council reinforced its commitment to protect employees who disclose wrongdoing by adopting a separate Whistle Blower Protection Policy, effective June 15, 2011.

***Previous
recommendations
to review the
Fraud Prevention
Policy***

In our 2011 and 2012 annual reports, we recommended a comprehensive review be conducted of the City's Fraud Prevention Policy that was last revised in 2007.

There has since been an initiative by the City Manager to consolidate the City's Fraud Prevention and Whistle Blower policies, as part of the development of a proposed public service by-law.

***Proposed Public
Service By-law***

At its meeting of November 27, 2012, City Council adopted recommendations made by the City Manager in a report entitled "Developing a Public Service By-law for Toronto" that included authorizing the City Manager to bring forward recommendations on the content of a public service by-law.

Following the adoption of the report by Council, the Auditor General's Office was consulted on a key element of the proposed public service by-law which was to establish a new framework for the disclosure and investigation of wrongdoing. The proposed framework initially restricted the Auditor General's authority to investigate a broad range of allegations including conflicts of interest, with the introduction of a new definition of wrongdoing. The new framework proposed that allegations of misconduct that did not meet the proposed new definition of wrongdoing would be handled by management.

Currently, the Auditor General's Office has authority to investigate and coordinate with management the resolution of a broad range of allegations received through the City's Fraud and Waste Hotline Program, which is consistent with other U.S. and Canadian municipalities.

As a result of ongoing discussions with the City Manager's Office and concerns expressed by the Auditor General, a revised framework is being developed to ensure that the Auditor General's concerns with the effectiveness of the proposed disclosure of wrongdoing framework, including a restricted definition of wrongdoing, are addressed.

Recommendation:

- 2. City Council direct the City Manager, in consultation with the Auditor General to report, prior to the adoption of any proposed Disclosure of Wrongdoing Framework, on:**
 - a. Details of the proposed Disclosure of Wrongdoing Framework, including the definition of wrongdoing, to be included in the proposed Public Service By-law.**
 - b. Details of the formal management framework designed to govern the handling of employee misconduct that does not meet the proposed definition of wrongdoing to be included in the proposed Public Service By-law including the administration, tracking, disposition and public reporting of such misconduct.**

Benefits of the City's Hotline Program

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

- the deterrence of fraud or wrongdoing
- strengthened internal controls
- improvements in policies and procedures
- increased operational efficiencies
- the ability to use complaint data to identify trends, address risks and make action oriented recommendations to management.

Collecting, monitoring and analyzing complaints to identify trends and systemic issues

Collecting, monitoring and analyzing complaint data may also help identify issues of concern that can point to more systemic problems. For example, in 2013 the Auditor General issued a report to Audit Committee, entitled "Auditor General's Hotline Investigation Report: Fleet Services Division – Review of Equipment Maintenance Practices". This report was the result of investigative work conducted due to a number of complaints received through the Hotline. This public report included nine recommendations related to improving the City's maintenance practices over equipment.

Canadian and U.S. municipalities have implemented anonymous hotlines

Since the Hotline Program's implementation in 2002, the Auditor General's Office has provided advice and assistance to a significant number of Canadian and U.S. municipalities who have introduced or are contemplating similar programs.

Toronto's Hotline program receives a significantly greater volume of complaints than other Canadian municipalities. For example, in 2012, Toronto received 774 complaints, while Calgary received 94 complaints, Halifax 49 and Edmonton 38. The 2013 statistics were not available for other Canadian municipalities at the time of writing our report.

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 and Corporations.

Communication of Hotline Program is essential to its effectiveness – Exhibit 3

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.

In 2013, communication initiatives included presentation of an updated Information Package to divisional management specifically designed to provide management with tools, such as interview and investigation checklists, that may assist in the investigation of hotline complaints.

Details of all communication initiatives coordinated by the Auditor General's Office in 2013 are provided in Exhibit 3.

Investigations conducted or coordinated with management

Due to limited staff resources and the volume of hotline related work, the Auditor General's Office is, by necessity, selective in the investigative work it conducts 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. However, decisions pertaining to the appropriate level of discipline are the sole responsibility of divisional management.

Meetings held with the Toronto Police Service

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 regularly with the Toronto Police Financial Crimes Unit to address mutual issues of concern.

Hotline statistical data – Exhibit 1

Detailed statistical data concerning the activities of the Fraud and Waste Hotline Program is included in this report as Exhibit 1.

Highlights of the statistics provided are as follows:

643 Complaints received represent 1,000 allegations

In 2013, 643 complaints were received representing a 17 per cent decrease in the number of hotline complaints received in 2012. However, a number of complaints received included at least two or more allegations. In these cases, allegations are not tracked separately. As such, we estimate the actual number of complaints is in the range of 1,000.

Dynamic nature of hotline

Complaint activity may increase or decrease because of the dynamic nature of a hotline program and as a result of various factors. For example, activity may peak following coverage of an audit report or incidents of fraud in the media. For example, in 2011, there was a peak in complaints in response to various audit reports issued regarding Toronto Community Housing Corporation (TCHC) by the Auditor General’s Office. However, over the past two years the number of complaints received has decreased with the introduction of a formal and independent audit process by TCHC. This process also includes a hotline program.

Despite the decrease in complaints, staff hours to operate the Hotline and investigate related complaints remains significant.

Disposition of complaints

Ultimately, the effectiveness of the City’s Hotline Program does not depend on the number of complaints reported in any given year, but on the action taken to investigate, manage and reduce the risk of fraud.

Preliminary investigative work conducted is significant

The Auditor General’s Office conducted a significant amount of preliminary investigative work or inquiries to determine whether allegations have merit, prior to determining the disposition or action to be taken on a complaint.

The disposition of complaints received in 2013 is as follows:

No Action	125
Investigations	53
Preliminary Investigative Inquires – Closed	165
Preliminary Investigation Conducted	11
Referrals to 311	3
Referrals to Agencies and Corporations	36
Referrals to Divisions	227
Referrals for Future Audit	6
Referrals to Internal Audit	1
Referrals to Outside Agencies	9
Not Yet Assigned	7
Total Complaints	643

Substantiated complaints

Fourteen per cent (38 out of 280) of all complaints referred to divisions or investigated in 2013 have been substantiated in whole or in part. This number is expected to increase as outstanding 2013 complaints continue to be concluded in 2014.

Discipline imposed in 25 complaints

In regard to the 38 complaints that were substantiated in whole or in part, divisional management reported that discipline was imposed in 25 instances. In the remaining 13 instances, divisional management took other appropriate action including reinforcing workplace expectations through training.

Trends include conflicts, sick leave and LTD abuse

In 2013, a number of substantiated complaints continue to involve conflicts of interest, abuse of sick leave and eligibility of employees to remain on Long Term Disability.

Impact of fraud exceeds dollar values

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.

Actual and potential losses

We track actual and potential losses to the City for all complaints received.

For complaints received in 2013, quantifiable actual losses to the City were approximately \$263,000. This amount may increase as outstanding 2013 complaints are concluded in 2014. Potential losses to the City or dollars at risk that could have resulted in actual losses to the City, had the incident of wrongdoing not been detected, totaled \$1,450,000.

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.

Losses from previous years

We also track actual and potential losses to the City for complaints received in previous years but closed in 2013. For example, the cumulative total of actual losses for the last five years (for complaints received in 2008 to 2012) is more than \$3,200,000.

Recoveries

Total recovery of actual losses for 2013 complaints was in the range of \$7,000. These amounts are expected to increase as outstanding complaints are concluded in 2014.

While this figure on its face may appear to be low, the Association of Certified Fraud Examiners (a global professional organization) has reported in its *2012 Report to the Nations on Occupational Fraud and Abuse* that less than 50 per cent of victim organizations recover any of their fraud losses.

Recoveries for previous years

We also track recoveries for previous years complaints closed in 2013. The cumulative total of recoveries for the last five years (for complaints received in 2008 to 2012) is more than \$1,700,000.

Investigation summaries – Exhibit 2

Summarized details of certain substantiated complaints in 2013 are included as Exhibit 2. These summaries are provided as requested by Audit Committee.

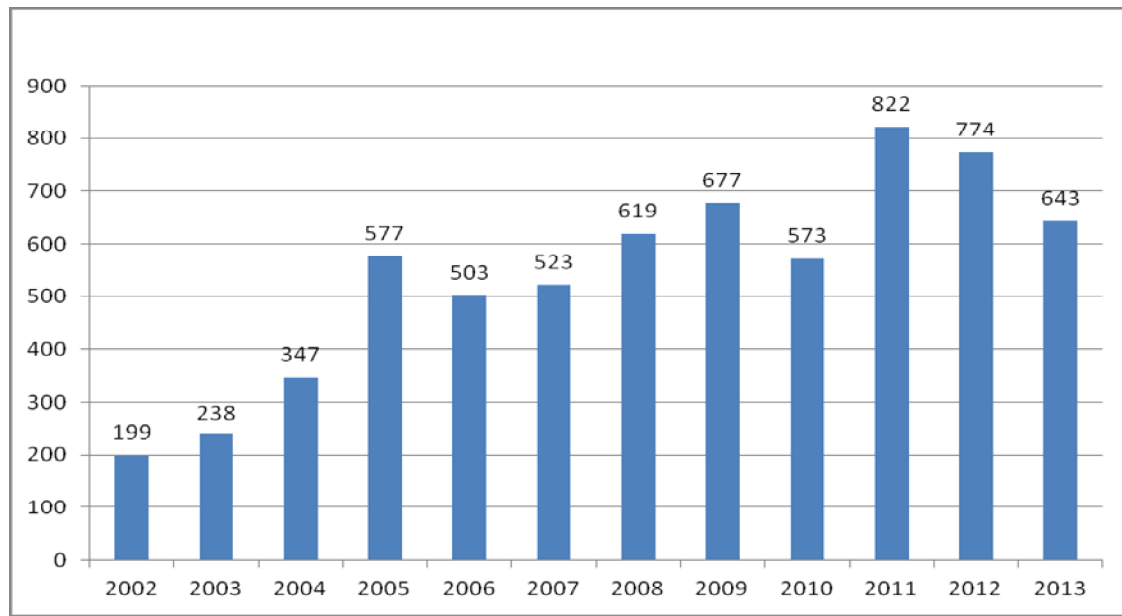
EXHIBIT 1 – DETAILED STATISTICAL SUMMARY

1. Total Complaints

Since the Fraud and Waste Hotline Program was initiated in 2002, the Auditor General’s Office has handled more than 6,400 complaints. Each complaint may in turn contain multiple allegations.

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

Chart 1 – Complaints Reported – 2002 to 2013



Decrease in complaints

In 2013, 643 complaints were received representing a 17 per cent decrease in the number of hotline complaints received in 2012.

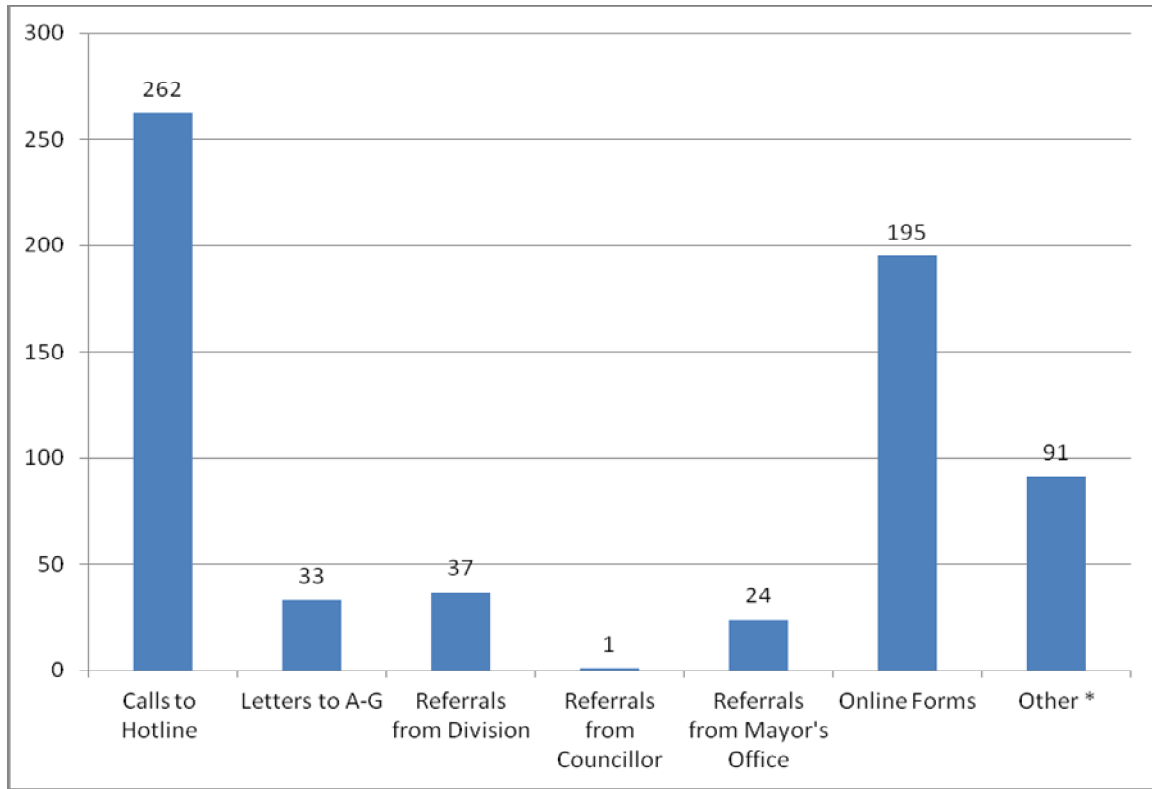
Dynamic nature of hotline

Complaint activity may increase or decrease because of the dynamic nature of a hotline program and as a result of various factors.

2. Source of Complaints

Chart 2 provides a summary of the methods used to report complaints to the Fraud and Waste Hotline Program in 2013.

Chart 2 – Source of Complaints



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

More than 70 per cent of all complaints were received via the Auditor General's on-line complaint form and direct telephone calls to the Hotline.

3. Disposition of Complaints

All complaints received are evaluated by designated staff of the Auditor General's Office to determine the disposition or action to be taken.

Preliminary investigative work conducted in majority of complaints

Preliminary investigative work or inquiries are conducted by the Auditor General’s Office to determine whether allegations may have merit, prior to determining the disposition. In 2013, the Auditor General’s Office conducted preliminary investigative work in the majority of complaints received. Preliminary investigative inquiries are also conducted prior to referring complaints to Divisions for action.

Allegations with limited detail or merit may be held in abeyance until further details are reported.

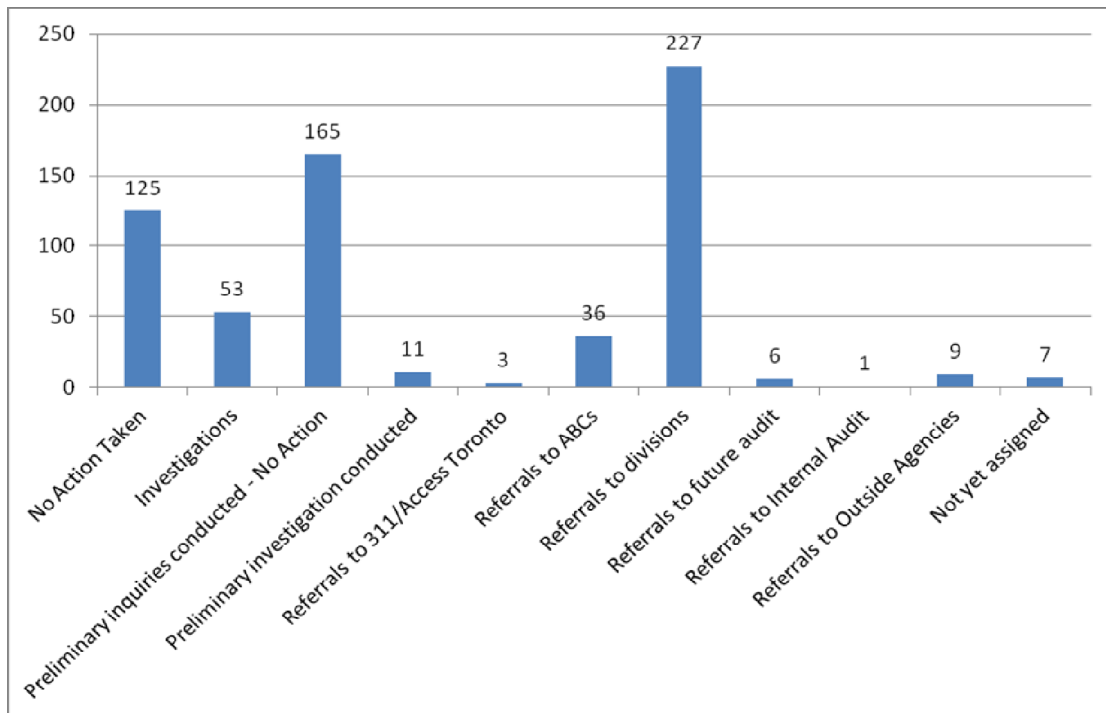
Professional judgment used to determine the disposition of a complaint

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

The dispositions of complaints are reviewed and approved by the Director of the Forensic Unit. Depending on the circumstances, discussion pertaining to the disposition of complaints is also conducted with the Auditor General.

Chart 3 provides a breakdown of the disposition of complaints received in 2013, as of December 31.

Chart 3 – Disposition of Complaints



Investigations

As noted in Chart 3, 26 per cent of complaints received (165 complaints) were closed following preliminary investigative work, while eight per cent of all complaints received (53 complaints) resulted in an investigation conducted and led by divisional management or the Auditor General’s Office.

Referrals to Divisions

Thirty-five per cent of all complaints (227 complaints) were referred to Divisions for review and appropriate action or for information only. Complaints that are significant enough to require a response from divisional management are monitored until the necessary action is taken.

No Action

In 19 per cent of complaints (125 complaints), the disposition was “No Action” because of insufficient information or the matter was outside the Auditor General’s jurisdiction.

4. Complaint Conclusion

Complaint lifecycle

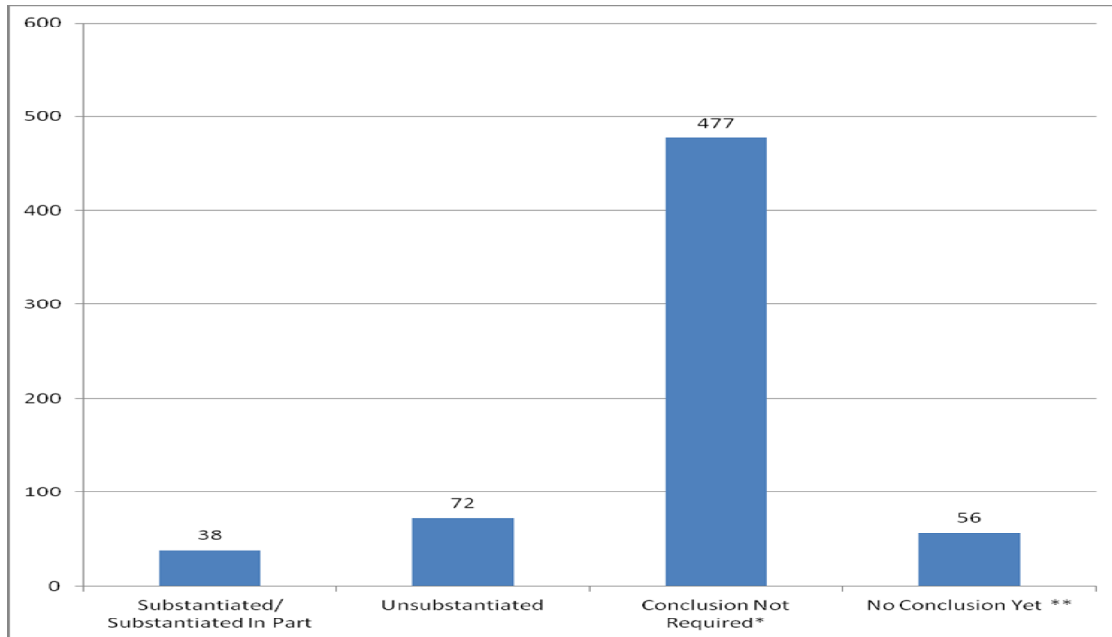
Each complaint is managed until it has been resolved or concluded.

Unsubstantiated complaints may highlight issues of concern

In cases where the evidence does not support a finding of wrongdoing, the complaint conclusion is tracked as “unsubstantiated.” 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 provides a summary of the final resolution of complaints reported to the Auditor General’s Office in 2013.

Chart 4 – Complaint Conclusions for 2013 Complaints



*** Conclusion Not Required:** when no action is taken, the complaint is referred for future audit or is referred to Divisions with no report back to the Auditor General’s Office, e.g. referrals to Social Assistance Hotline.

**** No Conclusion Yet:** resolution of the complaint is outstanding.

Substantiated complaints

Fourteen per cent (38 complaints) of all complaints investigated or referred to divisions in 2013 have been substantiated in whole or in part. This number is expected to increase as outstanding 2013 complaints continue to be concluded in 2014.

Internal control weaknesses

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

Previous years’ complaints concluded in subsequent years

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 the Auditor General’s database to capture information, such as whether the complaint was substantiated and whether there was a loss to the City. For example, in 2012, we reported 50 complaints that had been substantiated as of December 31, 2012. Thirty-six additional 2012 complaints were concluded and substantiated in 2013.

5. Disciplinary Action in Substantiated Complaints

Discipline is a management responsibility

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

Discipline imposed in 25 complaints

In 2013, divisional management reported that discipline was imposed in 25 of the substantiated complaints, as of December 31, 2013. In an additional 13 instances, Divisional Management took other appropriate action including reinforcing workplace expectations through training.

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

6. Loss and Recovery

Cost of fraud difficult to measure

Measuring the total cost of fraud is difficult because fraud by its nature 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 include the reallocation of management time to investigate incidents of fraud or wrongdoing. This time can be significant.

Impact of fraud extends beyond dollar values

The impact of fraud on a corporation can extend beyond 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 \$263,000

For complaints received in 2013, quantifiable actual losses to the City were in the range of \$263,000. This amount is expected to increase as outstanding 2013 complaints are concluded in 2014.

Potential losses or dollars at risk \$1,450,000

In 2013, \$1,450,000 was identified as dollars at risk. This amount represents potential losses which could have resulted in actual losses to the City had the incident of wrongdoing continued without being detected.

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, has not been quantified for purposes of this report. If quantified, this amount would be significant.

Recovery of losses \$7,000

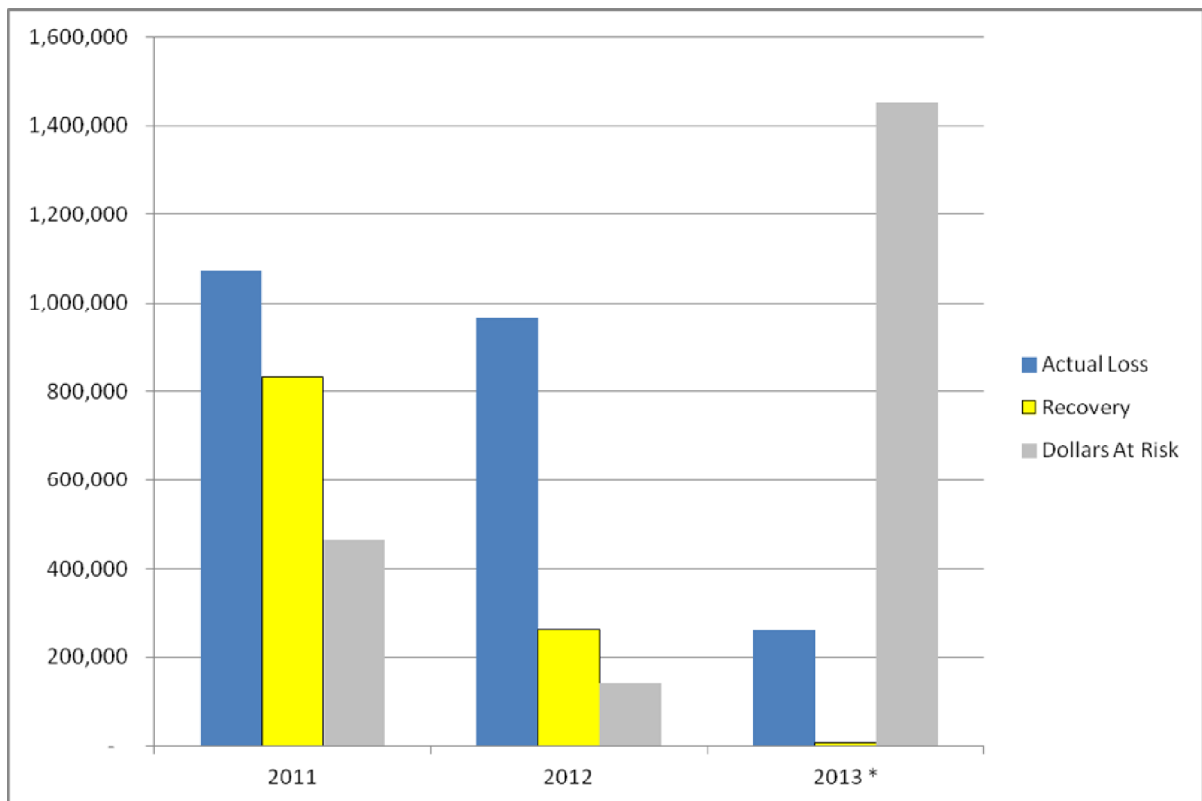
Total recovery of actual losses for 2013 complaints was approximately \$7,000. Again, this amount is expected to increase as outstanding complaints are concluded in 2014.

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. Amounts reported for complaints received in previous years are adjusted once concluded in subsequent years.

Chart 5 provides a summary of the losses, recovery of losses and dollars at risk for 2013.

Chart 5 – Loss and Recovery



***Recovery of actual losses in 2013 totaled \$7,000 as of December 31, 2013.**

****Dollars at risk represents potential losses that could have resulted in actual losses had the wrongdoing continued without being detected.**

7. Divisions, Agencies and Corporations with Substantiated Complaints

Chart 6 provides a summary of substantiated complaints associated with Divisions, Agencies and Corporations. It does not necessarily reflect wrongdoing on the part of employees of these entities. In certain cases, the wrongdoing may have been perpetrated by vendors or other members of the public.

Chart 6 – Divisions and Agencies and Corporations with Substantiated Complaints

3-1-1 Project Office	Parks, Forestry and Recreation
Children’s Services	Public Health
Emergency Medical Services	Revenue Services
Employment and Social Services	Solid Waste Management Services
Facilities Management	Toronto Community Housing Corporation
Fire Services	Toronto Public Library
Fleet Services	Toronto Transit Commission
Long Term Care Homes and Services	Toronto Zoo
	Transportation Services

EXHIBIT 2 – SUBSTANTIATED COMPLAINT SUMMARIES

Below are summarized details of various reviews and investigations concluded in 2013 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. Child Care Subsidy Fraud

A complaint was received through the Fraud and Waste Hotline alleging that a City employee was receiving subsidies through fraudulent subsidy claims.

The Auditor General's Office conducted preliminary investigative work before forwarding the matter to the Division for further investigation. The investigation concluded that the employee submitted false claims over several years to personally benefit from the City's subsidies totaling approximately \$173,000.

The employee was terminated and was charged with Fraud over \$5,000 by the Toronto Police Service. This matter is still before the courts.

2. Employee Benefits Fraud

The Auditor General's Office was advised of a complaint involving fraudulent benefit claims submitted by an employee and various family members.

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

The investigation concluded that a City employee had submitted fraudulent extended health care benefit claims totaling almost \$1,450. The City has recovered the total amount.

While the employee's conduct may have warranted termination, the employee retired during the course of the investigation without notifying divisional management and the City paid out a sick pay credit grant of over \$26,000 upon the employee's retirement.

The Auditor General raised concerns with there being no requirement for Pension Payroll and Employee Benefits to notify divisional management of an employee's unilateral decision to retire and also with the payment of a sick pay credit grant in circumstances where an employee was being investigated. These concerns were addressed and we understand a portion of the sick pay credit grant made upon the employee's retirement was recovered.

The fraudulent claims matter was referred to the appropriate Regional Police Service. We understand criminal charges were not laid.

3. Conflict of Interest - Personal Use of City Resources - LTD Fraud

A complaint was received through the Fraud and Waste Hotline Program alleging a conflict of interest involving an employee who was operating a personal business during City work hours. The employee directed City clients to use services offered through this personal business operating under the name of a corporation. This corporation was in turn registered as a City vendor.

The Auditor General's Office conducted a preliminary investigation and forwarded the matter to the Division for further investigation. During the investigation the employee went on sick leave and made a claim for long term disability (LTD).

Following the Division's attempts to meet with the employee, the employee subsequently resigned from the City and the matter has been referred to the Toronto Police Service.

4. Abuse of Employee Benefits

A complaint was received through the Fraud and Waste Hotline alleging an employee on long term disability was committing fraud by working for a second employer.

The investigation of the matter was referred to the City's Benefits Provider.

The investigation concluded the employee no longer met the requirements to be eligible for LTD and payments were terminated. The employee has not returned to work.

5. Social Assistance Fraud

The Auditor General's Office was notified by Divisional Management of allegations involving fraudulent social assistance claims.

This was a complex investigation led by the Division, in consultation with the Toronto Police Service. There were also discussions with appropriate Provincial officials.

The investigation concluded that an individual, who provided interpreter services, was involved in various fraudulent activities that included assisting clients in submitting false information that made them eligible for benefits for which they were ineligible.

As a result of the investigation, benefits for various clients were terminated and overpayments were identified. The Division has identified potential future savings of over \$469,000 attributed to benefits that will no longer be paid out to various clients including the interpreter who was also receiving social assistance.

The actual loss to the City based on the available evidence is estimated at \$52,500.

The interpreter has been charged by the Toronto Police Service and the matter is before the courts.

6. Theft of City Equipment

Divisional management advised the Auditor General's Office of a complaint received alleging theft of a number of City cell phones by a City employee.

The investigation was led by the Division, in consultation with City Legal Services and the Human Resources Division, as well as the Toronto Police Service.

The investigation concluded that the employee had misappropriated the City cell phones and a family member listed them for sale on an electronic marketing website.

The employee has been terminated and charged by the Toronto Police Service.

7. Conflict of Interest and Fraud

The Auditor General's Office was advised by a City Division of a conflict of interest matter that involved the alteration of permit fees owed to the City.

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

The investigation concluded there were several instances of wrongdoing that also involved conflicts of interest resulting in over \$30,000 in permit fees being owed to the City.

The employee was terminated. The City is pursuing recovery of the permit fees owed.

8. Abuse of Employee Benefits (LTD)

The Auditor General's Office was advised of a complaint alleging abuse of long term disability benefits by an employee.

The Auditor General's Office conducted preliminary investigative work and the matter was forwarded to the City's Benefits Provider for further investigation.

As a result of the investigation the employee was no longer eligible for LTD benefits. The employee remains on an unpaid leave of absence.

9. Fraudulent Mileage Claims

The Auditor General's Office was advised by a City Division of a matter involving an employee claiming fraudulent kilometrage expenses.

The investigation was led by the Division, in consultation with the Human Resources Division and City Legal Services.

The investigation concluded the employee had submitted fraudulent mileage claims and failed to perform assigned work duties.

The employee was terminated.

10. Conflict of Interest and Sick Leave Abuse

A Division reported to the Auditor General's Office a matter they had been investigating that involved allegations of conflict of interest and abuse of sick leave by an employee who worked for a City Division while working a second job with one of the City's Agencies and Corporations.

The City Division conducted an investigation in consultation with the Human Resources Division and City Legal Services. The Agency and Corporation conducted a parallel investigation.

The investigations confirmed the employee misrepresented reported work times and abused sick leave.

The employee was terminated.

11. Misuse of City Resources

The Auditor General's Office was advised by a City Division of a conflict of interest matter that involved the misuse of a wireless internet device issued for work purposes.

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

The investigation concluded the employee had misused City mobile devices and incurred over \$4,700 in excess charges. The total amount has been recovered and internal controls have been improved to prevent future similar incidents.

The employee was suspended.

12. Inadequate Internal Controls Over Social Benefits

The Auditor General's Office received a complaint alleging a City Division had inadequate internal controls over the distribution of TTC tokens to clients.

Divisional management advised that controls were being improved through the automation of token distribution which began in 2011. We were also advised that the total distribution of tokens in 2012 was \$281,000 less than in the previous year.

Management acknowledged that the automation of controls reduced the potential for inappropriate token distribution but advised other factors were also responsible for the decrease in tokens.

EXHIBIT 3 – 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 2013, 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 2013

Communication initiatives in 2013 have included:

- information related to the Fraud and Waste Hotline Annual Report was featured as a *Monday Morning News general item*
- information related to the Fraud and Waste Hotline was mentioned extensively in the City's mandatory Fraud Prevention and Whistle Blower Protection Policy e-learning course
- feature related to updated Hotline poster in City Insider Newsletter
- continued display of information on the City's Internet/Intranet sites
- presentation of an updated Information Package to Executive and Divisional management designed to provide management with tools, such as interview and investigation checklists, that may assist in the investigation of hotline complaints.