



## AUDITOR GENERAL'S REPORT ACTION REQUIRED

### 2014 Annual Report on Fraud Including the Operations of the Fraud and Waste Hotline

<b>Date:</b>	February 9, 2015
<b>To:</b>	Audit Committee
<b>From:</b>	Auditor General
<b>Wards:</b>	All
<b>Reference Number:</b>	

#### **SUMMARY**

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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 2014 annual report relating to activities of fraud and wrongdoing at the City. It highlights only those issues that have been communicated to the Auditor General during that past year. It does not represent an overall picture of fraud or other wrongdoing across the City.

In 2002, the Fraud and Waste Hotline Program was established 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, without fear of retribution. Since 2002, the activities of the Fraud and Waste Hotline Program have been included in the annual fraud report.

In 2014, 687 complaints were received by the Auditor General's Office. A significant number of complaints included at least two or more allegations. We estimate the actual number of allegations is in the range of 1,300.

A separate Forensic Unit was established in the Auditor General's Office in 2005 dedicated to the operation of the Hotline Program and the investigation of complaints received. The increase in workloads and ongoing resource constraints have impacted the work of the Auditor General's Office Forensic Unit. The Office does not have sufficient resources to lead all investigations. Complaints are referred to City Divisions to be investigated. The Auditor General's Office oversees the Divisions approach to the investigations and the results.

The level of independent oversight the Auditor General's Office can provide has been reduced due to the volume of allegations and resource constraints. The need for sufficient oversight is critical. There were instances where management has led an investigation and concluded that the complaint was unsubstantiated. Upon further independent review by the Auditor General's Forensic Unit, it was determined that allegations were in fact substantiated. Additional resources are needed to ensure the Auditor General can lead key investigations and provide an increased level of independent oversight.

Additional resources for the Forensic Unit will be pursued as part of the 2016 budget process.

The Auditor General's responsibility to operate the Hotline Program, conduct investigations and provide oversight was reinforced by Council through its adoption of a Toronto Public Service By-law, at its meeting of June 10-11, 2014. The by-law introduced a new Disclosure of Wrongdoing framework.

In the 2013 annual report on fraud and hotline activities, the Auditor General recommended that management report to Council on details of the proposed Disclosure of Wrongdoing framework, including how management will track, address and publicly report out on employee "misconduct".

The City Manager's Office has advised it will work with the Auditor General's Office to establish and implement a working protocol that supports the Disclosure of Wrongdoing and Reprisal Protection Policy that will come into effect December 2015.

## **RECOMMENDATIONS**

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### **The Auditor General recommends that:**

1. City Council request the City Manager to report in Q4 2015 on the implementation progress of the Toronto Public Service By-law including details about the management framework, tracking and reporting of employee misconduct as part of the new Disclosure of Wrongdoing provisions.

### **Financial Impact**

The recommendations in this report have no financial impact.

The Fraud and Waste Hotline Program has helped to reduce losses, improved the protection of City assets, and increased the recovery of funds to the City.

Non-quantifiable benefits include the deterrence of fraud or wrongdoing, strengthening of internal controls, improving policies and increasing operational efficiencies. These benefits assist in the detection and prevention of future wrongdoing.

## **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 from a cash controls audit 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 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.

## **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 "2014 Annual Report on Fraud Including the Operations of the Fraud and Waste Hotline" is attached as Appendix 1.

Summaries of certain substantiated complaints in 2014, including disciplinary action taken, are included as Exhibit 2 to the report. Disciplinary action that results from investigations is the responsibility of management and not the Auditor General's Office.

## **CONTACT**

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## **SIGNATURE**

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Beverly Romeo-Beehler, Auditor General

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## **ATTACHMENTS**

Appendix 1: 2014 Annual Report on Fraud Including the Operations of the Fraud and Waste Hotline

**AUDITOR GENERAL'S REPORT**

**2014 ANNUAL REPORT ON FRAUD  
INCLUDING THE OPERATIONS OF THE  
FRAUD AND WASTE HOTLINE**

**February 9, 2015**

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**Beverly Romeo-Beehler, CPA, CMA, B.B.A., JD  
Auditor General**



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# TABLE OF CONTENTS

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<b>ANNUAL REPORT</b> .....	1
Sufficient Resources Required to Fulfill Hotline Responsibilities .....	3
2014 Additional Workload Pressures .....	5
New Disclosure of Wrongdoing Framework .....	5
Recommendation.....	6
Benefits of the Hotline Program.....	7
Operation of the Hotline Program .....	8
Communication of the Hotline Program .....	10
Hotline Statistical Data.....	10
<b>Exhibit 1:</b> Detailed Statistical Summary.....	14
1. Total Complaints .....	14
2. Source of Complaints .....	16
3. Disposition of Complaints.....	16
4. Complaint Conclusion.....	18
5. Disciplinary Action in Substantiated Complaints .....	19
6. Loss and Recovery .....	19
7. Divisions, Agencies and Corporations with Substantiated Complaints .....	20
<b>Exhibit 2:</b> Substantiated Complaint Summaries .....	21
<b>Exhibit 3:</b> Communication of the Hotline Program.....	27

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# ANNUAL REPORT

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## ***Annual report on fraud and wrongdoing***

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 from a cash controls audit in the then Parks and Recreation Division.

This report represents the 2014 annual report relating to activities of fraud and wrongdoing at the City. It highlights only those issues that have been communicated to the Auditor General during that past year. It does not represent an overall picture of fraud or other wrongdoing across the City.

## ***Role of the Auditor General***

Pursuant to Section 178 of the *City of Toronto Act, 2006* (COTA), “*The Auditor General is responsible for assisting city council in holding itself and its administrators accountable for the quality of stewardship over public funds and for the achievement of value for money in city operations.*”

The Auditor General’s Office fulfills its mandate by providing audit services directly to Council, completing an audit work plan and conducting investigations into allegations of fraud, waste and other wrongdoing.

## ***Fraud and Waste Hotline Program***

In 2002, the Auditor General established a Fraud and Waste Hotline Program (the Hotline Program). Since that time, the activities of the Fraud and Waste Hotline Program have been included in the annual fraud report.

The Hotline Program receives a broad range of complaints from employees, City Councillors and the public. In addition to providing information that may help the Auditor General detect waste, fraud and other wrongdoing, the program provides key information that supports the Auditor General in fulfilling her overall responsibilities outlined in the *City of Toronto Act*.

***AG Office well placed to receive and investigate complaints***

As an audit function, the Auditor General's Office is well placed to receive complaints and conduct forensic investigations. Council has supported the Auditor General's operation of the Hotline Program consistently since its inception.

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, anonymously if preferred without fear of retribution.

***Hotline promotes integrity and accountability***

Integrity, accountability and transparency remain a top priority for the City of Toronto. The Hotline Program promotes integrity and accountability.

***Public reporting promotes transparency***

Public reporting on the activities of government promotes transparency. The Auditor General balances transparency and confidentiality when reporting out on the activities of the Hotline Program. This is critical to protecting the privacy interests of the complainant, the public and employees.

***Need to balance confidentiality to protect privacy***

It is in the public's interest to have independent and effective investigations conducted by the Auditor General's Office. During forensic investigations, confidentiality is paramount. The fear of retribution can deter complainants from reporting wrongdoing and employees from cooperating in investigations conducted. The disclosure of details pertaining to an investigation can have a chilling effect on the Auditor General's ability to carry out effective investigations.

***Annual Report demonstrates action taken***

It is also in the public's interest to understand the nature of the work undertaken by the Auditor General's Office. One of the benefits of the annual report is to demonstrate to employees and the public that action is taken when issues of fraud, waste or other wrongdoing are reported to the Auditor General's Office.

***Statistical data included***

Detailed statistical data of hotline activities and summaries of investigations conducted are included in this report as Exhibit 1.

***Hotline drove ethical cultural shift***

This annual report also highlights how the Auditor General's operation of the Fraud and Waste Hotline Program has helped to drive an ethical cultural shift throughout the Corporation by:

- taking action in response to thousands of complaints reported
- encouraging employees and the public to act with integrity and report wrongdoing
- promoting ethical conduct and fraud awareness, and
- making action-oriented recommendations that have resulted in, among other things, mandatory ethics training to all City employees.

**Sufficient Resources Required to Fulfill Hotline Responsibilities**

***Fraud prevention critical***

Fraud, by its very nature, is concealed and often difficult to detect. The most cost effective way to deal with fraud or other wrongdoing is to prevent it. As such, devoting resources to prevention and detection measures, such as the Fraud and Waste Hotline Program remains critical.

***AG duties expanded to include Operation of Hotline Program***

The operation of the Fraud and Waste Hotline Program is a core responsibility of the Auditor General's Office. This role includes the overall management of the Hotline Program and taking a lead role in conducting investigations. This role also includes providing oversight related to the resolution and reporting of wrongdoing. Sufficient resources are required to effectively fulfill this responsibility.

Initially, the Auditor General absorbed the additional responsibilities associated with the Hotline Program over and above the primary responsibility to provide audit services directly to Council and complete an annual audit work plan.

***AG Forensic Unit dedicated to Hotline and investigations***

Due to the complex nature of the Hotline Program, the volume of complaints and associated workload, it became apparent that the Auditor General was no longer in a position to transfer resources from audit work to accommodate operation of the Hotline Program. In 2005, a separate Forensic Unit was established in the Auditor General's Office dedicated to the operation of the Hotline Program and the investigation of complaints received.



***AG Forensic Unit requires sufficient resources to operate Hotline, investigate and provide oversight***

Since the establishment in 2005, increased workloads and on-going resource constraints have impacted the work of the Auditor General's Office Forensic Unit. The Office does not have sufficient resources to lead key investigations resulting in City Management having to do so.

Also, current resources have reduced the level of oversight the Auditor General's Office is in a position to provide. This reduced level of independent oversight presents a risk to the City of Toronto. For example, there have been instances where management had been requested to lead an investigation and found a complaint to be unsubstantiated. Upon further independent review by the Auditor General's Forensic Unit, it was determined that allegations were in fact substantiated requiring further action by management. Additional resources are needed to ensure the Auditor General can lead key investigations and provide an appropriate level of independent oversight.

The Auditor General has historically absorbed these resource challenges in its Forensic Unit in recognition of the City's budget pressures. The Forensic Unit manages a complaint program and investigates allegations of fraud, waste and other wrongdoing. The last time Council approved an additional resource to the Forensic Unit was in 2006. When fully staffed has a staff complement of five full-time staff (includes two investigators) and utilizes 0.75 of the time of an administrative assistant in the Auditor General's Office.

***Comparison of resources with Ombudsman's Office***

By comparison, the City's Ombudsman's Office, established in 2009, has eleven full time staff (includes four investigators) to fulfill her primary role of managing a complaints program and investigate allegations of administrative unfairness. We understand the Ombudsman will also be seeking an additional six staff through the 2015 budget process.

***AG to review sufficiency of staff resources in 2015***

The new Auditor General was appointed in December 2014. She is conducting an internal review of the Auditor General's Office in 2015 including its responsibilities, financial and staff resources, and processes. It is apparent that the Forensic Unit requires resources. Additional resources for the Forensic Unit will be pursued as part of the 2016 budget process, following this internal review.

## **2014 Additional Workload Pressures**

### ***New Hotline database***

The Auditor General utilizes a complaint management database which is critical to the operation of the Hotline Program. The database is used to track complaints through their entire lifecycle. Detailed statistical data is also captured for reporting purposes and enabling the Auditor General's Office to identify areas of concern and trends that may point to more systemic problems.

In 2014, additional workload pressures included significant time and resources utilized to address issues with the functionality of the database, approaching the end of its useful life after 12 years. Also, considerable time was spent planning for the permanent replacement for the database.

### ***FOI requests and appeals***

A significant amount of time was also spent responding to Freedom of Information (FOI) requests and appeals made by the media to the Office of the Information and Privacy Commissioner of Ontario (IPC). This appeal has also included a constitutional challenge to sections of the *City of Toronto Act* that govern the duties of the Auditor General. FOI requests are expected to continue.

### ***Disclosure of Wrongdoing framework***

As well, considerable time was spent by the Forensic Unit reviewing the new Disclosure of Wrongdoing framework, introduced by the City Manager.

## **New Disclosure of Wrongdoing Framework**

### ***Public Service By-law introduces new Disclosure of Wrongdoing Framework and Policy***

The Auditor General's responsibility to audit the stewardship of public funds and value for money is complemented by her responsibility to operate the Fraud and Waste Hotline Program. The Auditor General's responsibility to conduct investigations and provide independent oversight through the operation of the Hotline Program was reinforced by Council through its adoption of a Toronto Public Service By-law, at its meeting of June 10-11, 2014. The by-law introduced a new Disclosure of Wrongdoing framework.

Among other things, the new framework is intended to strengthen the City's ethical framework. It also reinforces the Auditor General's current role in the investigation and resolution of reported wrongdoing at the City.

*Investigations of reprisal to be conducted by the Auditor General's Office*

A new Disclosure of Wrongdoing and Reprisal Protection Policy will come into effect December 2015 with the adoption of the Toronto Public Service By-law. This new policy will consolidate the City's existing Fraud Prevention and Whistle Blower Policies. As well, the Auditor General is given sole responsibility to investigate allegations of reprisal to ensure such investigations are conducted in an objective and independent manner.

*AG will handle complaints that meet a new definition of "wrongdoing"*

While the Auditor General's Office will continue to operate the Fraud and Waste Hotline Program, the Disclosure of Wrongdoing framework introduces a new definition of "wrongdoing".

The Auditor General's Office will continue to maintain its current role in the investigation of complaints that meet the new definition of wrongdoing, and maintain its oversight role in the resolution of complaints.

*Management will handle complaints of "misconduct" that do not meet definition of "wrongdoing"*

As well, complaints that do not meet the definition will now be characterized as "misconduct" and will be handled directly by Management, without the Auditor General's involvement.

In the 2013 annual report on fraud and hotline activities, the Auditor General made recommendations to ensure management reported to Council on details of the proposed Disclosure of Wrongdoing framework including the formal management framework designed to govern the administration, tracking, disposition and public reporting of employee "misconduct".

*December 2015 new Wrongdoing Framework comes into effect*

The City Manager's Office has advised it will work with the Auditor General's Office to establish and implement a working protocol in keeping with the new provisions of the Disclosure of Wrongdoing and Reprisal Protection Policy that will come into effect December 2015.

**Recommendation:**

- 1. City Council request the City Manager to report in Q4 2015 on the implementation progress of the Toronto Public Service By-law including details about the management framework, tracking and reporting of employee misconduct as part of the new Disclosure of Wrongdoing provisions.**

## **Benefits of the Hotline Program**

### ***Benefits of the Hotline Program***

The 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 data on complaints received may also identify areas of concern within the City and trends that may point to more systemic problems in areas such as procurement, hiring, overtime, business expenses, sick leave abuse and conflict of interest.

Trends identified are considered in the development of the Auditor General's audit work plan and have resulted in audits being conducted and public reports to Council. For example, *Emergency Medical Services – Payroll and Scheduling Process Require Strengthening*, various audit reports on Toronto Community Housing Corporation and *Local Road Resurfacing – Improvements to Inspection Process Required to Minimize Incorrect Payments to Contractors*.

### ***Complaint trends may result in audits or systemic investigations by AG***

As well, complaint trends may also result in a systemic investigation by the Auditor General's Forensic Unit. 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 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 2013, Toronto received 643 complaints, while Calgary received 57 complaints, Edmonton 38 and Winnipeg 16. The 2014 statistics were not available for other Canadian municipalities at the time of writing our report.

***Organizations with hotlines reduce losses***

Hotline or whistleblower programs may vary, but tips remain a valuable source for detecting fraud and other wrongdoing in government organizations. The Association of Certified Fraud Examiners (a global professional organization) has reported in its *2014 Report to the Nations on Occupational Fraud and Abuse* that tips received through a hotline are the number one detection method and organizations with hotlines also experienced frauds that were 41 per cent less costly, and they detected frauds 50 per cent more quickly.

## **Operation of the Hotline Program**

***Operation of the hotline is complex***

Operation of the Hotline Program includes the administration of complaint intake and electronic tracking of complaint activity. As well, the Forensic Unit screens all complaints received to determine the appropriate disposition. For example, if a complaint should be investigated, the Forensic Unit may coordinate the investigation with various City Divisions and Agencies and Corporations.

***AG selective in investigative work conducted due to resources***

While the Auditor General's core responsibilities include taking a lead role in conducting investigations and providing oversight, due to limited staff resources and the volume of hotline related work, the Forensic Unit is, by necessity, selective in the investigative work it conducts or takes a lead role in conducting.

***AG provides oversight and coordinates investigations with management***

As a result of resource constraints, investigations are coordinated with divisional management. In these circumstances, divisional management takes the lead role in the investigation. The Auditor General's Office may provide oversight by offering advice, guidance and in some cases participating in parts of the investigative work, such as conducting interviews. This coordinated approach is key to the Auditor General's ability to manage a high number of complaints, despite limited staff resources, but does not enable the Auditor General to lead key investigations and provide an appropriate level of oversight.

***Despite collaborative approach, AG maintains independence***

While we provide oversight and work in collaboration with divisional management, the Auditor General's Office maintains its independence at all times. Maintaining independence allows the Auditor General to hold City officials, management, staff and boards accountable for their stewardship over public funds pursuant to its statutory duty under the *City of Toronto Act*.

***Divisional action is reviewed by the Forensic Unit***

Divisional management is required to report back to the Auditor General's Office on complaints referred to them for review or investigation. As part of its oversight role, divisional action and investigative findings are reviewed 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 have met with the Toronto Police Financial Crimes Unit to address mutual issues of concern.

## **Communication of the Hotline Program**

***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. The Auditor General will be updating its communication strategy for the Hotline Program in 2015.

Details of all communication initiatives coordinated by the Auditor General's Office in 2014 are provided in Exhibit 3.

## **Hotline Statistical Data**

***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:

***687 Complaints received represent 1,300 allegations***

In 2014, 687 complaints were received representing a seven per cent increase in the number of hotline complaints received in 2013. 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 1,300.

*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.

*AG staff hours to operate Hotline*

Staff hours to operate the Hotline and investigate related complaints remains significant. In 2014, over 7,300 hours was required for the operation of the Hotline and all Hotline related activities.

*Action taken to investigate important*

Ultimately, the effectiveness of the 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 2014 is as follows:

Referrals to Divisions	211
Preliminary Investigative Inquires – Closed	210
No Action	161
Investigations (including those referred to Divisions)	44
Referrals to Agencies and Corporations	34
Preliminary Investigation Conducted	9
Referrals to 311	6
Not Yet Assigned	6
Referrals to Outside Agencies	3
Referrals for Future Audit	2
Referrals to Integrity Commissioner	1
<b>Total Complaints</b>	<b>687</b>



***Substantiated complaints***

Twenty per cent (52 out of 255) of all complaints referred to divisions or investigated in 2014 have been substantiated in whole or in part. This number is expected to increase as outstanding 2014 complaints continue to be concluded in 2015.

***Discipline imposed in 26 complaints***

In regard to the 52 complaints that were substantiated in whole or in part, divisional management reported that discipline was imposed in 26 instances. In the remaining 26 instances, divisional management took other appropriate action including reinforcing workplace expectations through training.

***Trends include conflicts, sick leave and LTD abuse***

In 2014, 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 includes more than just 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 \$894,000***

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

The loss associated with the complaints that came to the attention of the Auditor General in 2014 is approximately \$839,000. This includes complaints that came to the Auditor General's Office, and complaints that the Office was heavily involved with, but were led by the Divisions. This amount may increase as outstanding 2014 complaints are concluded in 2015. In addition, the City was exposed to a potential loss of \$55,000 as a result of a number of attempted cheque frauds.

***Previous year losses***

We also track actual and potential losses to the City for complaints received in previous years but closed in 2014 which totaled \$252,000.

***\$5,600,000 cumulative total of actual and potential losses for complaints received in 2009 to 2013***

The cumulative total for actual and potential losses of complaints received in previous years (2009 to 2013) is more than \$3,300,000 (actual) and \$2,300,000 (potential loss) had the fraud not been detected.

***Recurring losses***

The value of recurring losses for all complaints, that is, the amount of the actual loss that would have continued if the wrongdoing had remained undetected, is estimated at \$236,000 annually over each of the next five years. The Auditor General further discusses the quantification of recurring losses in her report entitled “2014 Annual Report Requested by the Audit Committee - Demonstrating the Value of the Auditor General’s Office”.

***Recoveries  
\$4,100***

Total recovery of actual losses for 2014 complaints was in the range of \$4,100. These amounts are expected to increase as outstanding complaints are concluded in 2015.

While this figure on its face may appear to be low, the Association of Certified Fraud Examiners *2014 Report to the Nations on Occupational Fraud and Abuse* reported that 58 per cent of victim organizations do not recover any of their fraud losses.

***Previous years recoveries  
\$1,700,000***

We also track recoveries for previous years complaints closed in 2014. The cumulative total of recoveries for the last five years (for complaints received in 2009 to 2013) is more than \$1,700,000.

***Investigation summaries – Exhibit 2***

Summarized details of certain substantiated complaints in 2014 are included as Exhibit 2. These summaries are provided as requested by Audit Committee.

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## EXHIBIT 1 – DETAILED STATISTICAL SUMMARY

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### 1. Total Complaints

***687 Complaints  
received  
represent 1,300  
allegations***

Since the Fraud and Waste Hotline Program was initiated in 2002, the Auditor General’s Office has handled more than 7,100 complaints. Each complaint may in turn contain multiple allegations. In 2014, 687 complaints received represented over 1,300 allegations.

Chart 1.1 outlines the number of complaints reported from 2002 to date.

**Chart 1.1 – Complaints Reported – 2002 to 2014**

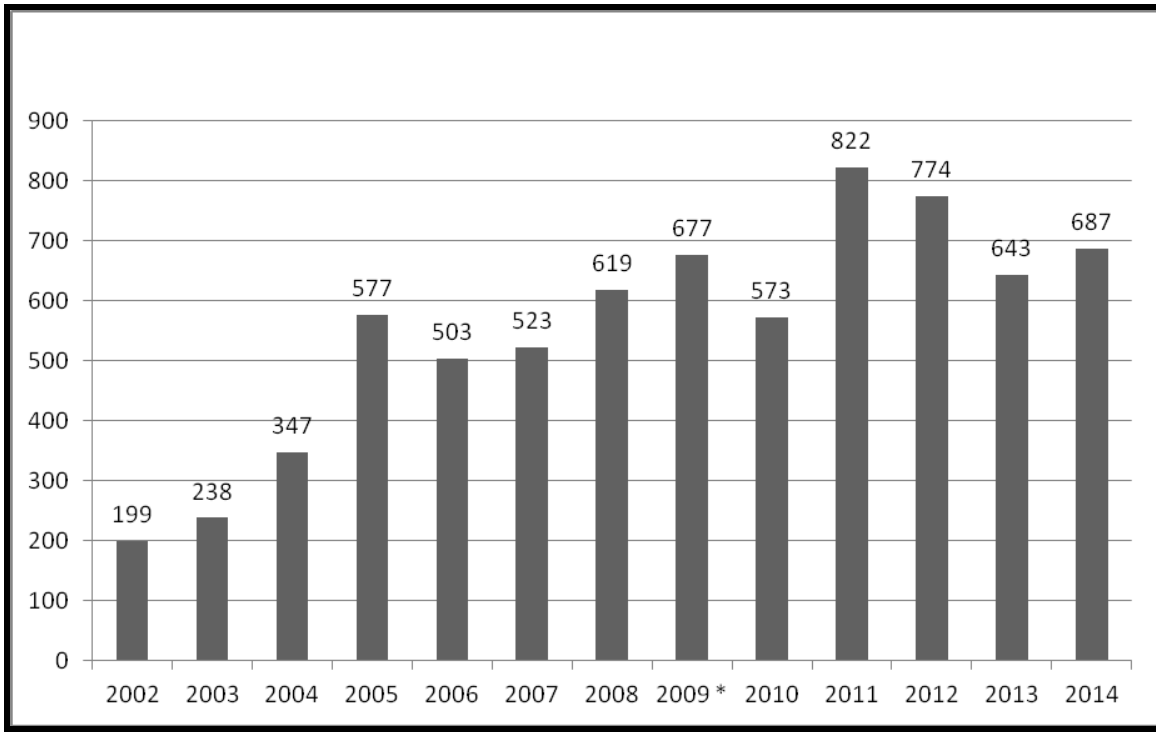
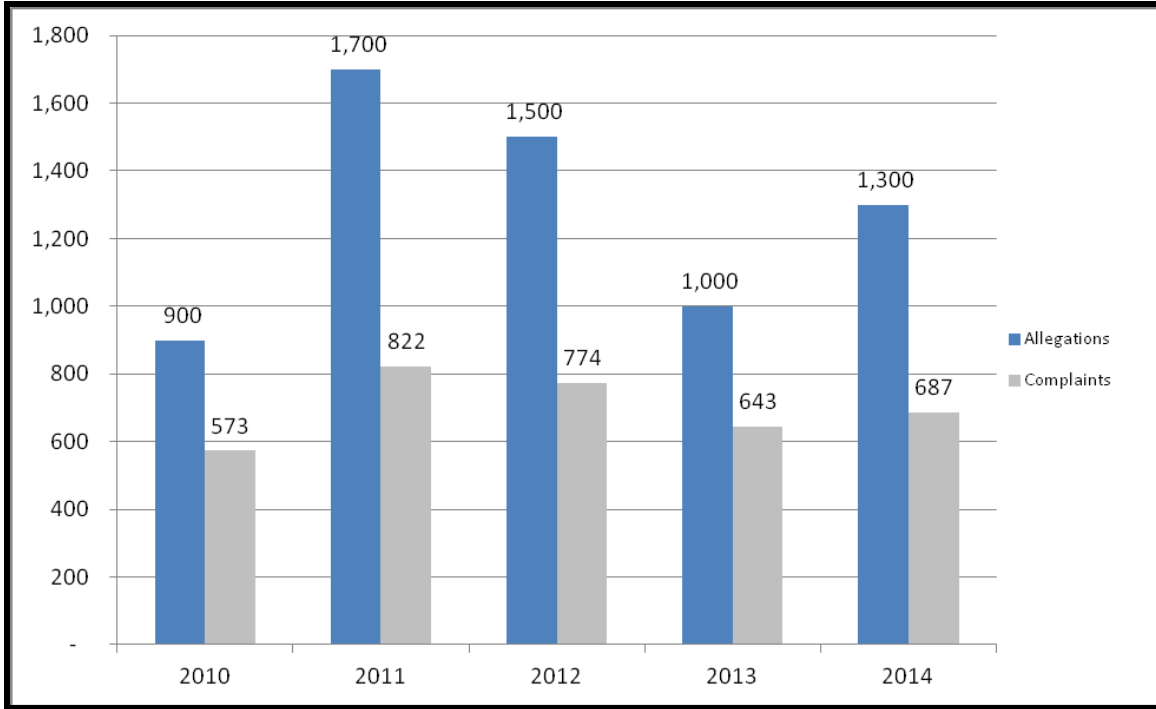


Chart 1.2 outlines the number of allegations included in complaints received over the past five years.

**Chart 1.2 – Complaints and Allegations Reported – 2010 to 2014**



***Increase in complaints***

In 2014, 687 complaints were received representing a seven per cent increase in the number of hotline complaints received in 2013.

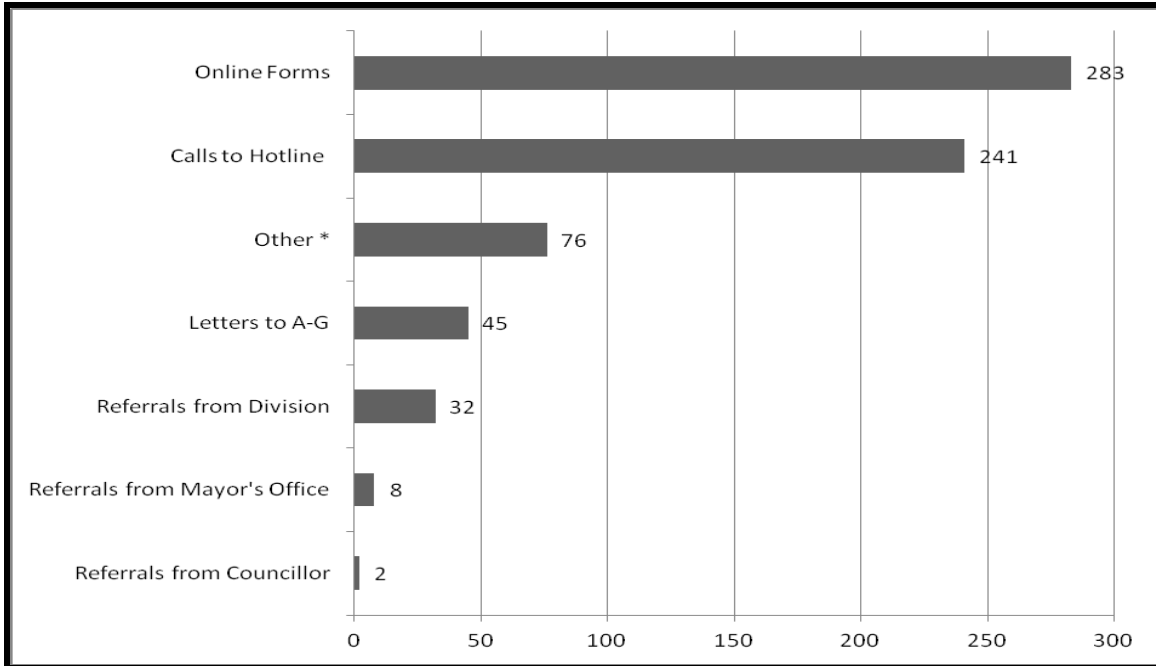
***Dynamic nature of hotline***

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 2014.

**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 76 per cent of all complaints were received via the Auditor General's online 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 2014, the Auditor General’s Office conducted preliminary investigative work in the majority (71 per cent) 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.

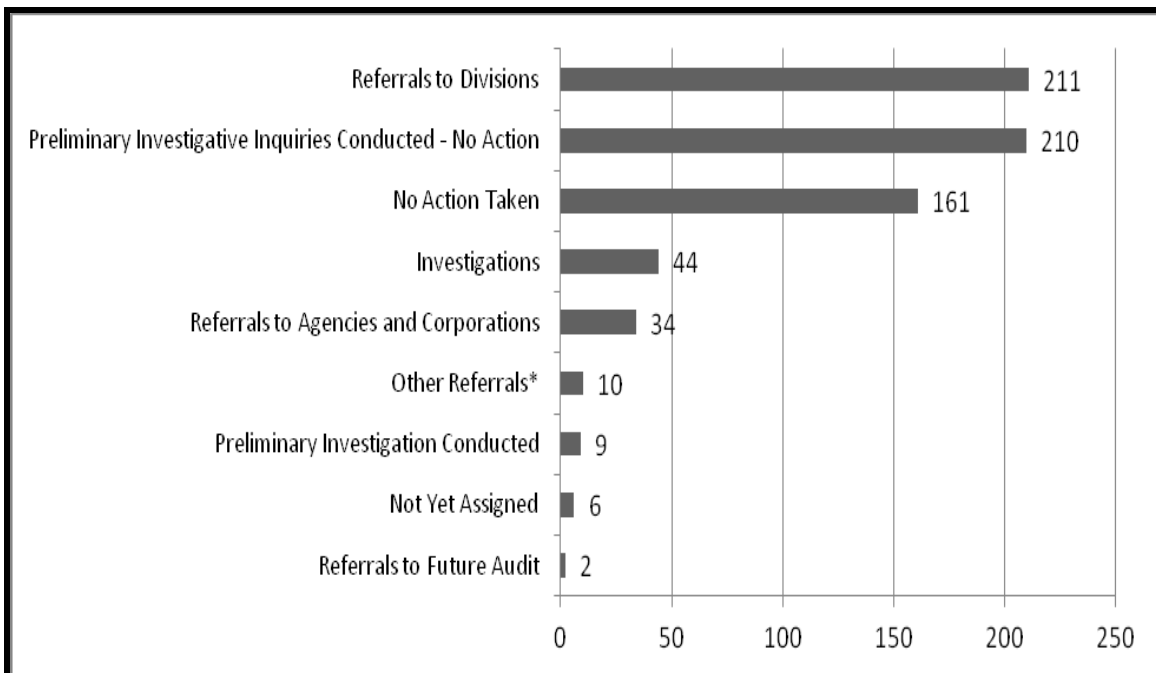
***Professional judgment used to determine the disposition of a complaint***

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 2014, as of December 31.

**Chart 3 – Disposition of Complaints**



\* Other Referrals include to 311, the Integrity Commissioner and Outside Agencies.

<b><i>Investigations</i></b>	As noted in Chart 3, 30 per cent of complaints received (210 complaints) were closed following preliminary investigative work, while six per cent of all complaints received (44 complaints) resulted in an investigation conducted and led by divisional management or the Auditor General’s Office.
<b><i>Referrals to divisions</i></b>	Thirty per cent of all complaints (211 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.
<b><i>No Action</i></b>	In 23 per cent of complaints (161 complaints), the disposition was “No Action” because of insufficient information or the matter was outside the Auditor General’s jurisdiction.

#### **4. Complaint Conclusion**

<b><i>Complaint lifecycle</i></b>	Each complaint is managed until it has been resolved or concluded.
<b><i>Unsubstantiated complaints may highlight issues of concern</i></b>	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.
<b><i>Substantiated complaints</i></b>	Twenty per cent (52 complaints) of the 255 complaints investigated or referred to divisions in 2014 have been substantiated in whole or in part. This number is expected to increase as outstanding 2014 complaints continue to be concluded in 2015.
<b><i>Anonymous complaints substantiated</i></b>	Twenty-three per cent of substantiated complaints were anonymous.
<b><i>Internal control weaknesses</i></b>	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 2013, we reported 38 complaints (14 per cent) that had been substantiated as of December 31, 2013. That number rose to 56, or 20 per cent, by December 2014.

## **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 26 complaints*

In 2014, divisional management reported that discipline was imposed in 26 of the substantiated complaints, as of December 31, 2014. In an additional 26 instances, divisional management took other appropriate action including reinforcing workplace expectations through training.

An important consideration for management in disciplining employees is that it is 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**  
**\$839,000** For complaints received in 2014, quantifiable actual losses to the City were in the range of \$839,000. This amount is expected to increase as outstanding 2014 complaints are concluded in 2015.

**Potential losses**  
**\$55,000** In 2014, the City was exposed to a potential loss of \$55,000 as a result of a number of attempted cheque frauds.

**Recurring losses** The value of recurring losses for all complaints, that is, the annual loss that would have continued had the wrongdoing remained undetected, is estimated at \$236,000 annually over each of the next five years. The Auditor General further discusses the quantification of recurring losses in her report entitled “2014 Annual Report Requested by the Audit Committee - Demonstrating the Value of the Auditor General’s Office”.

**Recovery of losses** **\$4,100** Total recovery of actual losses for 2014 complaints was approximately \$4,100. Again, this amount is expected to increase as outstanding complaints are concluded in 2015.

**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.

**7. Divisions, Agencies and Corporations with Substantiated Complaints**

Chart 5 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 5 – Divisions and Agencies and Corporations with Substantiated Complaints**

3-1-1 Project Office	Pension, Payroll and Employee Benefits
Building	Public Health
Children’s Services	Purchasing and Materials Management
Employment and Social Services	Revenue Services
Engineering & Construction Services	Shelter, Support and Housing Administration
Exhibition Place	Toronto Paramedic Services
Fleet Services	Toronto Public Library
Long Term Care Homes and Services	Toronto Water
Municipal Licensing and Standards	Transportation Services
Parks, Forestry and Recreation	

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## **EXHIBIT 2 – SUBSTANTIATED COMPLAINT SUMMARIES**

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Below are summarized details of various reviews and investigations concluded in 2014 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. Employee Benefits Fraud**

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

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

The investigation concluded that the employee and the employee's spouse had submitted fraudulent extended health care benefit claims, dental claims, over several years totaling approximately \$60,000.

The employee was terminated and both the employee and the employee's spouse were charged by the Toronto Police Service with Fraud over \$5,000 and Possession of Property Obtained by Crimes. This matter has since been resolved in court with the employee's spouse pleading guilty to charges and being required to make restitution in the amount of \$59,645. In exchange, charges were withdrawn against the employee.

### **2. Child Care Subsidy Fraud**

A complaint was received through the Fraud and Waste Hotline alleging that a member of the public was receiving child care subsidy through fraudulent subsidy claims.

The investigation was led by the Division and the investigation concluded that the individual had provided falsified information regarding their employment status. As a result, the individual received child care subsidies for which they were not entitled to. The total amount of ineligible overpayment was approximately \$32,000.

The matter has been referred to the Toronto Police Service.

### **3. Employee Benefits Fraud**

The Auditor General's Office was advised by a Division that the City's Benefits Provider was investigating allegations of fraudulent benefits claims submitted by an employee.

The investigation concluded that the City employee had submitted fraudulent extended health care benefit claims totaling approximately \$5,300. The City has recovered the total amount.

The employee was terminated and the matter has been referred to the appropriate regional Police Service.

### **4. Sick Leave Abuse**

A complaint was received through the Fraud and Waste Hotline alleging that a City employee was abusing sick days by claiming to be sick while on a vacation out of the country.

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

The investigation concluded that the employee inappropriately claimed sick time while on vacation and to attend a personal event. This represented 72 hours for a total of approximately \$3,000.

The employee was terminated but the termination was grieved and referred to arbitration. The employee was reinstated on terms that included repayment of days booked off. The City has recovered the total amount.

### **5. Overbilling by Vendor**

The Auditor General's Office was advised of a complaint alleging that a City vendor was overbilling for work not performed.

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

The investigation concluded that the City was billed by the vendor for repair work that was not performed. As a result, the vendor reimbursed the City for the full amount totaling approximately \$7,200.

Division has formally notified the vendor that any future occurrence of overbilling, fraudulent in nature, will result in termination of the contract.

## **6. Fraud and Conflict of Interest**

The Auditor General's Office was advised of a complaint involving allegations of fraud and conflict of interest by a City employee. The complaint alleged that the employee was conducting personal businesses on City time, abused sick days while working a second job, and potential identity theft and forgery.

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 violated a number of City Policies including the Conflict of Interest, Fraud Prevention and Acceptable Use Policies.

The employee was terminated.

## **7. Sick Leave Abuse**

The Auditor General's Office was advised by a City Division that it had determined an employee had received a lengthy driver's license suspension during a period for which the employee had reported as ill.

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

The investigation concluded that the City employee's absence from work and use of sick time was not due to a medical condition. The total loss to the City was approximately \$22,000.

The employee was terminated.

## **8. Misuse of City Assets**

During its audit of telecommunication expenses, the Auditor General's Office identified seven potential instances of misuse of corporate cell phones involving employees in various divisions. Investigations concluded five substantiated instances of cell phone abuse. The total cumulative loss in all five cases was approximately \$40,000. Recoveries to date total \$10,800. Discipline of the employees was determined by Divisional Management and included termination of employment.

As an example, one matter was referred to the Division for investigation, in consultation with the Human Resources Division and City Legal Services. The Auditor General's Office was consulted throughout the investigation.

The investigation concluded that a City employee used City issued cell phones to make numerous international long distance calls and incurred roaming and data charges totaling more than \$25,000 over a number of years for personal use, violating the City's Fraud Prevention and Acceptable Use Policies.

The employee was terminated. The Union has filed a grievance which is proceeding through the grievance and arbitration process.

## **9. Social Assistance Fraud**

Divisional management advised the Auditor General's Office of a complaint involving fraudulent social assistance claims submitted by a City employee.

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

The investigation concluded that the employee, a recipient of social assistance, failed to update their employment and income status enabling the employee to continue receiving social assistance payments, totaling approximately \$8,000, for which they were not entitled to.

The employee was disciplined and the matter was referred to the Toronto Police Service.

## **10. Water Theft**

Divisional management advised the Auditor General's Office of a complaint involving theft of water by a member of the public.

The investigation was led by two City Divisions. The investigation concluded that the member of the public had an improper and/or illegal water connection installed that bypassed the City water meter. The estimated water consumption not previously billed was approximately \$9,500.

The City issued a bill for the estimated water consumption that was not previously paid for and has recovered the full amount owed.

## **11. Social Assistance Fraud**

Divisional management advised the Auditor General's Office of a complaint involving fraudulent social assistance claims submitted by a member of the public using different identities.

The investigation was led by the Division. The investigation concluded that this member of the public fraudulently obtained social assistance benefits totaling approximately \$25,000.

The matter was referred to the Toronto Police Service and the member of the public was charged with fraud over \$5,000. Recovery was pursued through the courts.

Also during the investigation, eligibility for social assistance paid out to 26 other individuals associated with the implicated member of the public was identified. The Division conducted an in-depth review of each case and determined the individuals were not eligible to receive benefits totaling \$83,000. The City is pursuing recovery.

## **12. Violation of City Contract and Policies by Contracted Agency**

A City division advised the Auditor General's Office of allegations that a City contracted agency was in violation of its contract with the City and had contravened the Division's policies. The agency was therefore receiving funds from the City, which they were not entitled to.

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

The investigation concluded that the agency had violated the City contract and contravened Divisional policies by submitting false and/or inaccurate records to obtain funds from the City. The total loss to the City is estimated at approximately \$628,000.

The City negotiated a settlement of this matter.

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## EXHIBIT 3 – COMMUNICATION OF THE HOTLINE PROGRAM

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***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 2014, the Auditor General's Office continued to develop communication strategies, in consultation with the City's Corporate Communications Division.

The communication strategy will be refreshed during 2015.

***Communication initiatives have continued in 2014***

Communication initiatives in 2014 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 the Fraud and Waste Hotline Annual Report in City Insider and City Updates newsletters
- continued display of information on the City's Internet/Intranet sites
- article on Identifying Fraud included in the Association of Local Government Auditors' Fall Quarterly Newsletter
- presentations at public sector and government related conferences.