



**AUDITOR GENERAL'S  
REPORT  
ACTION REQUIRED**

**2015 Annual Report on Fraud and Hotline Activities**

<b>Date:</b>	February 17, 2016
<b>To:</b>	Audit Committee
<b>From:</b>	Auditor General
<b>Wards:</b>	All
<b>Reference Number:</b>	

**SUMMARY**

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*Committed to Integrity, Transparency and Accountability*

This report represents the 2015 annual report on fraud and wrongdoing at the City including the activities of the Fraud and Waste Hotline Program (the Hotline Program). It highlights only those issues that have been communicated to the Auditor General's Office. It does not represent an overall picture of fraud or other wrongdoing across the City.

In 2015, 572 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 800.

The Auditor General's Forensic Unit is comprised of a multi-disciplinary team of professionals that operate the Hotline Program and collectively possess the expertise to resolve a broad range of complaints and conduct investigative work into allegations that are often complex in nature.

All complaints are triaged based on a number of considerations including the nature of the allegations, previous similar complaints, audit issues identified by the Auditor General's Office and potential risks. The Forensic Unit does not have sufficient resources to fully investigate all allegations received and is selective in the investigative work it conducts or leads. In 2015, the Forensic Unit conducted preliminary investigative work in 85 per cent of complaints. In cases where additional work is required, complaints are usually forwarded to management to further investigate the matter. Management reports the results of its investigations that then become the subject of independent oversight by the Forensic Unit. A determination is made as to the adequacy

of management's work and whether additional investigative work will be conducted by the Auditor General's Office. Not all matters can or should be investigated by management. Echoing concerns in last year's annual report, lean resourcing is impacting every stage of our operations. The level of oversight by the Forensic Unit due to current resources presents a risk to the City.

In relation to investigations conducted by management, it is critical that management led investigations be conducted by staff qualified to deal with the sensitivities of investigating wrongdoing. Despite corporate training developed by Human Resources on "How to Conduct Workplace Investigations", given the complexity of fraud and wrongdoing, management has often requested guidance from the Auditor General's Forensic Unit. To maintain independence, the Forensic Unit should not be guiding management actions in workplace investigations. There appears to be a continuing need to ensure comprehensive training and resources are made available to support City staff tasked with investigating complaints.

## **RECOMMENDATIONS**

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The Auditor General recommends that:

1. City Council request the City Manager to ensure comprehensive training on the fundamentals of conducting investigations are made available to support City staff responsible for conducting investigations into alleged wrongdoing.

### **Financial Impact**

The costs associated with implementation of the recommendation are not determinable at this time as it will depend on whether existing training is leveraged and enhanced or whether new training is developed.

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**

In June 2014 Council adopted a Public Service By-law that introduced a new Disclosure of Wrongdoing framework. Among other things, it reinforces the Auditor General's independent oversight role in the investigation of reported wrongdoing.

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 "2015 Annual Report on Fraud and Hotline Activities" is attached as Appendix 1.

Summaries of certain substantiated complaints in 2015, 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**

Carmelina Di Mondo, Assistant Auditor General, Forensic Unit, Auditor General's Office

Tel: 416-397-7625, Fax: 416-392-3754, E-mail: [cdimond@toronto.ca](mailto:cdimond@toronto.ca)

Elaine Au, Senior Investigator, Forensic Unit, Auditor General's Office

Tel: 416-392-8437, Fax: 416-392-3754, E-mail: [eau@toronto.ca](mailto:eau@toronto.ca)

## **SIGNATURE**

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Beverly Romeo-Beehler, Auditor General

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## **ATTACHMENTS**

Appendix 1: 2015 Annual Report on Fraud and Hotline Activities

**AUDITOR GENERAL'S OFFICE**

*Committed to Integrity, Transparency and Accountability*

**2015 ANNUAL REPORT ON  
FRAUD AND HOTLINE ACTIVITIES**

**February 17, 2016**

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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
Fraud and Waste Hotline Program – Insufficient Resources .....	1
New Disclosure of Wrongdoing Framework – Increases AG Responsibility .....	2
Investigation Training for Management Needed .....	3
Recommendation .....	4
Statistical Summary.....	4
<b>Exhibit 1:</b> Detailed Statistical Summary.....	6
1. Total Complaints .....	6
2. Source of Complaints .....	8
3. Disposition of Complaints.....	8
4. Complaint Conclusion.....	10
5. Disciplinary Action in Substantiated Complaints .....	11
6. Loss and Recovery .....	11
7. Divisions, Agencies and Corporations with Substantiated Complaints .....	12
<b>Exhibit 2:</b> Substantiated Complaint Summaries .....	14
<b>Exhibit 3:</b> Communication of the Hotline Program.....	18

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# ANNUAL REPORT

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*Annual report  
on fraud and  
hotline activity*

This report represents the 2015 annual report on fraud and wrongdoing at the City including the activities of the Fraud and Waste Hotline Program (the Hotline Program). It highlights only those issues that have been communicated to the Auditor General's Office. It does not represent an overall picture of fraud or other wrongdoing across the City.

*Role of the Auditor  
General*

The Auditor General's responsibility to assist City council in holding itself and its administrators accountable for stewardship over public funds and value for money in City operations, is fulfilled by completing an audit work plan and conducting forensic investigations.

## **Fraud & Waste Hotline Program**

*Fraud and Waste  
Hotline Program*

In 2002 the Auditor General established a Hotline Program as an independent resource for employees or members of the public to report complaints of fraud, waste or other wrongdoing without fear of retribution, and anonymously if preferred.

*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 are not quantifiable 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, make action-oriented recommendations to management and inform the audit work plan

*Forensic Unit  
dedicated to  
Hotline – no added  
staff resources  
since 2006*

Council has supported the operation of the Hotline Program since inception including the establishment of a dedicated "Forensic Unit" in 2005. The last time Council approved an additional staff resource for the Forensic Unit was in 2006.

*Forensic Unit has expertise to investigate a broad range of complex allegations*

The Auditor General's Forensic Unit is comprised of a multi-disciplinary team of professionals that collectively possess the expertise to triage a broad range of complaints and conduct investigative work into allegations that are often complex in nature. The Forensic Unit also provides independent oversight of management led investigations to review the adequacy of work conducted including steps taken to reduce losses, protect City assets and prevent future wrongdoing.

*Insufficient resources to operate Hotline, investigate and provide oversight*

Echoing concerns in last year's annual report, the level of current resources in the Forensic Unit are insufficient and impacting every stage of our operations:

- Deferral of communication initiatives to promote Hotline
- Delays in triaging complaints
- Key investigations being led by management instead of the Auditor General's Office
- Reduced level of independent oversight over management led investigations
- Forensic Unit staff working at an unrelenting pace

*AG's reduced level of oversight presents a risk to the City*

The foregoing present risks to the City of Toronto. For example, in 2015 there continue to be instances where management led an investigation and found a complaint to be unsubstantiated. Further independent review and oversight by the Auditor General's Forensic Unit determined that allegations were in fact substantiated.

## **New Disclosure of Wrongdoing Framework**

*New Disclosure of Wrongdoing Framework*

In June 2014 Council adopted a Public Service By-law that introduced a new Disclosure of Wrongdoing framework. The By-law:

- Consolidates former policies into a new "Disclosure of Wrongdoing and Reprisal Protection Policy"
- Reinforces the Auditor General's independent oversight role in the investigation of reported wrongdoing
- Distinguishes complaints defined as "wrongdoing" (handled by the Auditor General's Office) versus "misconduct" (solely handled by management)
- Sets out the roles of the Auditor General and the City Manager in the investigation of wrongdoing

*Adds responsibility for AG to solely investigate reprisal*

The Auditor General has also been given the added responsibility to solely investigate complaints of reprisal against City employees who report wrongdoing.

*Management responsible to ensure employees can report without reprisal*

The fear of reprisal can deter many people from reporting allegations of wrongdoing. While the Auditor General's Office is responsible for the operation of the Hotline Program, management is responsible for ensuring employees who report allegations of wrongdoing may do so without reprisal. The importance of protecting those who report wrongdoing should be conveyed to all City employees, as highlighted in our previous annual reports.

## **Investigation Training for Management**

*Forensic Unit professionals have expertise to conduct complex investigations*

While the Forensic Unit staff collectively possess the expertise to conduct complex investigations, due to limited staff resources, the Unit focuses its investigative work into high risk areas. Resource constraints have also reduced the level of oversight the Forensic Unit provides for investigations led by management.

*Management requests advice on how to conduct investigations from AG*

It is critical that management led investigations be conducted by staff qualified and aware of the sensitivities of investigating wrongdoing. Not all management roles are routinely compatible to do so. At the very least, it is important that management led investigations are conducted in a consistent and objective manner. Despite corporate training developed by Human Resources on "How to Conduct Workplace Investigations", given the complexity of fraud and wrongdoing, management has often requested guidance from the Auditor General's Forensic Unit. To maintain independence, the Forensic Unit should not be guiding management actions in workplace investigations. There appears to be a continuing need to ensure comprehensive training and resources are made available to support City staff tasked with investigating complaints.

*Investigation training and resources required*

We have had previous discussions regarding the need for training on the fundamentals of how to conduct investigations including with the City Manager's Internal Audit Division. Despite steps taken by Internal Audit to assess learning needs and recommend such training, appropriate training has not yet been implemented.

## Recommendation:

1. **City Council request the City Manager to ensure comprehensive training on the fundamentals of conducting investigations are made available to support City staff responsible for conducting investigations into alleged wrongdoing.**

## Statistical Summary

### *Hotline Statistics Exhibit 1*

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

Highlights of the 2015 statistics provided are as follows:

### *572 complaints or 800 allegations*

- 572 complaints received or 800 allegations
- Preliminary investigative work conducted in the majority (85 per cent) of complaints received

### *25% substantiated*

- 25 per cent of all complaints reviewed or investigated substantiated in whole or in part, as at December 31, 2015
- Fifty-one per cent of substantiated complaints were anonymous

### *Discipline*

- Discipline imposed in 25 instances
- In 30 instances other appropriate action was taken e.g. training to reinforce workplace expectations

### *Trends*

- Substantiated complaint trends include conflicts of interest (e.g. employees with second jobs), time theft and subsidy fraud

### *\$286,000 losses*

- Losses associated with the 2015 complaints total approximately \$209,000 (actual) and \$77,000 (potential loss) had the fraud not been detected

### *\$5.1M potential exposure in one case*

- \$5.1 million in potential exposure was identified in one particular 2015 complaint, but the actual loss is difficult to quantify

### *\$1.9M previous years losses*

- Losses associated with complaints received in previous years but closed in 2015 total approximately \$1.9 million (actual)

### *\$7.4M cumulative losses last 5 years*

- Cumulative total for actual and potential losses for last 5 years is more than \$5.2 million (actual) and \$2.2 million (potential loss) had the fraud not been detected
- Cumulative total recoveries for the last five years is more than \$1.5 million

***Action taken  
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.

***Investigation  
Summaries  
Exhibit 2***

Summarized details of certain substantiated complaints in 2015 are included as Exhibit 2. These summaries are provided as requested by Audit Committee.

***Communications  
Initiatives  
Exhibit 3***

Details of communication initiatives coordinated by the Auditor General's Office to promote the Hotline Program in 2015 are provided in Exhibit 3.

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## EXHIBIT 1 – DETAILED STATISTICAL SUMMARY

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Collecting, monitoring and analyzing data on complaints received may 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.

Complaint data from the Hotline is one of the factors considered that may result in an audit being conducted. For example, audits that have been initiated in part due to complaint data from the Hotline include:

- *Emergency Medical Services – Payroll and Scheduling Process Require Strengthening*
- Various audit reports on Toronto Community Housing Corporation
- *Local Road Resurfacing – Improvements to Inspection Process Required to Minimize Incorrect Payments to Contractors*
- *Management of the City’s Long-Term Disability Benefits, Phase One: Improving City Management to Address Growing Trends in Long-Term Disability Benefits*
- In 2016, the Auditor General will be conducting an audit of health benefits as a result of complaints received

### 1. Total Complaints

***572 Complaints received represent 800 allegations***

Since the Fraud and Waste Hotline Program was initiated in 2002, the Auditor General’s Office has handled more than 7,700 complaints. Each complaint may in turn contain multiple allegations. In 2015, 572 complaints received represented over 800 allegations.

***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, including outreach activities and the nature of the issues reported by the media.

Chart 1.1 outlines the number of complaints reported from 2006 to date.

**Chart 1.1 – Complaints Reported – 2006 to 2015**

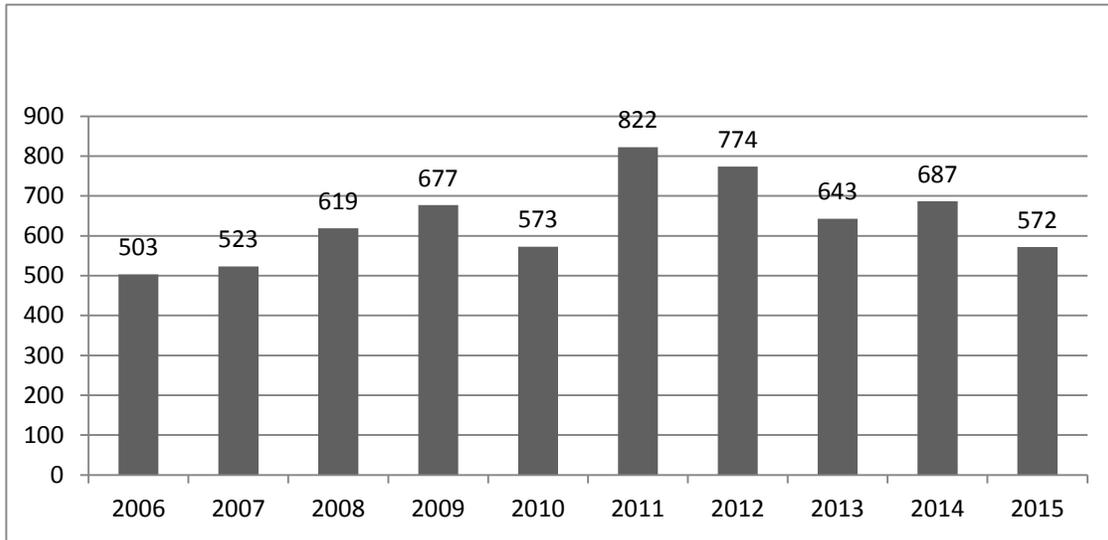
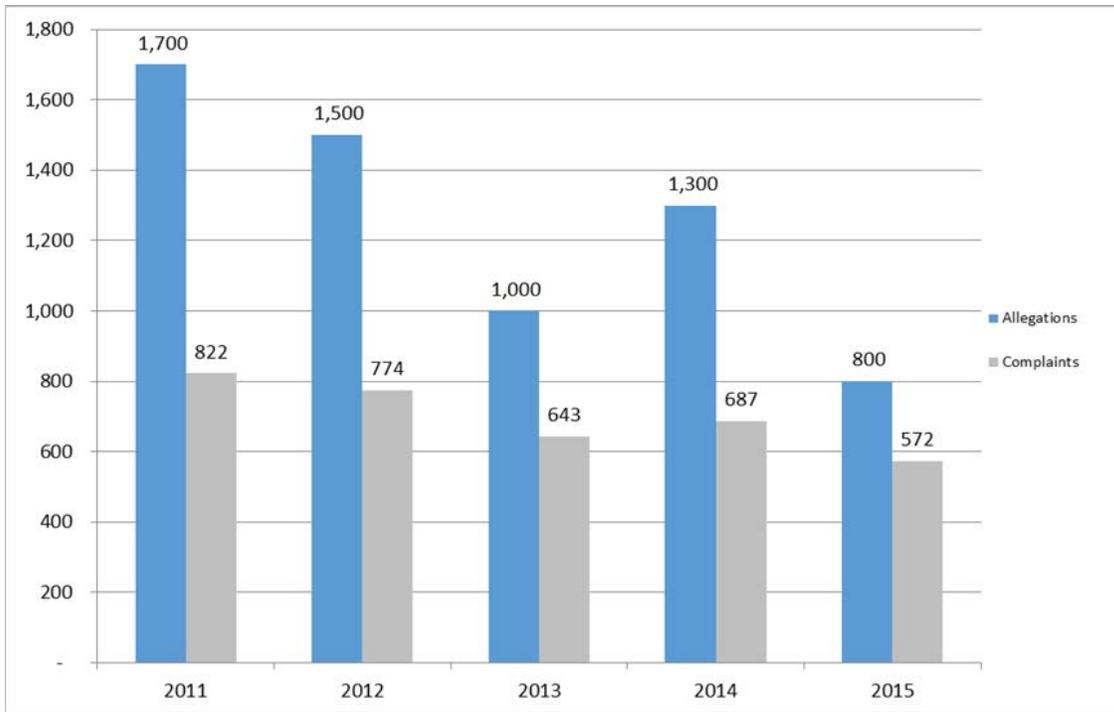


Chart 1.2 outlines the number of allegations included in complaints received over the past five years.

**Chart 1.2 – Complaints and Allegations Reported – 2011 to 2015**



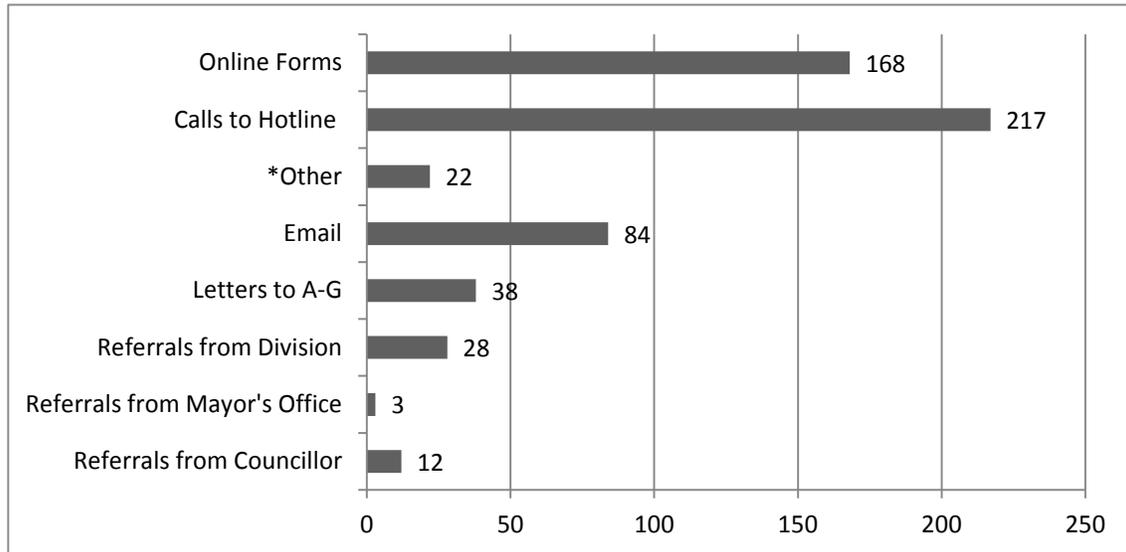
***Decrease in complaints***

In 2015, 572 complaints were received representing a 17 per cent decrease in the number of hotline complaints received in 2014.

## 2. Source of Complaints

Chart 2 provides a summary of the methods used to report complaints to the Fraud and Waste Hotline Program in 2015.

**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.

Thirty-eight per cent of all complaints were received through direct telephone calls to the Hotline while 29 per cent of all complaints were received via the Auditor General's online complaint form.

## 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***

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.

In 2015, the Auditor General’s Office conducted preliminary investigative work in the majority (85 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***

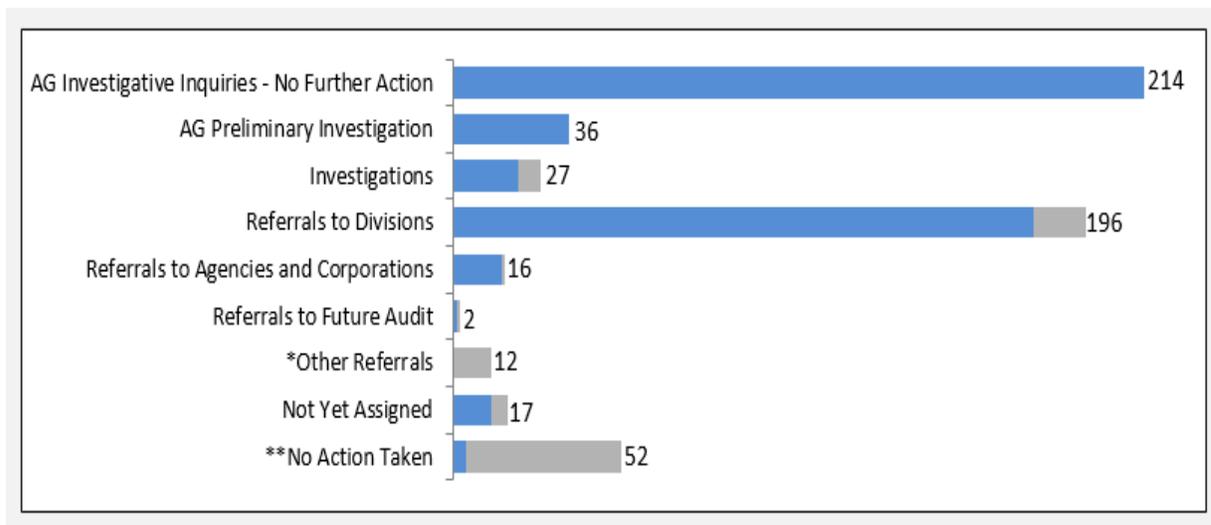
The unique circumstances of each complaint require the application of professional judgment to determine the appropriate disposition.

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

***AG conducts investigative work in majority of complaints***

Chart 3 provides a breakdown of the disposition of complaints received in 2015, as of December 31 and illustrates that in the majority of complaints the Auditor General conducts investigative work.

**Chart 3 – Disposition of Complaints**



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

**\*\*No Action Taken include complaints with insufficient information or are outside our jurisdiction.**

**AG Preliminary Investigative Inquiries: Conducted (blue bar) Not Conducted (grey bar)**

<i>Investigations</i>	Thirty-seven per cent of complaints received (214 complaints) were closed following preliminary investigative work by the Auditor General's Office. Five per cent of all complaints received (27 complaints) resulted in a full investigation conducted and led by divisional management or the Auditor General's Office.
<i>Referrals to divisions</i>	Thirty-four per cent of all complaints (196 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.
<i>No Action</i>	In 9 per cent of complaints (52 complaints), the disposition was "No Action" because of insufficient information or the matter was outside the Auditor General's jurisdiction.

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

	Each complaint is managed until it has been resolved or concluded.
<i>Unsubstantiated complaints may highlight issues of concern</i>	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.
<i>Substantiated complaints 25%</i>	Twenty-five per cent (55 complaints) of the 223 complaints investigated or referred to divisions in 2015 have been substantiated in whole or in part. This number is expected to increase as outstanding 2015 complaints continue to be concluded in 2016.
<i>Anonymous complaints</i>	Fifty-one per cent of substantiated complaints were anonymous.
<i>Internal control weaknesses</i>	Where internal control weaknesses have contributed to or facilitated the wrongdoing in substantiated complaints, divisions have advised the internal control weaknesses have been addressed.

*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.

## **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 2015, divisional management reported that discipline was imposed in 25 of the substantiated complaints, as of December 31, 2015. In an additional 30 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.

*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.

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

*\$209,000 actual losses*

For complaints received in 2015, quantifiable actual losses to the City were in the range of \$209,000. This amount is expected to increase as outstanding 2015 complaints are concluded in 2016.

***\$77,000 potential losses***

In 2015, the City was exposed to a potential loss of \$77,000 as a result of a number of attempted cheque frauds.

***\$1,800 recovery of losses***

Total recovery of actual losses for 2015 complaints was approximately \$1,800. Again, this amount is expected to increase as outstanding complaints are concluded in 2016.

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.

Information concerning complaint conclusion, resolution, or the determination of loss and recovery often occurs several years after the allegations are received. Amounts reported for complaints received in previous years are adjusted once concluded in subsequent years.

***\$400,000 previous year recoveries***

In 2015, recoveries related to previous year complaints totaled approximately \$400,000.

***\$1.9M previous year losses***

Actual losses to the City for complaints received in previous years but closed in 2015 totaled \$1.9 million.

***\$7.4M cumulative losses for 5 years***

The cumulative total for actual and potential losses of complaints received in previous years (2011 to 2015) is more than \$5.2 million (actual) and \$2.2 million (potential loss) had the fraud not been detected.

## **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**

Auditor General's Office	Long Term Care Homes and Services
Building	Parks, Forestry and Recreation*
City Clerk's Office	Public Health*
Children's Services*	Purchasing and Materials Management
Employment and Social Services	Shelter, Support and Housing Administration
Facilities Management*	Toronto Paramedic Services
Fire Services	Toronto Public Library
Fleet Services	Toronto Water
Legal Services	Transportation Services

\* Divisions, Agencies and Corporations with 4 or more substantiated complaints in 2015.

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

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Below are summarized details of various reviews and investigations concluded in 2015 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 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 over several years totaling approximately \$23,000.

Employment was terminated and the matter has been referred to the appropriate regional Police Service. The City is pursuing recovery of funds pending the conclusion of the criminal matter.

The Auditor General has added an audit of the management of health and dental claims to her 2016 work plan.

### **2. Conflict of Interest – Misuse of City Resources**

Several anonymous complaints were received through the Fraud and Waste Hotline alleging that a City employee was conducting personal business on City time and using City resources.

The investigation was initially led by the Division. Based on investigative work conducted by the Division, the allegations were found to be unsubstantiated. As part of its independent and oversight role, the Auditor General's Office conducted additional investigative work to review and corroborate Divisional management's findings. The Auditor General's investigation concluded that the employee had violated the City's Acceptable Use Policy by using City resources to conduct business for personal gain.

The employee is no longer with the City.

### **3. Subsidy Claim Fraud**

An anonymous complaint was received through the Fraud and Waste Hotline alleging that a member of the public was receiving subsidies through fraudulent claims.

The investigation was led by the Division and concluded there was evidence that the individual received subsidies for which they were not entitled to. The total amount of potential ineligible overpayment was approximately \$89,000. The Division is currently consulting with Legal Services to pursue recovery.

### **4. Subsidy Claim Fraud**

An anonymous complaint was received through the Fraud and Waste Hotline Program alleging that a member of the public was receiving subsidies through fraudulent claims.

The investigation was led by the Division and the investigation concluded that the individual received subsidies for which they were not entitled to. The total amount of ineligible overpayment was approximately \$16,600. The City has recovered the full amount.

### **5. Employee Time Theft**

The Auditor General's Office was advised by a Division that an employee had not been working their full shift.

The investigation was led by the Division, in consultation with the Labour Relations and Corporate Security.

The investigation concluded that the employee committed time fraud by submitting false or inaccurate information on time logs. The total loss to the City was approximately \$40,000, representing over 800 hours of time theft.

Employment was terminated.

### **6. Subsidy Claim Fraud**

An anonymous complaint was received through the Fraud and Waste Hotline alleging that a member of the public was receiving subsidies through fraudulent claims.

The investigation was led by the Division and the investigation concluded that the individual received subsidies for which they were not entitled to. The total amount of ineligible overpayment was approximately \$55,200. The City is pursuing full recovery.

## **7. Conflict of Interest**

The Auditor General's Office was advised of a complaint alleging a conflict of interest and misuse of City resources involving an employee who had a second job.

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

The investigation concluded the employee had violated the Conflict of Interest and Acceptable Use Policies.

The employee was suspended for two days with no pay.

## **8. Employee Time Theft**

The Auditor General's Office was advised by a City Division that it had determined an employee had misreported their jury duty leave.

The investigation was led by the Division and concluded that the employee inappropriately claimed jury duty for 44 unaccounted days while the court was on recess. The loss to the City was approximately \$11,000.

Employment was terminated.

## **9. 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 City employees.

The investigation concluded that numerous City employees had submitted fraudulent extended health care benefit claims over several years totaling approximately \$102,000. The City has recovered over \$28,000 and is in the process of recovering additional funds.

The employment of several employees was terminated and criminal charges are before the courts.

The Auditor General has added an audit of the management of health and dental claims to her 2016 work plan.

## **10. Employee Benefits Fraud**

In the context of following up on a separate matter, the Auditor General's Office was advised by a City Agency of an ongoing investigation into allegations of fraudulent benefits claims submitted by a number of employees in collusion with a third party service provider.

The City Agency's Benefits Administrator led the investigation into the third party service provider and the matter was referred to the Toronto Police Service for investigation.

The City Agency is leading the investigation into over 600 employees that submitted health care claims to the organization being investigated for fraud. The total number of improper or fraudulent claims is still to be determined as the investigation continues. The City Agency is self-insured and reimburses its Benefits Administrator for the actual benefit claims paid to employees. The total benefits paid out to the service provider was \$5.1 million representing the City Agency's potential exposure.

As part of its role to provide independent oversight, the Auditor General met with the City Agency and its Benefits Administrator to discuss the matter including potential further action by the Auditor General's Office to verify public funds are being safeguarded. In this regard, the Auditor General has added an audit of the management of health and dental claims to her 2016 work plan.

## **11. Waste – Purchase of Incorrect Software Licenses**

A complaint was received through the Fraud and Waste Hotline Program that alleged the wrong software licenses were purchased resulting in unnecessary cost to the City, as licenses had to be upgraded.

While the Auditor General's Forensic Unit conducted preliminary investigative inquiries, the matter was incorporated into the Auditor General's audit of software licenses that confirmed the City purchased the wrong licenses, effectively substantiating the complaint. In her 2015 public report entitled "Software Licenses – Managing the Asset and Related Risks", the Auditor General reported that this error may have cost the City in the range of \$700,000 more than if the correct software had been acquired in the first place.

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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*

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.

A refresh of the Hotline Program communication strategy and initiatives was deferred due to other priorities.

*Communication initiatives have continued in 2015*

Communication initiatives in 2015 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 continues to be included 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
- email communication to Mayor's Office and City Councillors providing information on the Hotline Program
- continued display of information on the City's Internet/Intranet sites.