

## **Raising the Alarm: Fraud Investigation of a Vendor Providing Life Safety Inspection Services to the City of Toronto**

**Date:** June 28, 2018  
**To:** Audit Committee  
**From:** Auditor General  
**Wards:** All

### **SUMMARY**

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The Auditor General's Fraud and Waste Hotline received a complaint about a vendor<sup>1</sup> that has had many contracts with the City. These contracts were to perform inspections and repairs of life safety systems such as emergency lighting, fire alarms, sprinkler systems and fire extinguishers. The vendor also performs life safety inspections for private buildings.

The complainant alleged that the vendor routinely submitted inspection reports and invoices for work that was not done, forged signatures of their own staff, operated as multiple companies, and used false identities as signatories to contracts.

This report details the Auditor General's investigation findings into this particular vendor and makes 17 recommendations.

The findings in this report brings awareness for the requirement, under the Ontario Fire Code, to have proper documentation for life safety inspection services. It calls for management to be diligent in following up on issues that occur with vendors and it highlights the risks of not conducting proper due diligence when hiring life safety inspection vendors.

It should be noted that the findings in this report do not necessarily mean that City buildings are unsafe. In addition, because there are some third-party vendors we are concerned about, it does not mean that all vendors conducting life safety inspections are problematic.

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<sup>1</sup>The vendor is an individual associated with a series of companies and the vendor appears to be the, or one of the main directing mind(s) behind the series of companies.

## RECOMMENDATIONS

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The Auditor General recommends that:

1. City Council request the Deputy City Manager, Internal Corporate Services to create a governance process for any City-owned buildings, inclusive of standards, protocols and monitoring practices, that enables all Divisions, Agencies and Corporations:

- a. to ensure compliance with all Ontario Fire Code regulations
- b. to retain on file for a period of not less than two years all documentation supporting the City's compliance with the Ontario Fire Code.

2. City Council request the General Manager, Facilities Management, to:

- a. bring all buildings in compliance with the Ontario Fire Code
- b. establish a process to monitor the completeness of fire inspections and monitor the rectification of all fire safety deficiencies for all City Divisions, Agencies and Corporations
- c. report back to City Council annually on the level of compliance.

3. City Council request the General Manager, Facilities Management, to:

- a. develop a training curriculum that encompasses all requirements of the Ontario Fire Code and be delivered to those delegated and/or designated responsibility by the City of Toronto to ensure compliance with the requirements of the Ontario Fire Code
- b. that records be kept of this training consistent with the provisions of Division B, Clause 1.1.2.2 (a) of the Ontario Fire Code.

4. City Council request the General Manager, Facilities Management, to ensure all Fire Code-mandated reports submitted, including inspection reports and deficiency clearance reports, be in a format that is cross-referenced to invoices and facilitates the verification that work has been completed in accordance with the Ontario Fire Code.

5. City Council request that, for contracts involving life safety inspections, the General Manager, Facilities Management, work with Legal Services Division, Purchasing and Materials Management Division and Toronto Fire Services to:

- a. update contracts to prohibit the submission of official legal documents, such as inspection reports, in a format that can be manipulated
- b. update contracts to ensure the Ontario Fire Code requirements are included

c. update contracts with the appropriate terms and conditions, if not already in place, that allows for immediate suspension of a contract if there are significant performance issues with a life safety inspection contractor or if a contractor or person working for the contractor is charged and/or convicted for violations of the Fire Protection and Prevention Act and accompanying Regulations

d. develop and implement a life safety vendor training orientation and training package, to be completed prior to the commencement of service.

6. City Council request that, for contracts involving life safety inspections, the General Manager, Facilities Management, work with Legal Services Division and Purchasing and Materials Management Division to:

a. develop a protocol including establishing the appropriate qualifications, criteria, and / or background/security checks needed to be included in the contract to ensure that qualified and reputable persons are carrying-out the life safety inspections

b. develop a protocol to identify the due diligence steps that will be undertaken by staff when the contractor arrives at the site to conduct inspections

c. develop a watch list to track life safety service providers that have significant performance issues, charges and/or convictions for violations of the Fire Protection and Prevention Act and accompanying Regulations.

7. City Council request the Toronto Fire Chief to work with the Ontario Fire Marshal to determine if such a watch list of those companies and persons charged or convicted of violations of the Fire Protection and Prevention Act and accompanying Regulations is needed province-wide because the life safety service providers may work with other municipalities and private buildings.

8. City Council support the Toronto Fire Chief in recommending to the Minister of Community Safety and Correctional Services to amend the Fire Protection and Prevention Act limitation period and discoverability language as required to lengthen the time to conduct complex investigations in support of fire safety.

9. City Council request the General Manager, Facilities Management, to develop and be accountable for the oversight of a model that:

a. treats the inspection of life safety systems in a building as a holistic system rather than using a fragmented approach

b. uses a centralized model with Facilities Management Division as the overseer of life safety inspection services across all City-owned buildings

c. standardizes inspection reports for life safety service providers and ensure they are comprehensive enough to comply with the Ontario Fire Code requirements

- d. creates a centralized database to track the life safety inspection process
- e. creates a centralized complaints process regarding life safety service providers
- f. clarifies roles and responsibilities of staff, life safety service providers and building owners.

10. City Council authorize the Toronto Fire Chief to assist the Ontario Fire Marshal, in any way possible, to address any Province-wide issues arising out of this report.

11. City Council request the Toronto Fire Chief to make recommendations to the appropriate Provincial authorities about the need to:

- a. regulate the training and licensing for all life safety inspection services including emergency lighting and fire extinguishers, so that inspections of buildings is treated as a system
- b. where a contractor is non-compliant, providing an avenue for delicensing, if necessary.

12. City Council request the General Manager of Facilities Management to design a quality control program to verify that those companies performing the inspections do so in accordance with the Ontario Fire Code.

13. City Council request the Toronto Fire Chief to make recommendations to the Ontario Fire Marshal to consider training and/or certification for building owners or the staff responsible on behalf of building owners so that they understand their roles and responsibilities under the Ontario Fire Code for the inspection of life safety systems, including sprinklers, emergency lighting and other fire suppression systems including the requirement for the keeping of records consistent with the provisions of Division B, Clause 1.1.2.2 (a) of the Ontario Fire Code.

14. City Council request Toronto Fire Chief to make recommendations to the Ontario Fire Marshal related to a brochure available in all mediums that outlines the building owner's responsibilities, and that the brochure be available on Toronto Fire Service's website and distributed as a quick reference to all building owners as part of the approval of their fire safety plans.

15. City Council request the Toronto Fire Chief to make a recommendation to the Ontario Fire Marshal that a Technical Advisory Committee be struck to review the system-wide issues raised in this report and make recommendations to the Minister of Community Safety and Correctional Services.

16. City Council direct the City Manager to advise all staff to report any allegations of potential wrongdoing involving City resources, including potential wrongdoing against the City by third-party vendors, to the Auditor General for further investigation.

17. City Council direct the City Manager to report to Council with advice about an obligation, in addition to those under the City of Toronto Act and the Toronto Public Service By-law, requiring City employees to report to the Auditor General allegations of wrongdoing by third parties.

## **FINANCIAL IMPACT**

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The financial impact, if any, is not determinable at this time. As outlined in the report, based on the absence of documentation and the amount of work required to match up records, it would take a great effort in addition to the efforts already invested by the Auditor General, the forensic firm and the City, to find the supporting documentation to assess the true financial loss.

## **DECISION HISTORY**

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This investigation stems from a complaint received by the Auditor General's Fraud and Waste Hotline in the summer of 2017.

## **COMMENTS**

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The Ontario Fire Code governs fire safety standards for equipment, systems, buildings, structures, land and premises in Ontario. One of the main objectives of the Fire Code is to enhance the safety of buildings and facilities.

Building owners are ultimately responsible to ensure compliance with the Fire Code. Building owners, including the City, often use external service providers to conduct life safety system inspections to ensure that the Fire Code is being complied with.

This investigation began with a complaint to the Fraud and Waste Hotline in the summer of 2017. The complainant made many serious allegations about a company that was contracted by the City of Toronto to perform inspections of life safety systems, including: inspections of emergency lighting, sprinkler systems, fire extinguishers, and other fire-prevention/life safety system inspections required under the Ontario Fire Code.

It was alleged that the vendor routinely submitted inspection reports and invoices for work that was not done, forged signatures of their own staff, operated as multiple companies, and used false identities as signatories to contracts.

The allegations are extremely concerning considering that many organizations, such as condo corporations, schools, hospitals, daycares and the City of Toronto, rely on companies to verify their life safety systems are in compliance with the Fire Code.

Key findings from the Auditor General's investigation include:

1. Lack of audit trail to prove that life safety inspections are done, as well as many problems with this vendor's invoices and contracts

- Fire Code-mandated inspection reports could not be found to verify that the work was done. Inspection reports were missing for many vendors, not just the one under investigation. It is the building owner's responsibility (the City in this case) to retain inspection reports.
- Vendor invoices showed potential overbilling, missing information, inconsistencies, and performance issues. The inspection reports could also have been manipulated, however due to the level of missing documentation, it was difficult to prove fraud.
- Supervisory staff previously raised performance and billing issues to management. Despite this, contracts were renewed and staff did not follow up on the concerns raised.

2. The vendor was operating under false identities

- The vendor used up to 6 false names and false identities of executives. Some false identities signed contracts with the City.
- The vendor operated several similar companies under what he called "trade names" or "operating names". Many of the companies had the same addresses and/or the same names listed as the owners. Better due diligence needs to be conducted when hiring life safety inspection vendors. The lowest cost is not necessarily the best value.
- There should be better tracking of vendor performance and a 'watch list' noting performance issues and any 'red flags'.

3. Wrongdoing not reported to the Auditor General

- Facilities Management did not report to the Auditor General when a potential fraud / wrongdoing was occurring with this vendor. Under the Toronto Public Service By-law, management notes the By-law objective is only to report when a public servant is committing wrongdoing.
- Employees may not be in a position to determine who is responsible for the wrongdoing prior to an investigation. It could be a vendor or mismanagement of a vendor by City staff. It is therefore important that the By-law be clarified to require all allegations of wrongdoing involving City resources, including potential wrongdoing against the City by third-party vendors, be reported to the Auditor General for further investigation.
- Under the By-law, wrongdoing is defined as "Serious actions that are contrary to the public interest including but not limited to: (1) Fraud; (2) Theft of City assets;

(3) Waste: mismanagement of City resources or assets in a willful, intentional or negligent manner that contravenes a City policy or direction by Council; (4) Violations of the City's Conflict of Interest rules set out in Article IV; and (5) Breach of public trust".

This report shows that the City must take action to comply with the Ontario Fire Code, including getting its paperwork in order and fixing deficiencies. However, the findings do not necessarily mean that City buildings are unsafe.

In addition, because there are some third-party vendors we are concerned about, it does not mean that all vendors conducting life safety inspections are problematic.

This report makes 17 recommendations in three main areas:

1. Improving the documentation and audit trail to prove that life safety inspections are done and deficiencies are rectified, and ensuring staff have a better understanding of why documentation is both important and required under the Ontario Fire Code.
2. Stressing the need to perform sufficient due diligence on vendors before awarding contracts, and addressing issues that are raised. Trust in the vendor must not override the need to perform this due diligence, nor the need to listen to the City's own staff.
3. The recommendations may assist with strengthening the life safety industry.

When implemented, the recommendations will help staff to understand their legal responsibilities under the Ontario Fire Code. More robust methods of performing due diligence before awarding contracts will be developed, and the recommendations may help to strengthen the life safety industry.

## **CONTACT**

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## **SIGNATURE**

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Beverly Romeo-Beehler  
Auditor General

## **ATTACHMENTS**

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Attachment 1: Raising the Alarm: Fraud Investigation of a Vendor Providing Life Safety Inspection Services to the City of Toronto