

2018 Annual Report on the Fraud and Waste Hotline

Date: February 6, 2019

To: Audit Committee

From: Auditor General

Wards: All

SUMMARY

This report represents the 2018 annual report on fraud, waste and wrongdoing at the City including the activities of the Fraud and Waste Hotline Program (the Hotline Program). It highlights the complaints 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 2018, 643 complaints comprised of approximately 1,000 allegations were received by the Auditor General's Office.

The Hotline Program has helped to reduce losses and resulted in the protection of City assets. The cumulative total of actual and potential losses for complaints received in previous years (2014 to 2018) is more than \$14.8 million (actual) plus \$3.2 million (potential) had the fraud not been detected. Additional benefits that are not quantifiable include:

- 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

RECOMMENDATIONS

The Auditor General recommends that:

1. City Council receive this report for information.

FINANCIAL IMPACT

The recommendation in this report has no financial impact.

DECISION HISTORY

The *City of Toronto Act* identifies that, as part of her responsibilities, *"the Auditor General is responsible for assisting City Council in holding itself and city administrators accountable for the quality of stewardship over public funds..."*

Stewardship over public funds involves reviewing controls and verifying that allegations of fraud and waste are addressed.

The Fraud and Waste Hotline Program began as a six-month pilot program starting on 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

The Auditor General's Forensic Unit is comprised of a 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 complex forensic allegations. When necessary, the Forensic Unit leverages audit staff or outside experts to assist on complex investigations due to the small size of the team.

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.

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.

During 2018, 643 complaints comprised of approximately 1,000 allegations were received. In addition to following up on these complaints, the Auditor General continued to focus on conducting major fraud investigations.

The Auditor General's report entitled "2018 Annual Report on the Fraud and Waste Hotline" is attached as Appendix 1.

Detailed statistical data concerning the activities of the Hotline Program is included in the Annual Report as Exhibit 1. Exhibit 2 contains a summary of a major investigation that resulted in a report being issued to Audit Committee. Exhibit 3 provides summaries of various reviews and investigations concluded in 2018.

Highlights of the 2018 statistics are as follows:

- More than 9,600 complaints received since 2002
- Approximately \$18 million cumulative losses for past 5 years; \$14.8 million actual losses plus \$3.2 million potential losses had the fraud not been detected
- 643 complaints in 2018 representing approximately 1,000 allegations
- 100 per cent of complaints reviewed
- 89 per cent of complaints involved an AG preliminary investigation
- 37 per cent or 239 complaints investigated including referrals to divisions
- 15 per cent of 239 complaints investigated were substantiated in whole or in part. This number is expected to increase as outstanding 2018 complaints continue to be concluded in 2019
- Substantiated complaints include vendor inflating costs on invoices, improper employee conduct, breach of public trust, employee benefits fraud, subsidy fraud, cheque fraud, conflicts of interest, operating a personal business, misuse of City resources and time theft
- 26 per cent of substantiated complaints were anonymous
- Actions taken include:
 - 6 employment relationships being terminated
 - 4 employees being disciplined
- \$635,000 actual loss in 2018. This amount is expected to increase as outstanding 2018 complaints are concluded in 2019
- Typically, 53 per cent of victim organizations do not recover any of their fraud losses according to the Association of Certified Fraud Examiners 2018 Report to the Nations on Occupational Fraud and Abuse

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SIGNATURE

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Auditor General

ATTACHMENTS

Attachment 1: 2018 Annual Report on the Fraud and Waste Hotline