



2019 Annual Report on the Fraud and Waste Hotline

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TABLE OF CONTENTS

ANNUAL REPORT	1
Fraud and Waste Hotline Program	1
2019 Accomplishments.....	2
Responsibility to Report Wrongdoing.....	4
Key Statistics Infographic	5
Exhibits.....	5
EXHIBIT 1 – DETAILED STATISTICAL SUMMARY.....	6
1. Total Complaints	6
2. Source of Complaints.....	8
3. Disposition of Complaints.....	9
4. Complaint Conclusion	10
5. Disciplinary Action in Substantiated Complaints	10
6. Loss and Recovery	11
EXHIBIT 2 – MAJOR INVESTIGATION SUMMARY	12
EXHIBIT 3 – COMPLAINT SUMMARIES	14

ANNUAL REPORT

Annual report on fraud and hotline activity

This is the 2019 annual report on fraud, waste and wrongdoing at the City, and includes information about the activities of the Fraud and Waste Hotline. 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.

Role of the Auditor General

The *City of Toronto Act* assigns the Auditor General the responsibility to assist City Council in holding itself and its administrators accountable for **stewardship over public funds** and value for money in City operations. This responsibility is fulfilled by completing audits, operating the Hotline and conducting forensic investigations.

Fraud and Waste Hotline Program

Program established in 2002

In 2002, a Hotline was established so that employees, Councillors and members of the public could report allegations of fraud, waste or other wrongdoing without fear of retribution.

Benefits of the Hotline Program

The Hotline Program has helped to reduce losses and has resulted in the protection of City assets. The cumulative total of actual and potential losses from complaints received in previous years (2015 to 2019) is more than \$13.2 million (actual) plus \$3.4 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

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

The Auditor General's Forensic Unit is comprised of a team of professionals who collectively possess the expertise to triage a broad range of complaints and conduct investigative work into complex 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.

Independent oversight

The Forensic Unit also provides independent oversight of management-led investigations by reviewing the adequacy of work conducted, including steps taken to reduce losses, protect City assets and prevent future wrongdoing.

2019 Accomplishments

Investigative reports in 2019

In 2019, the Auditor General continued to focus on conducting major fraud investigations. Several investigations are in progress, and the Auditor General expects to report on them in 2020. Exhibit 2 contains a summary of a reprisal investigation that resulted in a report being issued to Audit Committee.

Supporting performance audits

The Forensic Unit also worked with the Performance Audit team, including site visits, on the following audits:

- *Opening Doors to Stable Housing: An Effective Waiting List and Reduced Vacancy Rates Will Help More People Access Housing*
 - to help improve the integrity of the waitlist data and proper prioritization of applicants so that more families will be able to achieve stable housing
- *Safeguarding Rent-Geared-to-Income Assistance: Ensuring Only Eligible People Benefit:*
 - focusing on the administration of Rent-Geared-to-Income (RGI) and the verification of each household's ongoing eligibility for RGI assistance while living in social housing
- *Review of Urban Forestry: Ensuring Value for Money for Tree Maintenance Services*
 - focusing on tree planting and maintenance services with the City

New complaint management system fully implemented

The Forensic Unit uses a complaint management system, which is critical to the operation of the Hotline Program. The system is used to track complaints through their entire lifecycle and captures statistical data to identify areas of concern and trends that may point to systemic issues.

Throughout 2019, the Forensic Unit, with the support of the Information & Technology Division and others, worked to implement a new complaint management system, which included the migration of prior complaint data. As of December 2019, the new system is operating successfully.

Some of the new system's improved functionality includes:

- the ability for complainants to upload files when submitting their complaint
- the ability for complainants to remain anonymous and still communicate with the Auditor General's Office through a secure portal
- modernizing the tracking and documentation of complaints through their lifecycle, thereby increasing the efficiency of process
- extensive reporting capabilities that will help the Auditor General's Office perform further analysis of the underlying data.

Backlog in investigation and resolution of complaints

As a result of implementing the new complaint management system, the Forensic Unit acquired a significant backlog in the investigation and resolution of complaints. The Auditor General has requested a temporary budget increase in 2020 to address the Fraud and Waste Hotline backlog and work on completing investigations which are in progress.

Communication initiatives

Operating the Fraud and Waste Hotline also includes coordinating the marketing and communication of the Hotline Program. Raising awareness on the positive benefits of the Hotline Program is essential to its effectiveness.

Communication initiatives in 2019 have included:

- presenting to the Executive Onboarding Program and supporting the New Employee Orientation Program, ensuring up to date information about the Fraud and Waste Hotline was included
- presentations at public sector and government related conferences
- preparation of a memo and demonstrative video related to the new case management system.

A comprehensive City-wide outreach about the Fraud & Waste Hotline was delayed until the new case management system was fully implemented. In 2020, the Forensic Unit will roll out communication about the new system to the Divisions, Agencies and Corporations along with other promotions of the Hotline.

Responsibility to Report Wrongdoing

Employee responsibility to report wrongdoing

The *Disclosure of Wrongdoing and Reprisal Protection* policy, part of the *Toronto Public Service By-law* (the By-law), includes a duty for employees to report allegations of wrongdoing.

Specifically, the By-law requires:

- all City employees who are aware that wrongdoing has occurred to immediately notify their manager, their Division Head, or the Auditor General's Office
- allegations of wrongdoing received by Division Heads, Deputy City Managers or the City Manager to be immediately reported to the Auditor General
- employees who report wrongdoing in good faith, to be protected from reprisal.

Auditor General has responsibility to investigate reprisal

The fear of reprisal can deter many people from reporting allegations of wrongdoing. Management is responsible for ensuring employees who report allegations of wrongdoing can do so without the fear of reprisal.

The Auditor General has the responsibility to investigate complaints of reprisal against City employees who report wrongdoing.

Raising awareness

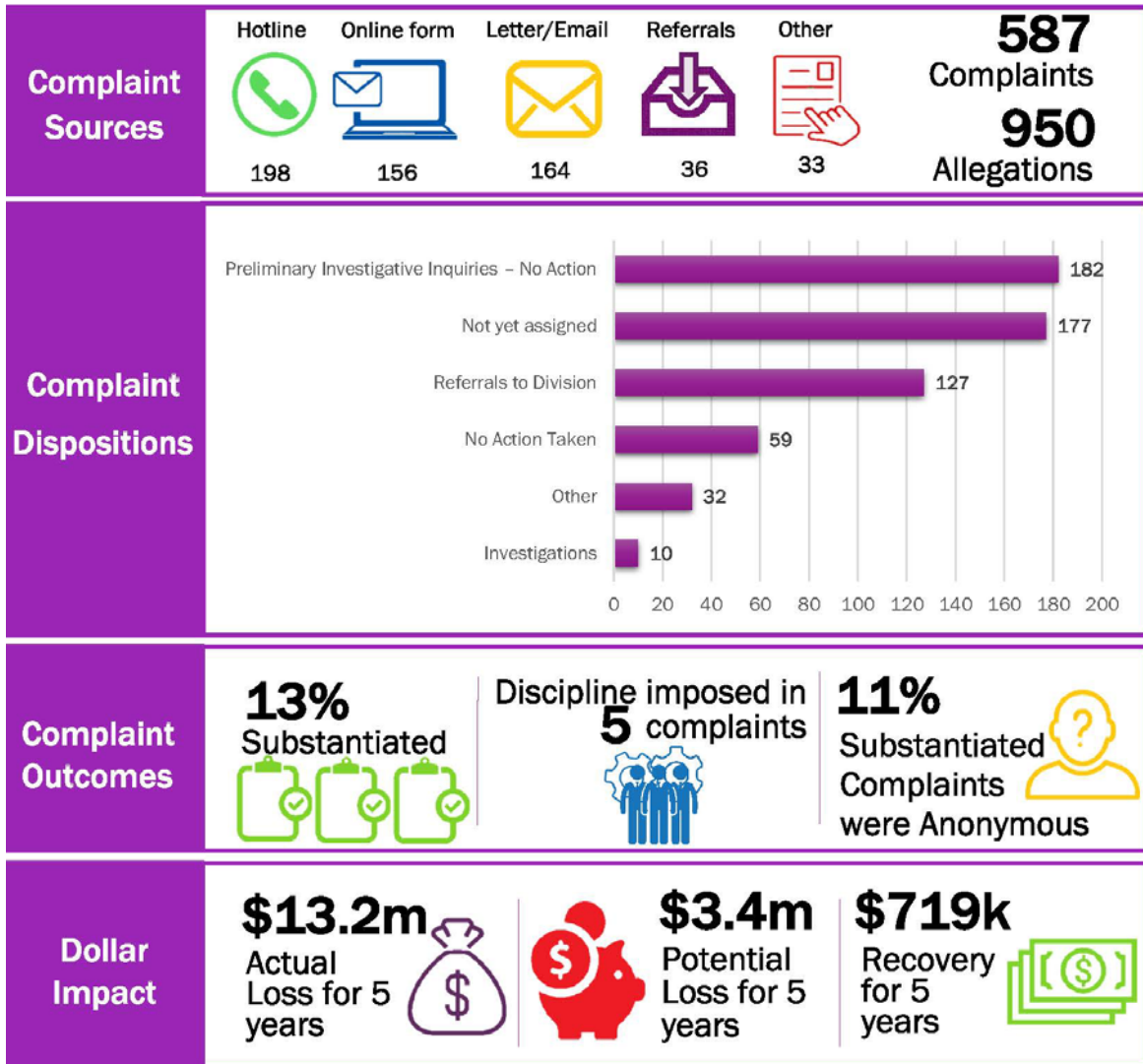
With the system implementation complete, the Auditor General's Office will refresh our communication initiatives for 2020. The initiatives will include undertaking an education campaign to raise awareness on employee responsibility to report wrongdoing to the Auditor General's Office, as required under the *Toronto Public Service By-law*.

In addition, our Office plans to organize an advertisement campaign to inform, encourage and remind members of the public and City staff of the usefulness of the City's Fraud & Waste Hotline Program.

Key Statistics

The infographic below provides key statistics at a glance for the Fraud and Waste Hotline program for 2019. The volume of complaints and allegations have remained relatively consistent over 2018.

Figure 1: Key Statistics



Exhibits

Exhibit 1 – Hotline Statistics

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

Exhibit 2 – Major Investigation Summary

Summarized details of a major investigative report issued by the Auditor General in 2019 are included as Exhibit 2.

Exhibit 3 – Complaint Summaries

Summarized details of a sample of complaints concluded in 2019 are included as Exhibit 3. These summaries are provided as requested by Audit Committee.

EXHIBIT 1 – DETAILED STATISTICAL SUMMARY

Leveraging complaint data

Audit standards require that Fraud and Waste Hotline data be considered in all performance audits. 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, overtime, business expenses, sick leave abuse and conflict of interest.

Complaint data influenced audit project selection

Complaint data from the Hotline is also 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:

- *Safeguarding Rent-Geared-to-Income Assistance: Ensuring Only Eligible People Benefit*
- *Cyber Safety: A Robust Cybersecurity Program Needed to Mitigate Current and Emerging Threats*
- *Opening Doors to Stable Housing: An Effective Waiting List and Reduced Vacancy Rates Will Help More People Access Housing*
- *Audit of Interface Invoice Payments: Improving Contract Management and Payment Processes*
- *Review of Urban Forestry: Ensuring Value for Money for Tree Maintenance Services*

1. Total Complaints

587 complaints received represent 950 allegations

Since the Fraud and Waste Hotline Program was initiated in 2002, the Auditor General’s Office has handled more than 10,000 complaints. Each complaint may include multiple allegations. In 2019, 587 complaints were received representing approximately 950 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 issues reported by the media.

Figure 2 outlines the number of complaints reported from 2010 to date.

Figure 2: Complaints Reported – 2010-2019

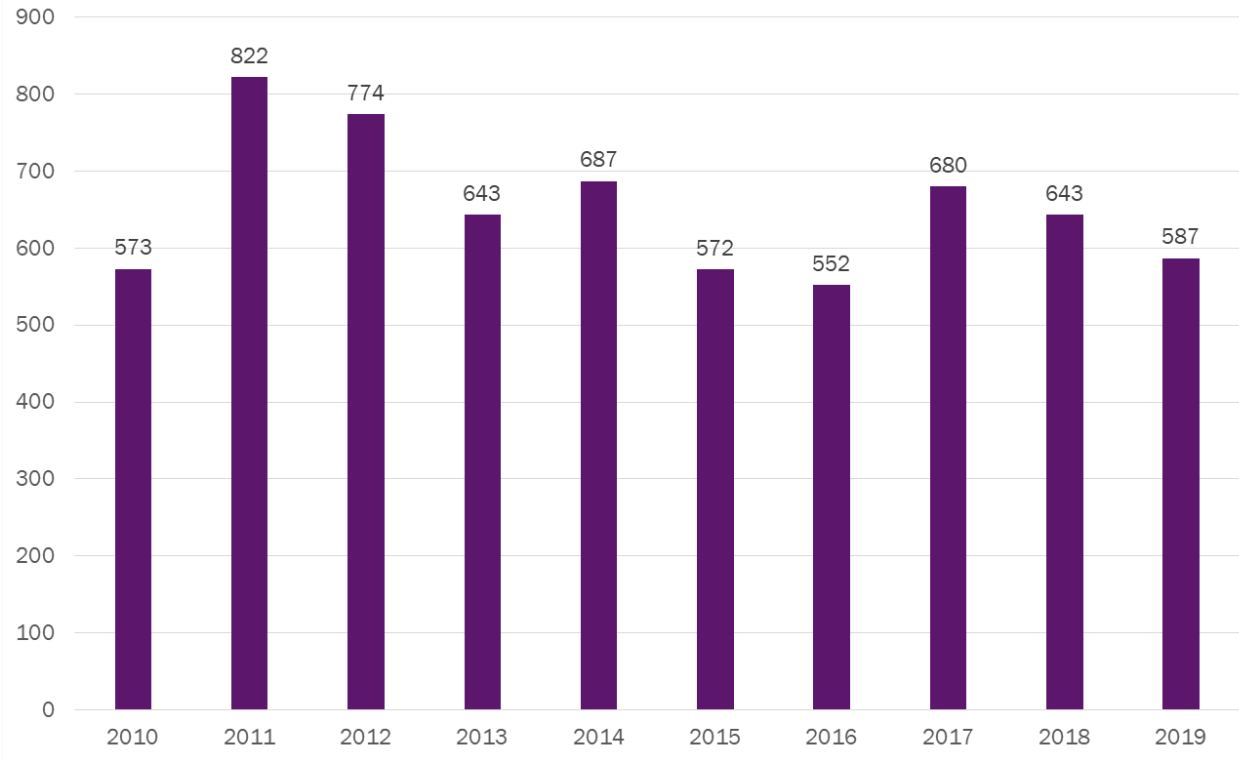
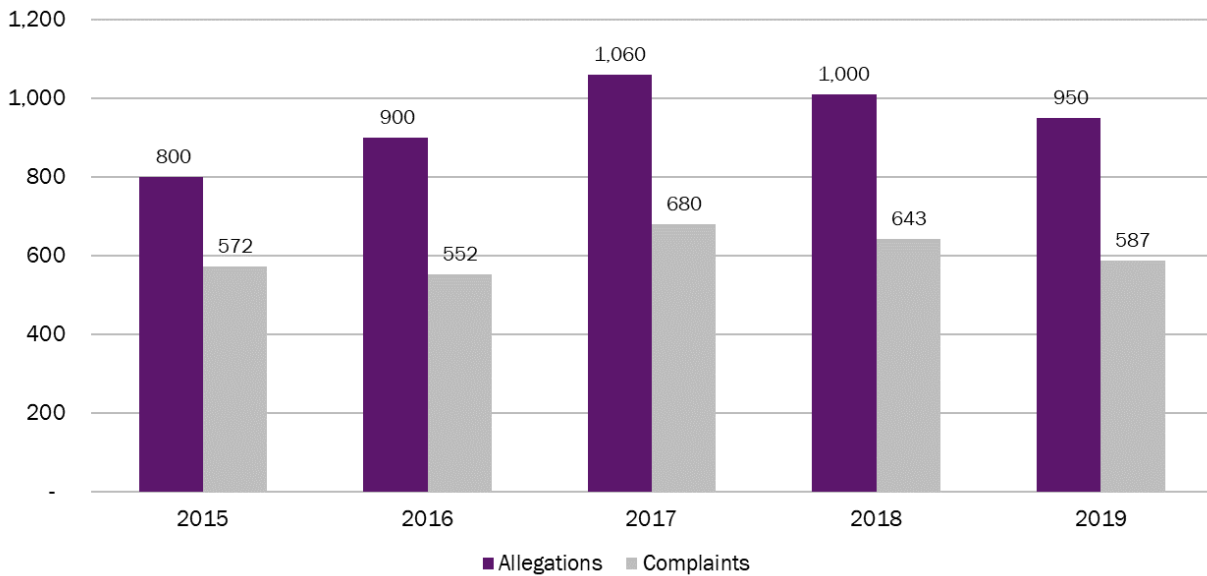


Figure 3 shows the number of allegations included in complaints received over the past five years. The average number of allegations over the past five years is approximately 940 per year.

Figure 3: Complaints and Allegations Reported – 2015 to 2019



Decrease in complaints

In 2019, 587 complaints were received, representing a nine per cent decrease over the number of complaints received in 2018.

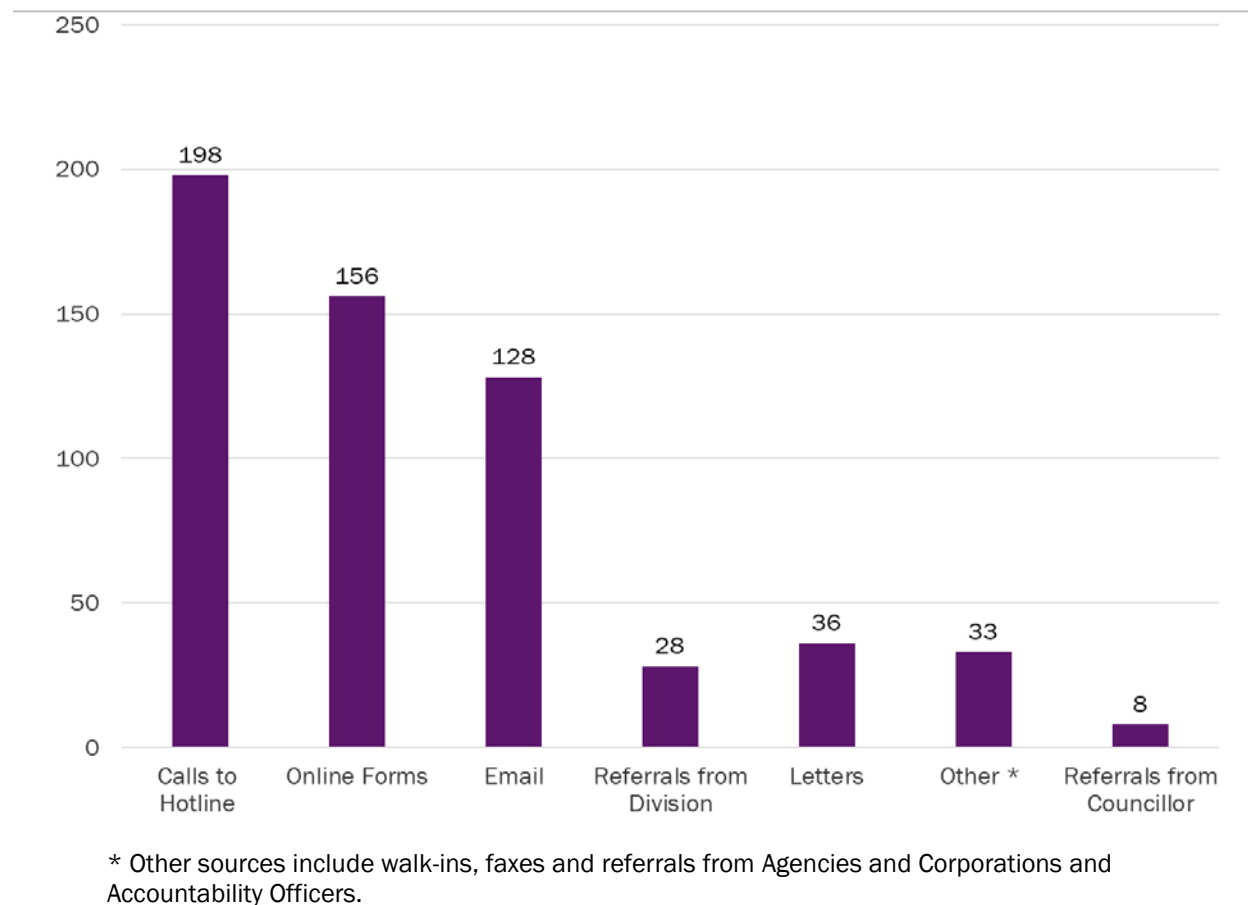
2. Source of Complaints

Figure 4 provides a summary of the methods used to report complaints to the Fraud and Waste Hotline Program in 2019.

Sixty per cent of all complaints were received through direct telephone calls to the Hotline or via the Auditor General's secure online complaint form.

According to the Association of Certified Fraud Examiners 2018 Report to the Nations on Occupational Fraud and Abuse, organizations with reporting hotlines were more likely to detect fraud through tips than organizations without hotlines (46 per cent compared to 30 per cent, respectively).

Figure 4: Source of Complaints



3. Disposition of Complaints

All complaints considered

All complaints received are evaluated by the Forensic Unit to determine the disposition or action to be taken.

Professional judgment used to determine disposition

The unique circumstances of each complaint require the application of professional judgment, and in certain cases, discussion pertaining to the disposition of complaints is also conducted with the Auditor General.

Preliminary investigative work conducted in 86% of complaints

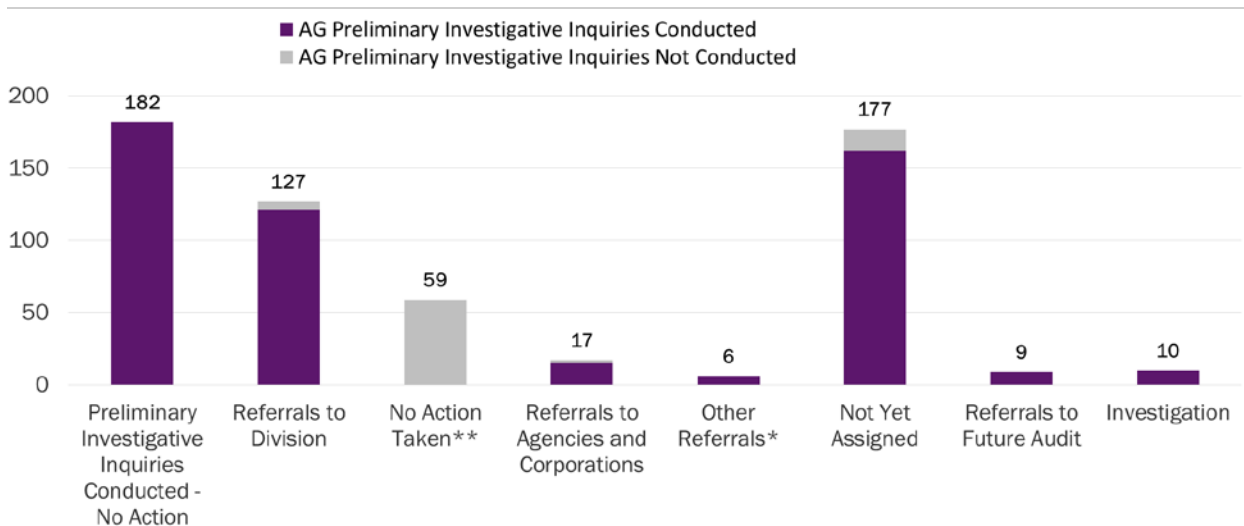
Prior to determining the disposition, the Auditor General’s Office conducts a significant amount of preliminary investigative work or inquiries to identify whether allegations have merit.

In 2019, our Office performed preliminary investigative work on the majority (86 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 until further details are received.

Figure 5 provides a breakdown of the disposition of complaints received in 2019 and illustrates that in the majority of complaints (86 per cent) the Auditor General's Office conducts preliminary investigative work.

Figure 5: Disposition of Complaints



*Other referrals include 311 and Outside Agencies.

**No Action Taken include complaints with insufficient information or are outside the Hotline's jurisdiction.

Investigations	Thirty-one per cent of complaints received (182 complaints) were closed following preliminary investigative work. Ten complaints resulted in a full investigation by divisional management or the Auditor General’s Office.
Referrals to divisions	Twenty-two per cent of all complaints (127 complaints) were referred to divisions for review and appropriate action or for information only. Complaints that are significant enough to require a response from divisional management are monitored until the necessary action is taken.
No action	In 10 per cent of complaints (59 complaints), the disposition was “No Action” because of insufficient information, or it did not pertain to matters involving fraud or waste.

4. Complaint Conclusion

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

Unsubstantiated complaints may highlight issues of concern	In cases where the evidence does not support a finding of wrongdoing, the complaint conclusion is tracked as unsubstantiated. However, this does not mean that the complaint is without merit. In many of these cases, a review or investigation may highlight internal management control issues and risks that need to be addressed.
Substantiated complaints 13%	Thirteen per cent (18 complaints) of the 137 complaints investigated or referred to divisions in 2019 have been substantiated in whole or in part. This number is expected to increase as outstanding 2019 complaints are concluded in 2020.
Anonymous complaints	Eleven per cent of substantiated complaints were anonymous.
Internal control weaknesses	Where internal control weaknesses contributed to or facilitated wrongdoing in substantiated complaints, divisions have confirmed that the internal control weaknesses have been or are being addressed.
Previous years complaints concluded in subsequent years	Some complaints cannot be concluded until a future year. In cases where a previous years’ complaint is concluded, 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

Disciplinary action is the responsibility of management	Where investigations indicate fraud or wrongdoing by an employee, the appropriate level of discipline is the sole responsibility of divisional management. Information regarding disciplinary action taken is communicated to and tracked by the Auditor General’s Office.
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Discipline imposed in 5 complaints

In 2019, divisional management reported that discipline was imposed in five of the substantiated complaints. In an additional 13 instances, divisional management took other appropriate action with vendors, employees or subsidy recipients.

An important consideration for management in disciplining employees is to ensure fairness and consistency throughout the City. Management also uses knowledge gained through investigations to 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. The standard of proof is high. In some cases, it may not be possible to determine the duration of the fraud, thereby making it difficult to accurately quantify losses.

The Association of Certified Fraud Examiners 2018 Report to the Nations on Occupational Fraud and Abuse reported that 53 per cent of victim organizations do not recover any of their fraud 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.

Actual and potential losses to the City for all complaints received are tracked by our Office.

\$101,000 actual losses

For complaints received in 2019, quantifiable actual losses to the City were in the range of \$101,000. This amount is expected to increase as outstanding 2019 complaints are concluded in 2020.

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

For example, in 2019, 15 complaints from 2018 and two complaints from 2017 were concluded as substantiated or substantiated in part.

\$16.6m cumulative actual and potential losses for 5 years

The cumulative total of actual and potential losses from complaints received in previous years (2015 to 2019) is more than \$13.2 million (actual) plus \$3.4 million (potential) had the fraud not been detected.

EXHIBIT 2 – MAJOR INVESTIGATION SUMMARY

Below is a summary of a major investigation that resulted in a report being issued to Audit Committee in 2019. This summary demonstrates that a substantial amount of resources is required to conduct investigations. Due to the nature of the matters investigated, a portion was required to be confidential.

In 2019, the Forensic Unit also invested significant time and resources into the implementation of the new system, as well as several other investigations which are currently ongoing and may be concluded and reported in 2020.

Investigation into Allegations of Reprisal: Reprisal Not Found, But Lessons Learned

Different types of reprisal for reporting wrongdoing

This year, our Office conducted an extensive investigation into an allegation of reprisal. Reprisal is any measure taken or threatened as a direct result of disclosing or being suspected of disclosing an allegation of wrongdoing. Reprisal can include disciplinary measures, demotion, suspension, intimidation or harassment, or any punitive measure that adversely affects the employee's employment or working conditions, including termination.

Importance of investigating allegations of reprisal for reporting wrongdoing

A strong whistleblowing system is one of the best mechanisms available for uncovering wrongdoing, but it is only effective if employees feel their job is not in jeopardy if they report wrongdoing. The Auditor General's Office is responsible for investigating reprisal, in coordination with the City Manager's Office.

Reprisal complaint received through the Fraud and Waste Hotline in 2018

In this case, the employee had previously made a wrongdoing complaint. The Auditor General investigated that complaint and determined there was not sufficient evidence to support their allegations of wrongdoing. Subsequently, the employee's position was terminated. They alleged that the termination was reprisal due to their previous complaint.

Considerations when investigating reprisal

By nature, reprisal is difficult to prove, and these allegations take a great deal of time to investigate. The most important question to consider is whether the employee's termination was carried out *because* they made a wrongdoing complaint. Answering this question required extensive analysis of the following:

- A. Did the employee's termination occur soon after they reported the wrongdoing?
- B. What were staff members' explanations or understanding of the reason for the employee's termination?
- C. Who directed the termination, and was it directly or indirectly because of the wrongdoing complaint?
- D. Are there other relevant circumstances or reasons for the termination?

In-depth interviews and review of documentation

This investigation involved interviews with eight current or former staff members, some more than once, who had direct or indirect involvement with the employee's termination. The employee whose employment was terminated was also interviewed. The investigation also included a comprehensive review of hundreds of documents, emails, text messages and briefing notes related to the case.

Insufficient evidence to support reprisal but 2 recommendations made

The Auditor General concluded that there was not sufficient evidence to support that reprisal had occurred. A report was issued in order to communicate important lessons learned. The Auditor General made two recommendations. This report was issued to assure City employees, City Council, senior management, and the public that all reprisal allegations are taken very seriously and are investigated to the fullest extent.

The report is available at:

<https://www.toronto.ca/legdocs/mmis/2019/au/bgrd/backgroundfile-138877.pdf>

EXHIBIT 3 – COMPLAINT SUMMARIES

Below are summaries of various reviews and investigations concluded in 2019. A sample of summaries has been requested by Audit Committee so that it can better understand the nature of the complaints. These selected summaries are from complaints that were substantiated or substantiated in part or are complaints where internal controls were improved as a result of investigative work.

The Auditor General is independent of City operations. The extent and nature of disciplining an employee is the responsibility of management and not the Auditor General. We can say, however, that for the cases we have examined, management is diligent in taking appropriate action to address the situation.

We have included 15 complaint summaries. These complaints resulted in a total loss of over \$100,000 and the termination of employment of three employees. Six complaints identified internal control weaknesses that were rectified or are in the process of being rectified by management.

1. Subsidy Claim Fraud

1.1. Misuse of City Funding

The Auditor General's Office was advised by a Division of a complaint related to a not-for-profit agency with a service agreement for City funding. The agency allegedly had financial irregularities and non-compliance issues.

The investigation was led by the Division in consultation and with oversight by the Auditor General's Office.

The investigation concluded that the agency did not comply with the requirement to use funds for the delivery of services as intended and as outlined in their Service Agreement.

Findings also included numerous questionable financial transactions by the agency, including a significant amount of the agency's expenses that were either incorrectly charged in their general ledger, did not have the appropriate supporting documentation, or did not appear to be related to the intended program being administered. The Division noted what appeared to be several conflicts of interest with respect to staffing.

The agency's service agreement with the City was terminated.

1.2. Failure to Disclose Eligibility Information

The Auditor General's Office received a complaint through the Fraud and Waste Hotline alleging that a member of public was receiving subsidies through fraudulent claims.

The investigation was led in coordination by two Divisions and concluded that the individual did not appropriately report their marital status required for eligibility and therefore received subsidies they were not entitled to. The total amount of the ineligible overpayment was approximately \$25,000.

The Divisions terminated the subsidy and are pursuing recovery.

1.3. Fraudulent Disclosure of Income

The Auditor General's Office received an anonymous complaint through the Fraud and Waste Hotline alleging that a member of public was receiving subsidies through fraudulent claims.

The investigation was led in coordination by the three Divisions where the subsidies originated. The investigations concluded that based on discrepancies noted in the income verification documentation, the individual received subsidies they were not entitled to. The total combined amount of ineligible overpayment was approximately \$57,000.

The City has terminated the ineligible subsidies and is pursuing recovery. A small repayment has been made to date.

1.4. Falsifying Information

The Auditor General's Office received a complaint through the Fraud and Waste Hotline alleging that a member of public was using their parent's address in order to qualify for a subsidy.

The investigation was led by the Division and concluded that the individual was not living at the reported address but was residing with a partner at another address. The individual did not accurately report their address and marital status required for eligibility and therefore received subsidies they were not entitled to. The total amount of ineligible overpayment was approximately \$5,400.

The Division terminated the subsidy and is pursuing recovery.

2. Employee Benefits Fraud

The Auditor General's Office has noted that since the audit of the Extended Health and Dental Benefits plan, and in conjunction with the new benefits administrator, controls and monitoring are now identifying and catching more benefit fraud cases. The process is functioning as intended to allow City management along with the benefits administrator to investigate and resolve identified anomalies.

2.1 Falsified Benefit Claims

The Auditor General's Office was advised that the City's benefits administrator reported submission of benefit claims containing false information by a City employee.

An investigation into the allegations was conducted by the Division. Four claims submitted were considered fraudulent as there were no services provided. In addition, follow-up with the service providers confirmed that the documents submitted to support the benefit claims were falsified and were not issued by the providers.

The investigation concluded that the employee had submitted fraudulent extended health care benefit claims and had been reimbursed for approximately \$800.

The employee was suspended for a substantial period of time (an impact to the employee of approximately \$4,400) and benefits eligibility for the employee and their dependents was suspended for over a year. The employee entered into a last chance agreement, which provides for the employee's immediate termination for any future incident warranting a disciplinary response. The full amount of the claim originally paid to the employee was recovered.

2.2 Claims Containing Falsified Information

The Auditor General's Office was advised that the City's benefits administrator reported submission of benefit claims containing false information by a City employee.

An investigation into the allegations was conducted by the Division. One hundred and eight claims submitted were found to contain false information as the receipts were modified in order to support the claims. In addition, the benefits provider confirmed it was the employee's spouse who falsified the receipts and submitted the benefit claims.

The investigation concluded that the employee's spouse had submitted fraudulent extended health care benefit claims totaling approximately \$8,400.

The Division advised that they will be issuing a letter to the employee outlining their responsibilities moving forward with regards to the benefit plan. The full amount has already been recovered.

2.3 Falsified Benefit Claims

The Auditor General's Office was advised that the City's benefits administrator reported submission of benefit claims containing false information by a City employee. The employee was a fairly recent hire to the City.

An investigation into the allegations was conducted by the Division. Six claims submitted were found to be fraudulent, as five claims were not issued by the named provider and the date of service in one claim was altered.

The investigation concluded that the employee had submitted fraudulent extended health care benefit claims totaling approximately \$1,100.

The full amount of the claims originally paid to the employee was recovered and the employee has since resigned from their position with the City.

2.4 Benefit's Ineligibility not Reported

A complaint was received through the Fraud and Waste Hotline regarding allegations that an employee failed to report their updated relationship status and therefore should have been ineligible to receive extended health care benefits for a common-law partner.

An investigation into the allegations was conducted by the Division and concluded that the employee ceased to meet the definition of, and eligibility for, common-law spousal benefits for approximately three years and failed to report the change in their relationship status.

Based on their review, the Division determined that the employee did not have intent to receive monies for which they were not entitled. In addition, they advised that the employee was cooperative during the investigation and expressed willingness to repay the ineligible claims. The employee has since submitted the appropriate forms to the benefits provider to remove their former partner as a dependent.

The total amount of ineligible claims will be calculated by the benefits provider for repayment from the employee. The Division has also released a newsletter to City employees as a reminder that continuation of non-eligible spouses and dependents is considered fraud and can lead to disciplinary action up to and including termination.

3. Employee Time Theft and Acceptable Use Policy Violation

The Auditor General's Office received an anonymous complaint through the Fraud and Waste Hotline regarding allegations that a City employee was committing time theft with unauthorized use of City computers by spending an inappropriate amount of working time on the internet unrelated to their position.

The investigation was led by the Division and concluded that the employee did at times spend excessive time on the internet for personal use and violated the City's Acceptable Use of Information Technology Assets Policy (AUP).

The employee was suspended for one day without pay. The Division has also redistributed the departmental policies to employees to reinforce expectations and compliance with the AUP.

4. Vendor Fraud

4.1 Vendor Fraud

The Auditor General's Office was advised by a City Agency that an employee was alleged to have used a non-approved vendor to conduct services without following the Agency's procurement protocols. It was also alleged that the vendor engaged in poor workmanship and was paid for work not completed and equipment not supplied.

The Agency retained the services of an external firm to review the matter and concluded that:

- the employee did not follow the Agency's procurement protocols and chose to hire a vendor that was not on the approved roster for the services, potentially based on receiving incentives from the vendor
- the vendor charged approximately three times more than the approved vendor for similar work
- some of the work conducted was not necessary and the vendor did not always properly complete the work or supply new equipment as required
- the vendor engaged a sub-contractor to complete work which may not have been performed to the same standards.

In addition, the Agency has not approved any payments to the vendor for the services related to the investigation matters. They have issued written notice of the termination and debarment of the vendor for three years. The Agency confirmed it is unlikely that similar issues arose in other portfolios related to this vendor based on their review.

The employee who was directly involved in the allegations retired before the Agency had the opportunity to interview them or before any disciplinary action could be determined. The Agency has reviewed other employees who were considered in the investigation and no further disciplinary action is planned at this time.

4.2 Conflict of Interest

The Auditor General's Office was advised by a City Agency that an employee appeared to have conflicts of interest with several contractors, including receiving incentives from the contractors and hiring them for personal projects.

The investigation was led by the Agency, in consultation with the City's Internal Audit Division, and Legal Services.

The Agency's investigation concluded that the employee violated the Public Service By-law and the Agency's conflict of interest and procurement policies by accepting tickets to sporting events and golf games, lunches with contractors and using contractors for personal business.

Employment with the Agency was terminated. Another employee was also terminated due to performance related issues that were noted during the investigation. The Agency's investigation is ongoing based on the additional information gathered from the employee alleged in the conflict of interest.

Based on the investigation, an over-billed amount of approximately \$41,000 by one of the contractors was credited against invoices payable by the Agency to the contractor. The Agency advised that they will end all business relationships with the contractor upon completion of their work by the end of 2019. In addition, measures are being put in place by the Agency to raise the profile of conflict of interest obligations going forward.

5. Improper Financial Reporting for City Funding

The Auditor General's Office was advised by a Division of an email they received alleging questionable financial reporting and use of public funds by an organization receiving funding from the City.

The investigation was led by the Division and concluded that the organization had over-reported their benefit expenses and misclassified some operating costs in their financial reporting to the City. The benefit expenses were overstated by approximately \$38,000.

As a result of the review, the organization made the appropriate reallocations and adjustments on their financial reporting to the City and the net amount payable in funding to the organization was adjusted by \$38,000. The organization has also taken steps to improve their internal controls.

The Division advised that they will include increased scrutiny of benefit estimates in the review of future claims for funding.

6. Conflict of Interest

During a prior investigation, the Auditor General identified an employee that appeared to be operating their own business. At the request of the Auditor General, further investigation by the Division identified another employee who also appeared to be performing work for private clients which conflicted with their duties as a City employee.

The Division conducted the investigation, with input from the Auditor General's Office and in consultation with Legal Services and Labour Relations.

The investigation concluded that the employee was in a conflict of interest by conducting work for their private business within the City of Toronto and by using their position at the City to carry out processes related to their personal business. The employee's actions were considered to be a conflict of interest and a violation of the City of Toronto's Public Service By-Law Policy.

Employment with the City was terminated. The employee is challenging their dismissal through the Grievance process. The Auditor General's investigation into related matters is ongoing, as is the Division's.

7. Identity Theft – Fraudulent Misrepresentation

During the Auditor General's audit of Cyber Safety, the Fraud and Waste Hotline received information from a City employee regarding potential identity theft and fraudulent misrepresentation to make changes to the employee's bank account information.

The Division conducted the investigation, with oversight by the Auditor General's Office. After reviewing the information, the Auditor General's Office identified this as a whaling attack, where the fraudsters impersonated a high-ranking City employee by using emails with their name and requested funds to be sent to a new bank account.

The Auditor General's Office noted that the City, being aware that these attacks were happening in other jurisdictions, alerted Division heads prior to the email arriving, but still the attack was successful. The City staff member responsible for making the change identified potential risks within the email request and notified their Supervisor. The Supervisor directed: "*Please proceed...*"

As part of the Division's investigation, they contacted the Financial Institution where the funds were deposited and requested for the transaction to be reversed. The bank informed the City there were insufficient funds in the account to recover the loss. The fraud investigation unit at Toronto Police Services was also notified.

The Division will be incorporating a section on fraud into their privacy training for employees as part of their risk management process. The importance of due diligence and minimizing risks when granting exceptions has also been emphasized with all staff.

8. Misuse of City Resources

A complaint was received through the Fraud and Waste Hotline regarding allegations that an employee failed to properly protect and secure City equipment and that the employee was not held responsible for losing City equipment.

The investigation was led by the Division and concluded that the employee failed to properly protect and secure their laptop and wireless phones. During this time, the employee resigned and therefore no disciplinary action was taken. The estimated value of assets replaced was approximately \$2,500.

The Division advised that they are in the process of developing an asset management plan that will address the replacement of City-issued devices. In addition, the Division will remind staff of their obligations and of the City's expectations to properly safeguard City-issued equipment.

**AUDITOR
GENERAL**

TORONTO

