

Auditor General's 2020 Annual Report on the Fraud and Waste Hotline

Date: February 3, 2021

To: Audit Committee

From: Auditor General

Wards: All

SUMMARY

This report represents the 2020 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 2020, 848 complaints comprised of approximately 1,350 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 actual and potential losses from complaints received from 2016 to 2020 is more than \$36.9 million (actual losses) plus \$3.4 million (potential losses) 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 our 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 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. Due to the small size of the team, the Forensic Unit occasionally leverages audit staff or outside experts to assist on complex investigations.

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.

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 2020, 848 complaints comprised of approximately 1,350 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 "Auditor General's 2020 Annual Report on the Fraud and Waste Hotline" is attached as Attachment 1.

Detailed statistics concerning the activities of the Hotline Program are included in the Annual Report as Exhibit 1. Exhibit 2 contains a summary of major investigations that resulted in a report being issued to Audit Committee. Exhibit 3 provides summaries of various reviews and investigations concluded in 2020.

Highlights of the 2020 statistics are as follows:

2020 Annual Results

- More than 11,000 complaints received since 2002
- Approximately \$40.3 million cumulative losses for past 5 years; consisting of \$36.9 million actual losses plus \$3.4 million potential losses had the fraud not been detected
- 848 complaints in 2020 representing approximately 1,350 allegations; an increase of approximately 44 per cent in complaint volume from 2019
- 10 per cent or 89 complaints received related to COVID-19
- 80 per cent of complaints from 2020 involved an AG preliminary investigation; preliminary work expected on the remaining 20 per cent of cases
- 78 complaints from 2020 were investigated by the Auditor General and/or the City's Divisions, Agencies and Corporations
- 9 per cent (7 complaints) of 78 complaints investigated were substantiated in whole or in part. This number is expected to increase as outstanding 2020 investigations continue to be completed in 2021
- 43 per cent of substantiated complaints were anonymous
- Actions taken include:
 - 2 employees being disciplined
 - 5 instances where other appropriate action with vendors, employees or subsidy recipients were taken
- \$179,000 actual loss in 2020. This amount is expected to increase as outstanding 2020 complaints are concluded in 2021
- Typically, 54 per cent of victim organizations do not recover any of their fraud losses according to the Association of Certified Fraud Examiners 2020 Report to the Nations on Occupational Fraud and Abuse

Previous Years Complaints Closed in 2020

- 148 complaints from previous years were closed in 2020 and 11 per cent (17 complaints) of those were substantiated in whole or in part
- Actions taken include:
 - 4 employees being disciplined
 - 13 instances where other appropriate action with vendors, employees or subsidy recipients were taken

The type of complaints substantiated in 2020 include vendor fraud, subsidy fraud, conflict of interest, employee benefits fraud, identity theft, misuse of City resources and time theft.

CONTACT

Sean MacIntosh, Director (A), Forensic Unit, Auditor General's Office
Tel: 416-392-8460, E-mail: Sean.MacIntosh@toronto.ca

Jasmin Bhatia, Senior Manager, Forensic Unit, Auditor General's Office
Tel: 416-392-0142, E-mail: Jasmin.Bhatia@toronto.ca

SIGNATURE

Beverly Romeo-Beehler
Auditor General

ATTACHMENTS

Attachment 1: Auditor General's 2020 Annual Report on the Fraud and Waste Hotline