



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

**February 3, 2021**

Beverly Romeo-Beehler, FCPA, FCMA, JD, ICD.D, CFF, B.B.A.  
Auditor General

**AUDITOR  
GENERAL**  

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## ANNUAL REPORT

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### Annual report on Hotline activity

This is the Auditor General's 2020 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.

### Hotline is an important anti-fraud control

The Fraud and Waste Hotline Program is an important anti-fraud control for the City of Toronto. Per the Association of Certified Fraud Examiners 2020 Report to the Nations on Occupational Fraud and Abuse, organizations that had anti-fraud controls in place experienced smaller fraud losses and detected frauds more quickly than organizations lacking those controls.

### Benefits of the Hotline Program

The Hotline Program has helped to reduce losses and has 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

**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. Due to the small size of the team, the Forensic Unit occasionally leverages audit staff or outside experts to assist on complex investigations.

**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.

## 2020 Accomplishments and Challenges

**The Forensic Unit continued operating the Hotline during the pandemic**

As was the case with most organizations, 2020 was an unusual year for the Forensic Unit due to the COVID-19 pandemic. However, with our newly implemented complaint management system, it demonstrated how our processes can evolve and adapt to working from home with the available technology.

**Investigative reports and reviews conducted in 2020**

In addition to operating the Hotline, the Forensic Unit continued to focus on conducting major investigations in 2020. Exhibit 2 includes summaries of three investigations with reports issued to Audit Committee in 2020. Several other major investigations are also in progress, and we anticipate these will be concluded and reported on in 2021.

**Impact of COVID-19 pandemic on the Hotline**

Due to the pandemic and the public restrictions put in place by the City of Toronto, the Forensic Unit received several COVID-19 related complaints. In Exhibit 1, we have shown the quantity of COVID-19 related complaints received and provided some examples below, including how these complaints were handled.

**Type of COVID-19 complaints received by the Hotline**

The majority of COVID-19 related complaints received could be grouped into the following categories:

- violating the City's guidelines for business operations during COVID-19
- violating physical distancing rules
- time theft of City employees during the pandemic

**How COVID-19 complaints were reviewed and addressed**

Most complaints related to COVID-19 were not related to fraud or waste. However, like all complaints we receive, we reviewed the complaints and performed preliminary inquiries, which in this case included:

- determining which City Division, outside Agency or Municipality the complaint should be directed to for appropriate action
- referring the complainants to the appropriate source, such as Public Health Ontario's Stop the Spread Information Line, Toronto Public Health and 311 Toronto
- if a complainant was anonymous, we forwarded the complaints directly to the appropriate Agency or Organization

**Backlog in investigation and resolution of complaints**

As detailed in Exhibit 1, the Hotline had a 44 per cent increase in the number of complaints received in 2020 as compared to 2019. This increase provided a continuous challenge to the Forensic Unit to process the complaints in a timely manner.

In addition, the pandemic required many City Divisions to fully focus on delivering essential services to residents, thereby delaying the investigation of allegations referred by the Auditor General's Office. Anticipating this challenge in advance, the Forensic Unit extended timelines for the Divisions to report back on their investigation results, which increased the time it took to resolve and close complaints in 2020.

**New complaint management system and staff training**

The Forensic Unit implemented its new complaint management system in December 2019.

After a full year of operation with this new system, it has helped to modernize our process including how we track and record complaints received throughout the year and has enhanced our reporting capability with its robust functionality.

We have taken the opportunity to update procedures for Forensic Unit staff which standardizes our documentation and investigation processes. We have also focused on training staff on the new system and internal procedures.

## 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.

Communications in 2020 included:

- Preparation of a memo and demonstrative video related to the new case management system, provided to all City Management and staff who are responsible for handling and reporting back on complaint investigations
- Mayor's proclamation of March being Fraud Awareness Month and promoting the proclamation and the Hotline via the Monday Morning News
- Presenting to the Toronto Fire Services Senior Office On-boarding on the role and responsibilities of the Auditor General's Office.

Additional communication strategies were delayed due to the pandemic. In 2021, the Forensic Unit plans to complete a robust communication initiative to the Divisions, Agencies and Corporations to further promote 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.

**City Council directed the City Manager to remind staff of their obligation**

In 2018 in response to the Auditor General's report "*Raising the Alarm: Fraud Investigation of a Vendor Providing Life Safety Inspection Services to the City of Toronto*", City Council directed:

*"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.**"*

On July 25, 2018, the Interim City Manager sent a reminder to all staff about their obligation to report wrongdoing and encourage staff to review the disclosure of wrongdoing and reprisal protection provisions of the TPS By-law.

On October 22, 2020 the City Manager included the following update to all staff, reminding them of their responsibilities:

*"City staff have an obligation to report any fraud, waste or wrongdoing involving City resources, **including suspected wrongdoing** by third party vendors. **Acts of fraud, waste or wrongdoing should be reported to the Auditor General's Office through the Fraud and Waste Hotline**, as outlined in Chapter 192, Public Service, of the City of Toronto Municipal Code.*

*The responsibility to report wrongdoing is a part of the TPS By-law..."*

It is the continued responsibility of all staff to understand their obligation to disclose wrongdoing as part of their duty to be faithful to the employer and not knowingly jeopardize its interests.

**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.

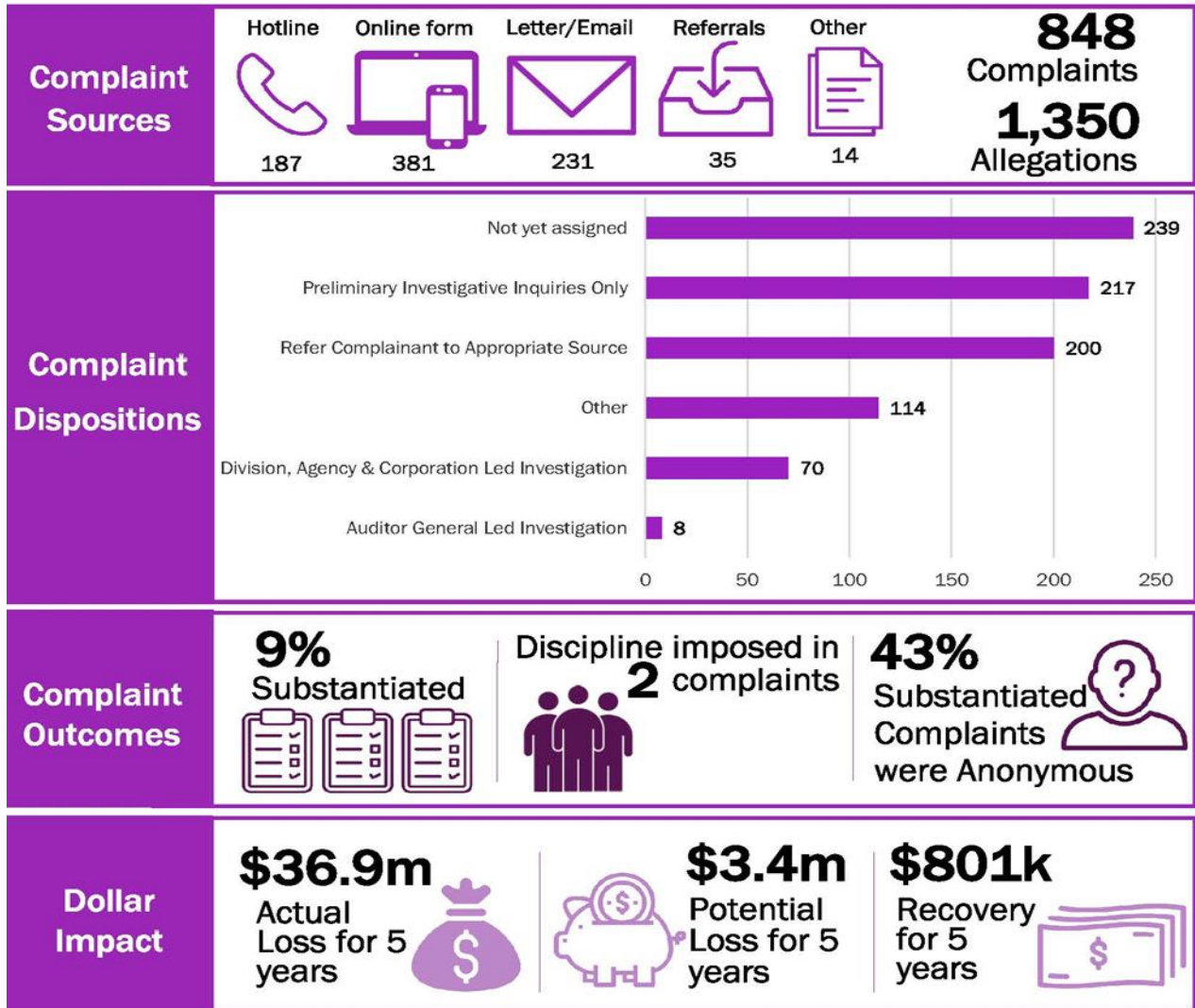
**Raising awareness**

With the system implementation complete, the Auditor General's Office will refresh our communication initiatives for 2021. 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*.

## Key Statistics

The infographic below provides key statistics at a glance for the Fraud and Waste Hotline program for 2020. The volume of complaints and allegations increased approximately 44 per cent since 2019.

Figure 1: Key Statistics



## Exhibits

### Exhibit 1 – Hotline Statistics

Detailed statistics summarizing the activities of the Hotline Program are included in this report as Exhibit 1.

### Exhibit 2 – Major Investigation Summaries

Summarized details of the major investigative reports issued by the Auditor General in 2020 are included as Exhibit 2.

### Exhibit 3 – Complaint Summaries

Summarized details of a sample of complaints concluded in 2020 are included as Exhibit 3. These summaries are provided as requested by Audit Committee.



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## EXHIBIT 1 – DETAILED STATISTICAL SUMMARY

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### 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 influences 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 data from the Hotline include:

- *Strengthening Accountability and Outcomes for Affordable Housing: Understanding the Impact of the Affordable Home Ownership Program*
- *Audit of Winter Road Maintenance Program – Phase One: Leveraging Technology and Improving Design and Management of Contracts to Achieve Service Level Outcomes*
- *Cyber Safety – Critical Infrastructure Systems: Toronto Water SCADA System*

## 1. Total Complaints

### 848 complaints received representing 1,350 allegations

Since the Fraud and Waste Hotline Program was initiated in 2002, the Auditor General’s Office has handled more than 11,000 complaints. Each complaint may include multiple allegations. In 2020, 848 complaints were received representing approximately 1,350 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 received from 2011 to 2020.

**Figure 2: Complaints Received – 2011-2020**

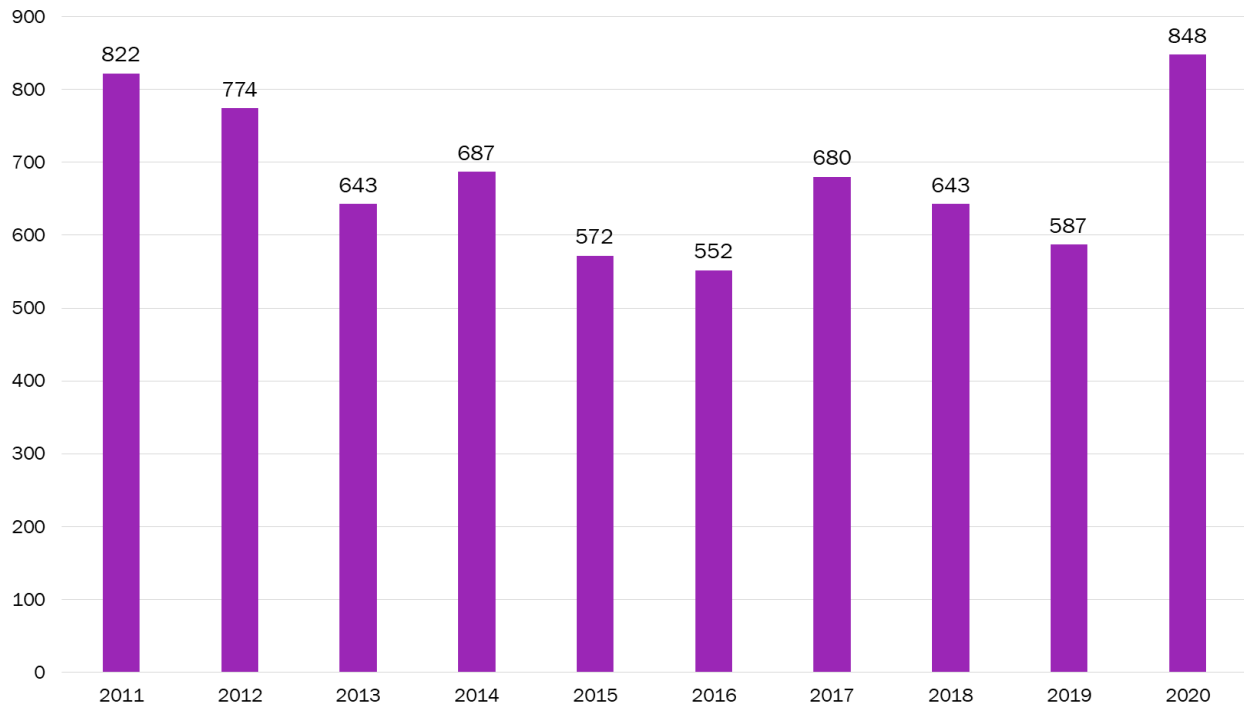
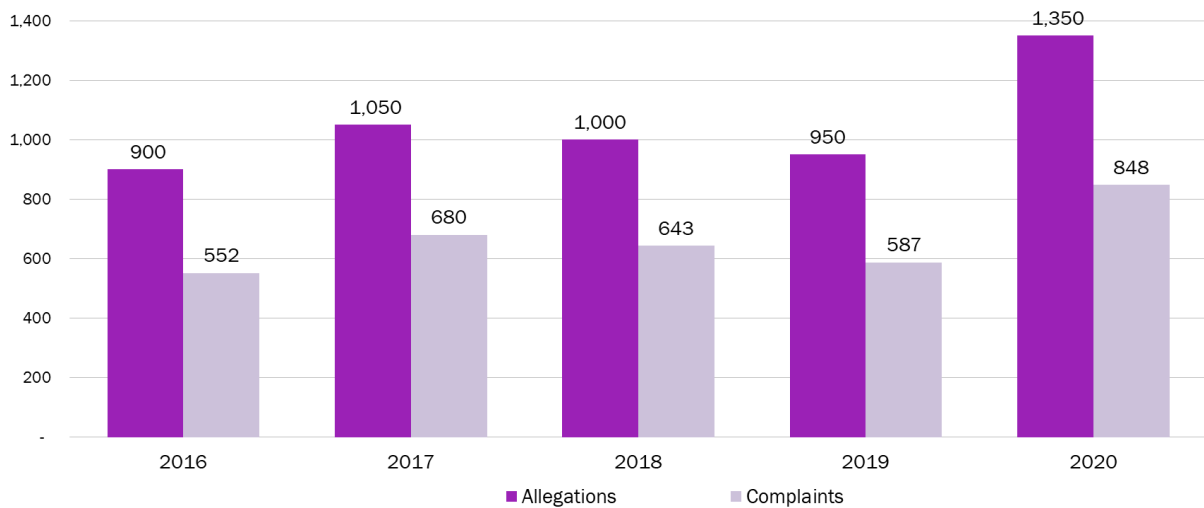


Figure 3 shows the number of allegations included in complaints received over the past five years. The average number of allegations over the past five years is approximately 1,050 per year.

**Figure 3: Complaints and Allegations Received – 2016 to 2020**



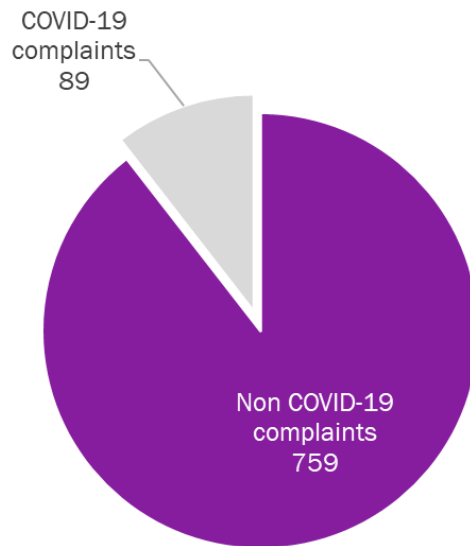
**Increase in complaints**

In 2020, 848 complaints were received, representing a 44 per cent increase over the number of complaints received in 2019.

Beginning in March 2020, the Hotline received complaints related to the COVID-19 pandemic.

Figure 4 shows approximately 10 per cent (89 out of 848) of the complaints received were COVID-19 related.

**Figure 4: COVID-19 Related Complaints Received in 2020**



## 2. Source of Complaints

### 45% of complaints through online form

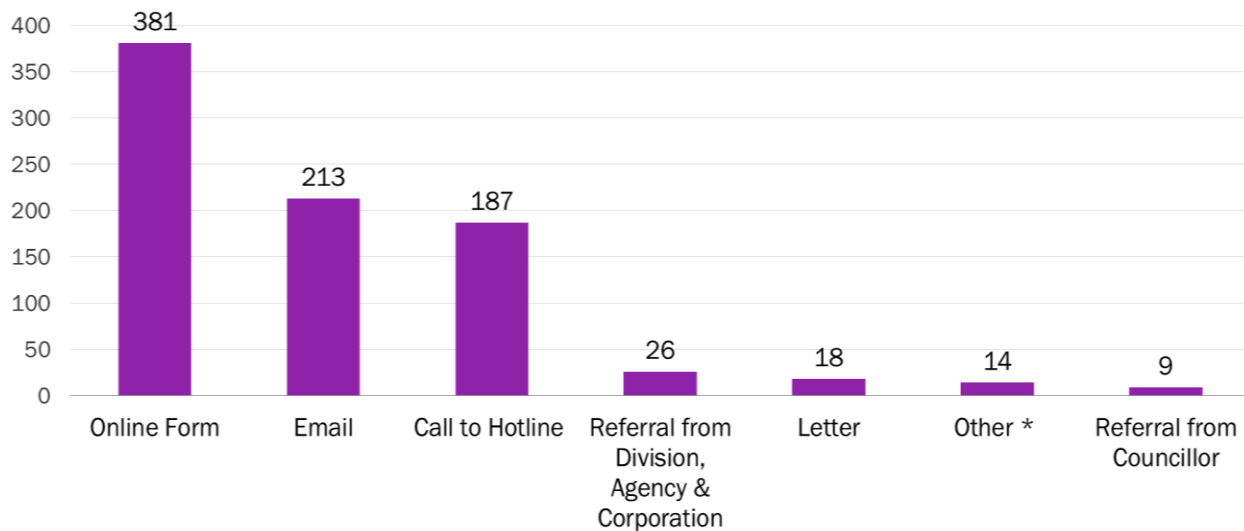
Forty-five per cent of all complaints were received through the Auditor General's new secure online complaint form.

### Hotlines help detect fraud through tips

According to the Association of Certified Fraud Examiners 2020 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 (49 per cent compared to 31 per cent, respectively).

Figure 5 provides a summary of the methods used to report complaints to the Fraud and Waste Hotline Program in 2020.

Figure 5: Source of Complaints



\* Other includes observations made by the Auditor General through performance audits and reviews.

### 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 conducted with the Auditor General.

**Preliminary investigative work conducted in 80% of complaints**

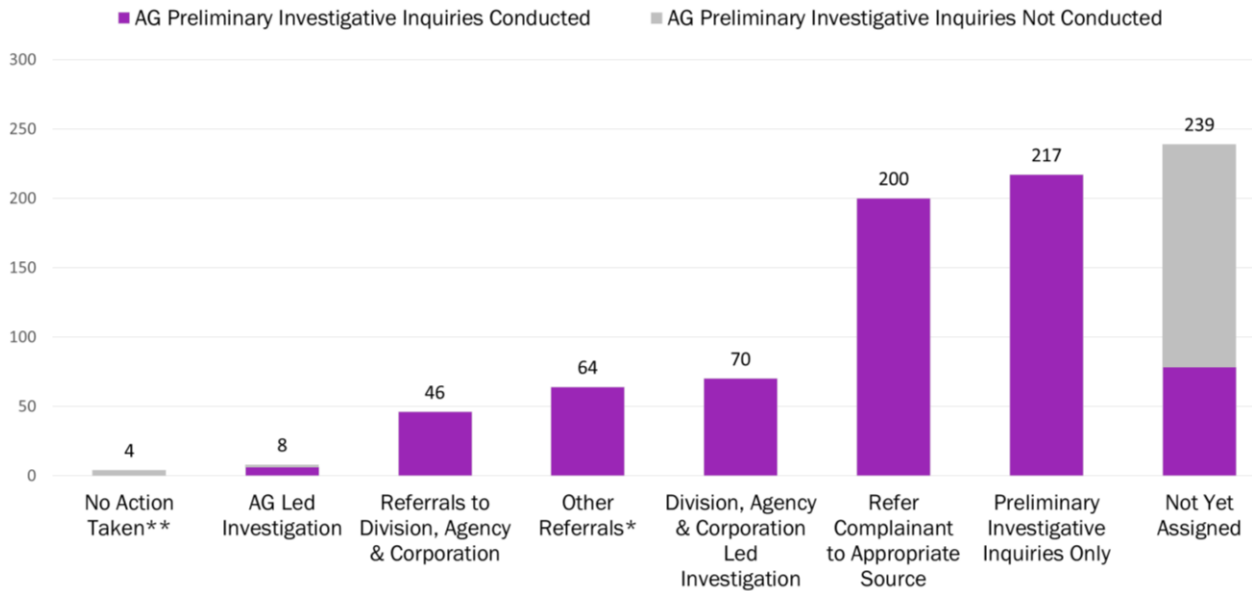
Prior to determining the disposition, the Auditor General’s Office conducts a significant amount of preliminary investigative work or inquiries to identify whether allegations have merit.

In 2020, our Office performed preliminary investigative work on the majority (80 per cent) of complaints received. Preliminary investigative inquiries are also conducted prior to referring complaints to divisions for action.

Of the remaining 20 per cent or 167 cases, 96 per cent have not yet been actioned and in most cases will also have preliminary investigative work performed. Allegations with limited detail or merit may be held until further details are received.

Figure 6 provides a breakdown of the disposition of complaints received in 2020 and illustrates that in the majority of complaints (80 per cent) the Auditor General's Office conducts preliminary investigative work.

**Figure 6: Disposition of Complaints**



\*Other referrals include to 311, future AG audit, other Accountability Officers and Outside Agencies.

\*\*No Action Taken includes complaints with insufficient information to action.

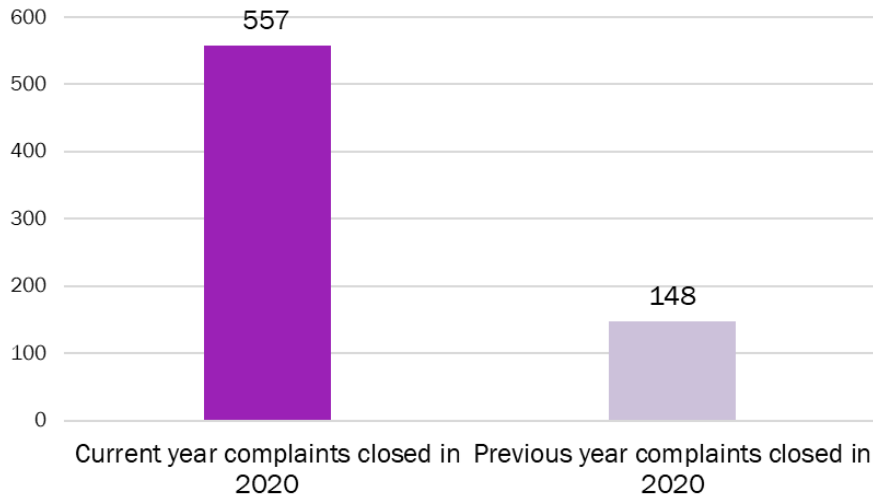
<b>Investigations</b>	Twenty-six per cent of all complaints received (217 complaints) were closed following preliminary investigative work. Eight complaints resulted in a full investigation by the Auditor General's Office and 70 complaints were investigated by City Management with our oversight.
<b>Referrals to Division, Agency &amp; Corporation</b>	Five per cent of all complaints (46 complaints) were referred to City Management 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.
<b>Refer complainant to appropriate source</b>	In 24 per cent of complaints (200 complaints), the complainants were re-directed to the appropriate source or provided with more relevant information, as the matters did not pertain to fraud or waste.

## 4. Complaint Conclusion

	The Forensic Unit manages each complaint until it has been resolved or concluded.
<b>Unsubstantiated complaints may highlight other issues of concern</b>	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.
<b>Substantiated complaints 9%</b>	Nine per cent (7 complaints) of the 78 complaints from 2020 that were investigated have been substantiated in whole or in part. This number is expected to increase as outstanding 2020 investigations are completed in 2021.
<b>Anonymous complaints</b>	Three out of seven (43 per cent) of the substantiated complaints were anonymous.
<b>Internal control weaknesses</b>	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.
<b>Previous years complaints concluded in subsequent years</b>	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.
<b>11% of complaints closed from previous years were also substantiated</b>	In 2020, 148 complaints from previous years were also closed and 11 per cent (17 complaints) of those were substantiated in whole or in part.

Figure 7 shows that a total of 705 complaints were closed in 2020, of which 557 complaints are from the current year and 148 complaints are from previous years.

**Figure 7. Current Year vs. Previous Years Complaints Closed in 2020**



## 5. Disciplinary Action in Substantiated Complaints

### **Disciplinary action is management's responsibility**

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.

### **Discipline or other appropriate action in 7 complaints from 2020**

In 2020, divisional management reported that discipline was imposed in two of the substantiated complaints. In an additional five instances, divisional management took other appropriate action with vendors, employees or subsidy recipients.

### **Discipline or other appropriate action in 17 complaints from previous years**

For previous years cases that were substantiated in 2020, discipline was imposed in four cases and other appropriate action was taken in 13 instances.

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 2020 Report to the Nations on Occupational Fraud and Abuse reported that 54 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.

### **\$179,000 actual losses**

For complaints received in 2020, quantifiable actual losses to the City were approximately \$179,000. This amount is expected to increase as outstanding 2020 complaints are concluded in 2021.

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 they are concluded in subsequent years.

For example, in 2020, 15 complaints from 2019 and one complaint from each of 2018 and 2016 were concluded as substantiated or substantiated in part.

### **\$40.3M cumulative actual and potential losses for 5 years**

The cumulative total of actual and potential losses from complaints received in previous years (2016 to 2020) is more than \$36.9 million (actual losses) plus \$3.4 million (potential losses) had the fraud not been detected.



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## EXHIBIT 2 – MAJOR INVESTIGATION SUMMARIES

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Below are summaries of major investigations that resulted in a report being issued to Audit Committee in 2020. These summaries demonstrate that a substantial amount of resources is required to conduct investigations.

In 2020, the Forensic Unit also invested significant time and resources into several other ongoing investigations which may be concluded and reported in 2021.

### Toronto Building Division: Conditional Permits – Follow-up Review

**Auditor General's  
October 2017 report on  
CPs**

In October 2017, the Auditor General published a report titled “*Toronto Building Division: Conditional Permits*”. This was in response to a complaint received that there was a financial incentive for Conditional Permit (CP) applicants to obtain above-grade CPs in advance of scheduled development charge (DC) rate increases and that some above-grade permits were not issued in full compliance with section 8(3) of the *Building Code Act*.

**Issuance of first above-  
grade CP is when DCs are  
calculated and payable**

The issuance of the first above-grade permit, conditional or otherwise, is a critical milestone. The date of issuance is when the amount of DCs is calculated and payable<sup>1</sup>.

**Allegations  
substantiated, City lost  
an estimated \$8M in DC  
revenue**

Based on the prior report, the City lost an estimated \$8 million in DC revenue for CPs which were issued prematurely based on the Divisions draft CP criteria. The Auditor General made 17 recommendations to the Division in the 2017 report.

**Identification of samples  
for follow-up**

Following the appointment of the Chief Building Official (CBO) in April 2018, there seemed to be an overall improvement in the process of issuing CPs, although there still appeared to be a lack of consistency.

The CBO reviewed CP files to assess if change was occurring. He noticed 11 files that, in his view, continued to follow old practices and may have been issued prematurely. We reviewed the 11 files identified and selected an additional 8 files at random. Files were reviewed from all districts against the 3 key indicators outlined in the 2017 report and were related to CPs issued prior to the November 1, 2018 DC increase.

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<sup>1</sup> This was the situation at the time of our follow-up review and does not consider new legislation in the *Development Charges Act* which was put in place as of January 1, 2020.

**Focus of Auditor General's follow-up review**

The focus of the Auditor General's follow-up review was to:

- Determine if above-grade CPs continued to be issued prematurely after the 2017 recommendations were made
- Examine the issues identified by the CBO
- Make additional recommendations to ensure files are treated more consistently going forward

**Key findings from our follow-up review**

The following provides an overview of our key findings:

- Although some overall improvement was noted, some staff appeared to continue issuing CPs in the same way they had been doing prior to the Auditor General's review and documentation was still not sufficient for some of these files.
- Some level of non-compliance was observed in all districts and between districts there appeared to be some distinct variations.
- Of the 19 files reviewed, six CPs appeared to have been issued prematurely.
- We estimate that the potential loss in DC revenue from the six above-grade CPs that appeared to be issued prematurely is approximately \$26 million.
- The working draft of the CP policy was put in place as of October 12, 2018. The policy was finalized on May 15, 2019 during this follow-up review.

**8 new recommendations related to the CP process**

The follow-up review concluded that the issuing of CPs is still inconsistent, and the report made eight new recommendations designed to ensure:

- Recommendations from the Auditor General's 2017 report are successfully implemented
- CPs are not issued prematurely
- CP files include proper supporting documentation
- The City's interests in collecting development charge revenue are protected going forward

The Division has moved forward with positive changes, including finalizing the new CP policy, training staff and centralizing the final review of CPs. Additional testing showed that the most recent CPs are being issued in a more consistent manner.

**Auditor General will be conducting ongoing reviews**

The Auditor General will continue to review Toronto Building operations to identify any further issues needing addressing.

The report is available at:  
<https://www.torontoauditor.ca/report/toronto-building-division-conditional-permits-follow-up-review/>

## Review of 260 Eighth Street Land Transaction: No Wrongdoing Identified

### **Review based on concerns received regarding a land transaction**

The Auditor General undertook an investigative review of the 2018 sale of a property at 260 Eighth Street in Etobicoke, Ontario (the Property). This review was initiated based on concerns brought forward by a complainant in relation to the sale of the Property. The following concerns were expressed about the land transaction:

1. The sale amount of the Property was less than the market value.
2. The approval process for the sale of the Property was not conducted in accordance with City guidelines.
3. The best value for the Property was not attained.

### **Contamination of the site**

The Property has been vacant since the early 1990's.

Environmental assessments found contaminants on the property including various chemicals and metals in the soil and ground water. In 2005, a partial remediation of the Property took place.

### **BuildTO managed the sale of the Property**

In October 2013, City Council recommended that Build Toronto Inc. (BTI) manage the sale of the Property on behalf of the City owner, Toronto Port Lands Company (TPLC).

The lands were severed in 2016 when a 3.3-acre parcel (municipally known as 170 Birmingham Avenue) was sold to Humber College for use as a parking lot. The remaining 20.6-acre parcel, which also contains a historically designated Toronto Hydro Building (Heritage building), was the subject of this review.

### **CreateTO approved and completed the sale**

As of March 21, 2018, the Board of Directors of CreateTO approved the sale of 260 Eighth Street to the purchasers. The sale of the Property closed on August 15, 2019.

### **An independent investigative review was performed**

The Auditor General conducted an independent investigative review to evaluate whether there was evidence to support concerns of wrongdoing related to this transaction.

The Auditor General reviewed documents related to the land transaction from when Council recommended the property to be managed by BTI in 2013. We also hired a designated professional real estate appraiser to conduct an independent appraisal of the Property and to provide an independent opinion on the value of the land.

**Findings from the Auditor General's review**

On the basis of publicly tendered development proposals, final sale value and an independent appraisal, it was concluded that there was insufficient evidence to support a claim that the Property was sold at less than market value.

Proper procedures appear to have been followed in the process, including the notice for and conduct of the special meeting of the Boards of Build Toronto and Toronto Port Lands Company which occurred on April 15, 2019.

In addition, no evidence came to our attention that would suggest that the Property's successful purchasers are likely to create fewer jobs than other developers or that late unsolicited offers from other proponents should have been accepted.

Based on our review, we found sufficient evidence to support that the appropriate steps were taken to complete this transaction.

**Importance of bringing the concerns forward**

Not all concerns which are raised to the attention of the Auditor General are found as wrongdoing. However, it is still important and, in the best interest of the City to raise the matter when there is a legitimate concern about how a transaction was handled.

The Auditor General's review provides further insight and independent clarity as well as assurance to City Council and the public that such a transaction was handled appropriately. We thank the complainant for bringing this matter forward.

**Insufficient evidence to support any wrongdoing**

In our view, it was appropriate for CreateTO to proceed with the agreement it already had in place, considering that fair market value was being received from the successful proponent, as well as the complexity of the transaction and environmental issues on the Property. In addition, it is important for the public to be able to rely on the City's open bidding process.

We have made no recommendations in this matter.

The report is available at:  
<https://www.torontoauditor.ca/report/review-of-260-eighth-street-land-transaction-no-wrongdoing-identified/>

## Employee Health Benefits Fraud Involving a Medical Spa

<b>Fraud occurred against the City of Toronto</b>	<p>This was a lengthy and complex investigation into allegations of fraud against three City of Toronto employees and the spouses of two of those employees. Our investigation included a review of receipts, invoices, treatment notes and other documentation related to the claims. Our work also included interviews with the three employees involved, and current and former employees of the medical spa involved in this case. We sought information from experts on handwriting, dermatology, and pharmacology, and conducted further relevant research. We determined that health benefits fraud occurred against the City on several occasions in this case.</p>
<b>Claimants received reimbursement for treatment of condition they did not have</b>	<p>The claimants all visited a medical spa for treatment for various conditions. All received invoices from the spa saying they were treated for a condition on their face (actinic keratosis) with a drug called Levulan Kerastick (Levulan). This treatment is covered by the City's health benefits plan. The claimants were reimbursed a total of \$38,000 since 2017. However, it was our view that none were treated with Levulan for actinic keratosis of the face, and the evidence confirmed at least some of them were aware of this.</p>
<b>The City took swift and deliberate action</b>	<p>The City of Toronto took swift and deliberate action in these cases. It conducted its own separate internal investigations into the employees, and also formally notified the appropriate regulatory bodies concerning the medical professionals involved.</p> <p>Each employee's case was different and has resulted in varying outcomes to date.</p>
<b>1<sup>st</sup> employee admitted and repaid</b>	<p>The first employee admitted to the fraud and took full responsibility for his actions. He completely cooperated with the Auditor General's investigation and immediately repaid what he was reimbursed (about \$1,500).</p>
<b>Employment agreement in place</b>	<p>This employee also served a suspension and agreed that his employment will be terminated if he engages in future fraudulent or dishonest conduct, and that he would not be able to work for the City of Toronto again.</p>
<b>Referral made to police</b>	<p>This employee's case has been referred to the police.</p>
<b>2<sup>nd</sup> employee admitted and repaid</b>	<p>The second employee admitted that he provided supporting documentation that contained a condition he did not have. He repaid the reimbursement after the investigation (nearly \$10,000).</p>
<b>Employment was terminated and referral made to police</b>	<p>The City terminated his employment.</p> <p>This case has also been referred to the police.</p>

**3<sup>rd</sup> employee has not repaid**

The third employee has not yet reimbursed the City. In our view, she must have known she was submitting false and/or misleading invoices to obtain reimbursement.

**Action being taken to recover funds**

The City requested that this employee repay the amount she was reimbursed. As of the date of this report, she has not replied to that request. Actions are being taken by the City to recover the amounts she received.

**Referral made to police**

This employee's case has also been referred to the police.

**Recommendations will help deter employees and service providers from committing health benefits fraud**

The recommendations from this report are being used to:

- 1) inform employees and service providers that the City has sophisticated fraud detection controls in place,
- 2) educate employees about the various forms of health benefits fraud so that those providing or receiving services can help identify, report and stop fraud, and
- 3) help to deter those thinking about committing fraud against the City.

The report is available at:

<https://www.torontoauditor.ca/report/employee-health-benefits-fraud-involving-a-medical-spa/>

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## EXHIBIT 3 – COMPLAINT SUMMARIES

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Below are summaries of various reviews and investigations concluded in 2020. 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 14 complaint summaries. These complaints resulted in a total loss of over \$94,000 and the termination of employment of one employee. Three complaints identified internal control weaknesses that were rectified or are in the process of being rectified by management.

### **1. Subsidy Claim Fraud**

#### **1.1. Failure to Disclose Employment Income**

The Auditor General's Office was advised by a City Corporation that a member of public was allegedly receiving a subsidy through fraudulent claims.

The investigation was led by the Division and concluded that the individual did not appropriately disclose their income from another employer and therefore received a subsidy they were not entitled to. The total amount of the ineligible overpayment was approximately \$15,000.

The Division terminated the subsidy and is pursuing recovery and possible criminal charges.

#### **1.2. Misrepresentation of Household Income & Failure to Disclose Business Income**

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

The investigation was led in coordination by a City Corporation and a Division and concluded that three members of the public residing in the same household did not appropriately report their income eligibility for multiple subsidies and failed to report business income earnings. The total combined amount of ineligible overpayment was approximately \$26,000.

The City has terminated the subsidies and is pursuing recovery.

### **1.3. Falsifying Information**

The Auditor General's Office received an anonymous complaint through the Fraud and Waste Hotline alleging that a member of public was claiming to be a single parent in order to qualify for a subsidy.

The investigation was led by the Division and concluded that the individual did not appropriately report their marital status and household income required for eligibility and therefore received a subsidy they were not entitled to. The total amount of the ineligible overpayment was approximately \$37,000.

The Division terminated the subsidy and is pursuing recovery.

### **1.4. Failure to Disclose Eligibility Information**

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 investigations were conducted by the Divisions, one of which substantiated the allegations. They concluded that the individual did not provide all of the supporting documentation required for eligibility and therefore received a subsidy they were not entitled to. The total amount of the ineligible overpayment was approximately \$7,700.

The Division terminated the subsidy and is pursuing recovery.

### **1.5. Change in Eligibility Information**

The Auditor General's Office received a complaint through the Fraud and Waste Hotline alleging that a subsidy recipient was using an old address in order to qualify.

The investigation was led by the Division and concluded that the individual was no longer living at the reported address and therefore received a subsidy they were not entitled to. The total amount of ineligible overpayment was approximately \$4,700.

The overpayment is being recovered monthly from the recipient's subsidy.



## 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 potential cases.

The City's benefits administrator's Claim Watch program detects fraudulent activity and protects the plan sponsor – the City of Toronto. Online audits of employee benefit claims are conducted on a regular basis and to protect the sustainability of the plan, the program frequently requires the employee to provide supporting documentation for claim submissions.

Exhibit 2 summarizes an investigation conducted in 2020 into employee health benefits fraud, titled "[Employee Health Benefits Fraud Involving a Medical Spa](#)".

Although the case summaries in this section are samples, we continue to see employees risking workplace discipline or even termination as a result of submitting fraudulent benefit claims. The investigation report notes that:

*"...by implementing past Auditor General recommendations, the City now has a more robust claims monitoring regime and audit system in place that will catch more fraud."*

And that City employees need to:

***"be aware that the frequency and sophistication of health benefit monitoring has increased, and it is important to not become involved in schemes like the ones identified in this report."***

### 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.

The employee resigned a few months prior to the City learning of the questionable claims submitted by the employee. When requested, the employee did not provide the supporting documentation and instead reimbursed the benefits administrator for the full amount of the paid claims which were unsupported, totalling approximately \$400. For these reasons, the Division did not conduct a comprehensive investigation into the falsified benefit claims.

The claims review performed by the benefits administrator halted payment on five additional claims, totalling approximately \$500. Two of these claims were later substantiated by the employee and three claims remained unsupported.

## **2.2. Claims Containing Falsified Information**

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

An investigation into the allegations was conducted by the Division. Ten claims submitted appeared to contain false information, with the practitioners confirming only a portion of the services provided, in addition to inflated rendered amounts. The investigation also noted that there were several claims with other service providers for which the claims information was submitted properly.

The employee explained that they have multiple health issues for which they are receiving treatment and submitting claims. The investigation concluded that the employee had submitted extended health care benefit claims in error for approximately \$1,100.

The employee was issued a disciplinary letter and educated on their responsibility regarding claim submission. The full amount has been recovered and the employee will be restricted to manual claim submissions going forward.

### **3. Employee Time Theft**

#### **3.1. Time Theft and Second Job**

The Auditor General's Office received a complaint through the Fraud and Waste Hotline regarding allegations that a City employee was committing time theft by not working their full shift and working a second job as a food delivery driver during work hours.

The investigation was led by the Division and concluded that the employee did at times take extended breaks or leave work early without following the appropriate reporting process and obtaining authorization.

The employee was suspended for 15 days and a final warning was outlined in a last chance agreement. Management reviewed the prescribed daily reporting process with the employee as well as their work expectations.

The Division advised that additional controls were implemented, including distributing staff memos on the attendance process annually and during new employee orientation. In addition, the inspection process for daily performance has been escalated to real time email reports to the Supervisor/Manager.

#### **3.2. Misuse of Sick Policy**

The Auditor General's Office received a complaint through the Fraud and Waste Hotline regarding allegations of a City employee inappropriately claiming sick days and leave of absence from work.

The investigation was led by the Division and concluded that the employee engaged in the fraudulent use of one sick day and three ill dependent days, calculated as an estimated total loss of \$3,000.

The employee was issued a disciplinary letter, which included a temporary demotion and repayment of the misused sick days through working an equivalent number of days off.

The Division was able to recover approximately 35% of the misused sick days. Subsequently, the employee has been unable to return to work and is set to retire for other reasons.

The Division advised they will continue to apply the Attendance Management Program going forward.

#### **4. Conflict of Interest and Second Job**

Through prior investigations, the Auditor General has identified cases of employees operating their own business and performing work for private clients that presented a conflict of interest with their duties as a City employee. Once identified, the respective Division undertook thorough investigations and resulted in employment being terminated. One of these cases was summarized in the 2019 Annual Report on the Fraud and Waste Hotline.

This year, we are summarizing two further allegations of conflict of interest in the same Division. As noted in the summaries below, the Division took the allegations seriously and has improved their policies and controls as a result of the investigations.

##### **4.1. Conflict of Interest and Acceptable Use Policy Violation**

The Auditor General's Office was advised by a Division that three employees appeared to be operating personal businesses or inappropriately using City resources in violation of the *Toronto Public Service (TPS) By-law* and the Division's *Conflict of Interest (COI) Policy*.

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

The following summarizes the Division's investigation:

Employee 1 operated a private business and was an agent representing their client while, at the same time, they were involved with the permit process as a City employee. This was a violation of the TPS By-law and the Division's COI Policy.

Following the investigation, Employee 1 resigned from the City.

Employee 2 was not found to be operating a private business and appears to have properly declared a conflict of interest. However, the investigation revealed that City resources were used to check and print emails during scheduled time off and after hours. While limited use of City assets is permitted, improper use, is a violation of the *Acceptable Use of Information Technology (IT) Assets Policy*.

The employee was provided a non-disciplinary letter of expectation outlining the City and Divisional expectations and policies including the importance of avoiding situations where their private interests may be in conflict with, or be perceived to be in conflict with the interests of the City.

Employee 2 retired following the investigation.

Employee 3 did not run a private business but admitted to checking the status of an application that they had personally made to the City, using the Division's IT system. The employee also contacted a Manager to question deficiencies on this application that were identified by another employee. They were advised by the Manager that they should not be involved with the application based on the COI Policy.

The employee's actions resulted in a violation of the TPS By-law and the Division's COI Policy. In addition to admitting to the actions, the employee advised the Division that this was a mistake in judgement and confirmed that it would not happen again.

Employee 3 was provided with a letter of expectation reminding them of City and Divisional expectations and policies.

The Division is serious about ensuring any actual or perceived conflicts of interest are prevented or managed appropriately. They have amended their internal COI Policy to include all employees of the Division, regardless of role, as well as expand the scope of jurisdiction.

The Division advised that the COI Policy continues to be a standing item to be discussed with staff at monthly meetings and Managers have been reminded to confirm mandatory training for staff has been completed.

The updated policy states that any employee ***“who fail(s) to comply ...may be subject to disciplinary action up to and including termination and, where warranted, legal proceedings.”***

#### **4.2. Violation of Conflict of Interest Policy**

The Auditor General's Office was advised by a Division that an employee appeared to be operating a personal business in violation of the *Toronto Public Service By-law* and the Division's *Conflict of Interest (COI) Policy*.

The investigation was led by the Division and concluded that the employee had previously conducted work for a private business after-hours, although the properties were located outside the City of Toronto.

The employee was provided with a non-disciplinary letter of expectation, outlining City and Divisional expectations and policies.

The Division advised that the Divisional COI Policy has been amended to include all employees of the Division, regardless of role, as well as an expanded scope of jurisdiction within the Province of Ontario.

### 4.3. Conflict of Interest and Second Job

City Staff identified that an employee was allegedly working for one Division as a security guard through a private security firm, while also employed as an Inspector for another City organization.

A thorough investigation was conducted by Divisional Management in consultation with Employee and Labour Relations. Through witness statements, sign-in sheets, invoice records, scheduling information provided by the security company and admissions from the employee, the allegations were found to be substantiated.

The investigation concluded that the employee worked as a security guard at a City facility on at least five days which overlapped with business hours as a City Inspector.

The employees' actions constituted a violation of the *Toronto Public Service By-law*, in particular with the Conflict of Interest & Confidentiality provisions where it states,

***"A City or Agency employee may not engage in any outside work or business activity that conflicts with their duties to the City or City Agency..."***

Employment with the City was terminated.

## 5. Vendor Fraud

The Auditor General's Office received allegations from a City employee that a City vendor was not carrying out all appropriate regulatory inspection procedures and was possibly fabricating records.

The matter was referred to the Division for initial investigation. The Division conducted several audits of maintenance records and was concerned that the vendor may have been inaccurately maintaining records, improperly performing work and receiving payment on invoices for work not completed.

The vendor acknowledged claims related to missed monthly maintenance visits but raised issues in regard to the City fulfilling certain other aspects of the contract. The vendor issued credits to the City for over \$75,000 in response to this case.

The City reported they will be applying lessons learned in contract management from this case, including clarifying contract language, increasing the visibility of regulatory reports, having performance benchmarks and improving contract management practices.

## 6. Misuse of City Resources

A complaint was received through the Fraud and Waste Hotline regarding allegations that a City employee was misusing a City vehicle by attending their residence during business hours (in uniform and with other City employees), as well as parking illegally.

The investigation was led by the Division and concluded that the employee was, on occasion, attending their residence during business hours.

The employee was issued a verbal warning where expectations were clarified, including adhering to the *Highway Traffic Act*, appropriate use of City vehicle, using time of other City staff and general awareness of appearance, behaviours and actions while wearing a City uniform.

**AUDITOR  
GENERAL**  

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**TORONTO**

