

Toronto Business Improvement Areas (BIAs) Accounts Payable Fraud Investigation

Date: February 3, 2021

To: Audit Committee

From: Auditor General

Wards: All

SUMMARY

The attached report summarizes the results of the Auditor General's review of allegations of fraud. The case involved two BIAs resulting from the actions of a consultant who worked for each Business Improvement Area (BIA) at different times beginning in 2017. This investigation was initiated based on concerns raised by the City's BIA office of the Economic Development and Culture Division.

After concluding our investigation but before our public report was issued, we were apprised by law enforcement that *"the police conducted their investigation independently of the Auditor General. The suspect has been identified and arrested by police, and has been charged with fraud."*

The consultant was not interviewed as part of the Auditor General's work in order to retain separation of the work conducted by the Auditor General's Office and the criminal investigative process.

The Board members at BIA 1 should be commended for catching and pursuing this matter once it was detected.

The purpose of this report is to identify areas where BIAs in general can improve internal controls to prevent similar situations from occurring, and to identify opportunities for the City to support the BIAs in doing so. While we recognize that Boards are comprised of volunteers who already spend considerable personal time on these activities, information about key internal controls is relevant and critical to any enterprise that relies on volunteers, consultants and other professionals for support.

The Association of Certified Fraud Examiners (ACFE) in its 2020 Report to the Nations notes that:

"Non-profit organizations can be more susceptible to fraud due to having fewer resources available to help prevent and recover from a fraud loss. This sector is

particularly vulnerable because of less oversight and lack of certain internal controls."

The Auditor General has made three recommendations to lessen the risk to other BIAs. Note that although these recommendations relate specifically to either BIA 1 or BIA 2, the lessons learned should benefit all BIAs and all City organizations. Management has agreed to all three recommendations.

RECOMMENDATIONS

The Auditor General recommends that:

1. City Council request the General Manager, Economic Development and Culture, to improve existing training of Business Improvement Area Board members to:
 - a. ensure that all Business Improvement Area Board members be provided with the opportunity to receive relevant training in relation to strengthening financial governance, internal controls and fraud prevention for Business Improvement Areas; and
 - b. consider leveraging Internal Audit to help review key financial controls in support of Business Improvement Areas and provide support and/or guidance in this area.
2. City Council request the General Manager, Economic Development and Culture, to improve existing training of Business Improvement Area Board members by ensuring all Business Improvement Area Board members:
 - a. are made aware of their responsibility before issuing payments to ensure supporting documentation is obtained and that services have been provided; as well as perform monthly bank reconciliations to ensure payments processed were approved.
 - b. are supported to ensure there is appropriate segregation of duties, including potentially hiring someone to assist all Business Improvement Areas in performing bank reconciliations, where necessary.
3. City Council request the General Manager, Economic Development and Culture, to consult with Business Improvement Area Board members to identify any other emerging needs that the City can support Business Improvement Areas on, including but not limited to, Information Technology security support.

FINANCIAL IMPACT

The financial impact of the recommendations in this report is not determinable at this time.

DECISION HISTORY

BIA Boards are established by City Council as City Boards under the *City of Toronto Act, 2006* in accordance with *Toronto Municipal Code, Chapter 19, Business Improvement Areas*, which sets out procedures for the establishment and operation of BIA Boards and the composition of each BIA Board.

https://www.toronto.ca/legdocs/municode/1184_019.pdf

COMMENTS

The attached report provides the BIA Board members, Audit Committee and members of Council with the investigative review results and recommendations together with management's response.

Due to capacity reasons and the nature of the transactions, the Auditor General's Office leveraged an independent forensic accounting firm to conduct a forensic review on the Auditor General's behalf to determine whether there was evidence to support the fraud allegations.

The forensic review consisted of reviewing BIA banking documents, summoning banking documents for the consultant, and reviewing invoices and supporting documentation for each BIA. Various interviews were also conducted. Seventy-three cheques totaling \$71,558.35 from eight main vendors, and various individuals and smaller vendors were deposited into a bank account used by the consultant. Some of the vendors eventually received payment. Based on all evidence reviewed, there is a high risk that fraud occurred in the case of BIA 1.

At BIA 2, four cheques totalling \$1,450 payable to three vendors were deposited into bank accounts used by the consultant. Of the three vendors affected, we confirmed that two were eventually paid. The third did not respond to our inquiries. It is highly unusual that cheques payable to vendors would be deposited into bank accounts used by the consultant instead of being forwarded directly to the vendor. Actions such as these suggest a high risk of fraud. However, it is possible that cheques may have been deposited in error or for another unknown reason. Given that two of the three vendors received payment, it does not appear that fraud occurred at BIA 2.

At the time the forensic accounting firm concluded its forensic review, a total of \$35,866.73 had been recovered by BIA 1 from its financial institution, based on signed declaration forms that confirmed vendors had not received funds.

CONTACT

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SIGNATURE

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ATTACHMENT

Attachment 1: Toronto Business Improvement Areas (BIAs) Accounts Payable Fraud Investigation