



Toronto Business Improvement Areas (BIAs) Accounts Payable Fraud Investigation

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Auditor General

**AUDITOR
GENERAL**

TORONTO



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*The image on the cover page is a stock photo and in no form represents BIA 1 or BIA 2 discussed in this report.

Executive Summary

Business Improvement Areas

A Business Improvement Area (BIA) is an association of commercial property owners and tenants within a defined geographical area who work in partnership with the City of Toronto to create thriving, competitive, and safe business areas that attract shoppers, diners, tourists, and new businesses.

BIA management and funding

BIAs are managed by volunteer Boards comprised of property owners and business tenants. There are over 80 BIAs throughout the City of Toronto that generate funding of over \$34 million annually.

Funded by property taxes

BIAs obtain operating funding through a special property tax levy on commercial and industrial properties within the BIA boundary. Each property owner's share of the annual BIA budget is proportionate to their share of the total taxable value within the BIA boundary. BIA funds are used for staff wages and BIA projects.

Governance of BIAs

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.

BIA Boards are composed of public directors and City Councillors. The public directors are elected by the BIA membership and recommended to the Community Council in which the BIA is located for appointment. If a BIA is located within the geographic area of more than one Community Council, Council shall appoint the directors. The Councillors for the wards in which a BIA is located are Board directors by-right-of-office. BIA Board Chairs are elected by the BIA Board directors.

Two BIAs were reviewed

This report summarizes our review of the allegations of fraud involving two BIAs resulting from the actions of a consultant who worked for each BIA at different times beginning in 2017.

Consultant retained by BIA 1 in 2017

BIA 1 retained a part-time consultant in April 2017 to assist its Board in community liaison, development, event planning and administration. BIA 1 informed us that the consultant was recommended by another BIA. In early 2018, the consultant took on the responsibility of preparing cheques to pay invoices from BIA 1's vendors. The consultant did not have signing authority on BIA 1's bank accounts. The consultant invoiced BIA 1 bi-weekly for the services provided and was paid by cheque. According to BIA 1, the consultant would typically work 20 to 25 hours per week on BIA 1 matters.

Board members found an unusual payment while preparing for year-end audit

In June 2019, two BIA 1 Board members were preparing for the year-end audit and discovered that the BIA made an additional payment of \$2,000 by cheque in excess of a vendor's invoice total. Working with their auditor, they contacted the vendor who advised they had not received the additional payment. On examining the back of the cancelled \$2,000 cheque, the Board members noticed that the payment appeared to have been deposited into the same bank account that the consultant's bi-weekly consulting fee cheques were regularly deposited into.

Consultant resigned

The Board members requested that the consultant provide further information about this transaction. We were informed that the request went unanswered and within 24 hours, the consultant resigned from BIA 1. Shortly thereafter, the consultant assumed a similar role at BIA 2.

73 cheques totalling over \$70,000 payable to vendors and individuals were deposited into a bank account used by the consultant

The Board members and their auditor examined all BIA 1 cancelled cheques dated from January 2018 to June 2019 and identified 73 cheques totalling \$71,558.35 made payable to various BIA 1 vendors and individuals that appeared to have been deposited into the same bank account used by the consultant. These findings were subsequently confirmed by a forensic accounting firm contracted by the Auditor General's Office to undertake a forensic review on their behalf. As outlined in the report, some of these vendors were paid.

Funds also processed through bank accounts used by the consultant for BIA 2

The consultant started working for BIA 2 in June 2019, and assumed a formal contract there in December 2019. Payments to vendors began being deposited into a bank account used by the consultant almost immediately, in December 2019.

Records accessed from bank

The Auditor General advised BIA 2's Board Chair and Board that there were potential risks involving the processing of vendor payments because of the ongoing forensic review at another BIA. The Auditor General advised that she wanted to verify if similar activities were being undertaken at BIA 2. The Auditor General accessed records and bank account information of the consultant under the authority of the *Public Inquiries Act, 2009*.

Cheques totalling \$1,450 deposited into bank accounts used by the consultant at BIA 2 but two of the three vendors received payment

The forensic review at BIA 2 consisted of reviewing bank statements and cancelled cheques from June 1, 2019 to August 11, 2020. Four cheques dated from December 2019 to February 2020 totalling \$1,450 appeared to have been made payable to various BIA 2 vendors but deposited into bank accounts used by the consultant. Process changes for accounts payables at BIA 2 occurred due to the COVID-19 pandemic beginning in March 2020. No further deposits were noted after that. Two of the three vendors received payment for the invoices.

Some funds recovered for BIA 1

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. For BIA 2, there were funds processed through two bank accounts used by the consultant, but as far as we can determine, two of the three vendors were eventually paid.

Concerns about how payments were processed

The following actions raised concerns for us at BIA 1:

- 1) Making unsupported and fictitious payments in the names of valid vendors and depositing funds into a bank account used by the consultant.
- 2) Making payments to vendors based on quotations/estimates used as support for the cheque – as opposed to invoices, and then depositing the cheque into a bank account used by the consultant.
- 3) Lapping vendor payments by depositing vendor cheques into a bank account used by the consultant, and then delaying actual payments to vendors. In some instances, we suspect that the consultant may have paid certain vendor invoices at a subsequent date because the vendors were paid from an unknown source (not BIA 1's accounts, nor the accounts used by the consultant that we are aware of).
- 4) Making payments to vendors with no supporting invoices and depositing the vendor cheques into a bank account used by the consultant.
- 5) Making additional payments to individuals/event staff or making payments based on possibly fabricated individuals/event staff invoices, and depositing the cheque payments into a bank account used by the consultant.

Reported to law enforcement

As more than \$70,000 was routed from the two BIAs into bank accounts used by the consultant, the matter was referred to the relevant law enforcement agency by BIA 1.

The consultant was not interviewed in the Auditor General's investigation because of an ongoing law enforcement investigation and to retain separation of the work conducted by the Auditor General's Office and the criminal investigative process. Given that we have not interviewed the consultant, we are not in a position to conclude if a fraud has occurred. However, based on the documentation reviewed, it is our view that there is a high risk that fraud did occur in the case of BIA 1.

For BIA 2, we did not find evidence to conclude fraud occurred. However, a similar pattern of routing cheques through bank accounts used by the consultant to vendors appeared to be emerging prior to process changes occurring as a result of an ongoing Board review of BIA 2's practices and policies, as well as changes required because of the COVID-19 pandemic.

Commend BIA 1 for catching and pursuing the matter

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

This report provides recommendations to prevent similar situations from occurring

The purpose of this report is to identify areas where BIAs in general can improve controls to prevent similar situations from happening, 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.

Non-profits are often vulnerable to fraud

It's important to recognize non-profit organizations may be more vulnerable to fraud. 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."

Emphasis added

The ACFE 2020 *Report to the Nations* identified the top three control weaknesses leading to fraud at non-profit organizations as:

1. Lack of internal controls – 35% of organizations
2. Lack of management review – 19% of organizations
3. Override of existing internal controls – 14% of organizations

3 recommendations to lessen risk to all BIAs

The Auditor General is making three important recommendations in this report in order to lessen the vulnerability of fraud at other BIAs and City organizations. These recommendations are detailed in the report and relate to:

1. Basic training and support for BIA Boards and staff
2. Segregation of duties, expense monitoring and oversight by BIA Boards
3. Consultations with BIA Boards to identify emerging needs

This is an investigation, not an audit

The work performed in relation to this investigation report does not constitute an audit conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS). However, we believe we have performed sufficient work and gathered sufficient appropriate evidence to provide a reasonable basis for our findings, conclusions and concerns.

Thank you

We express our appreciation for the co-operation and assistance we received from BIA management and staff of the City's Economic Development and Culture Division.

Background

What is a BIA?	A Business Improvement Area (BIA) is an association of commercial property owners and tenants within a defined area who work in partnership with the City to create thriving, competitive, and safe business areas that attract shoppers, diners, tourists, and new businesses. BIAs are overseen by the City's Economic Development and Culture Division.
What can a BIA do?	Local businesses, working collectively as a BIA, become catalysts for civic improvements, ultimately enhancing the business climate and quality of life of the neighbourhood. As a legal organization mandated by legislation, BIAs are able to develop a budget for improvements and, through the City, collect a levy from businesses in the area to raise the necessary funds.
BIA activities	The City has over 80 BIAs representing 45,000 members. Together, they generate more than \$34 million annually in funding towards street and sidewalk beautification, marketing and promotional campaigns, street festivals, clean street/graffiti-removal campaigns, and crime prevention strategies. BIAs also act as a unified voice to address issues on behalf of their membership.
BIAs overseen by volunteer-run local Boards of Management	Our report reviews two BIAs, BIA 1 and BIA 2. As with all BIA organizations, BIA 1 and BIA 2 are overseen by volunteer-run Boards of Management. Their activities are funded in whole by the levies that are paid by member businesses. In 2018, these levies totalled \$175,090 for BIA 1 and \$332,024 for BIA 2. As volunteers, they understandably need administrative and operational support for projects. This support is typically obtained in the form of part-time employees and consultants.
Risk of fraud present in all organizations	All organizations, big or small, are at risk of fraud. Governing bodies are responsible to mitigate that risk to an acceptable level. Executives who are passionate about their communities, their organizations and their missions are naturally trusting of others who share their interest or who appear to. Moreover, Board members and executives who are dedicated and talented in their particular fields come from diverse backgrounds and may not be well-versed in financial risk issues and internal controls.
Commend BIA 1 for catching and pursuing the matter	It is in this context that we believe the two civic-minded volunteer organizations found themselves vulnerable to fraud. The Board members at BIA 1 should be commended for catching and pursuing this matter once it was detected.

The BIA 1 matter came to our attention through the City's BIA office of the Economic Development and Culture Division in February 2020.

Unusual vendor payment identified during year-end audit preparation

Our Office was told that in June 2019, two Board members were preparing for the year-end audit that was required in order to qualify for the City levy payment. They discovered that BIA 1 had made an additional \$2,000 cheque payment in excess of a vendor's invoice. Working with their auditor, they contacted the vendor who advised them that they had not received the additional payment.

Consultant provided no explanation to Board members and then resigned

We were further informed that in trying to better understand this additional \$2,000 payment, the Board members who discovered the unusual payment contacted the consultant to ask for an explanation. We were informed that no explanation was received and the consultant resigned by email within 24 hours of being contacted.

Cheque deposited into bank account used by consultant

On examining the deposit markings on the back of the cancelled \$2,000 cheque, the same Board members noticed that the cheque appeared to have been deposited into the same bank account that the consultant's bi-weekly consulting fee cheques had been regularly deposited into.

Examination of all cancelled BIA 1 cheques

Based on the unusual payment, all BIA 1 cancelled cheques from January 2018 to June 2019 were retrieved and examined by the same Board members and the BIA 1 accountant. In total, 73 cheques were found to bear markings that they had been deposited into the same bank account used by the consultant. BIA 1 prepared a detailed list of these 73 unusual cheques which totalled \$71,558.35. Through the City's Economic Development and Culture Division, BIA 1 subsequently met with the Auditor General Office and shared their evidence and observations relating to this incident.

Cheques payable to vendors routed through bank accounts used by the consultant

The consultant started working at BIA 2 under an informal contract in June 2019 and under a formal contract in December 2019. He began depositing cheques into bank accounts that he used in December 2019, but stopped in February 2020.

BIA 2 updated practices and policies in 2020

The BIA 2 Board Chair advised that it was around late February and during March 2020 that the Board was making changes to the accounts payable process. These changes were as a result of an ongoing Board review of BIA 2's practices and policies, as well as changes necessitated by the COVID-19 pandemic. The BIA 2 Board was contacted four months later by the Auditor General. They cooperated with the Auditor General's investigation and acted in the best interest of their association, including supporting the investigation.

**Request for Quotations
for forensic accounting
support**

Given capacity issues in the Auditor General's Office and the nature of the transactions, the Auditor General's Office leveraged an independent forensic accounting firm to support in evaluating the evidence gathered by BIA 1 and recommending further steps. A publicly advertised Request for Quotation was issued in June 2020 and the successful proponent (the forensic firm) started their work on both BIA 1 and BIA 2 forensic review in July 2020.

A summary of the forensic accounting firm's work follows.

Investigation Results

A. Findings at Business Improvement Areas

A. 1. BIA 1

\$71,558.35 in cheques payable to vendors and individuals from BIA 1 was deposited into a bank account used by the consultant

From examining the 73 cheques, together with supporting documentation, it appears \$71,558.35 from eight main vendors, and various individuals and smaller vendors was deposited into a bank account used by the consultant. As noted below, some vendors eventually received payment.

The following are details of the transactions.

An extra \$2,000 payment deposited

Vendor 1 had a \$6,520.54 contract with BIA 1 in 2018 supplying tents for an October 2018 event. A BIA 1 cheque for \$2,000 was made payable to Vendor 1 in late June 2018, well before payments were due under the contract. BIA 1 subsequently paid invoices totalling \$6,520.54 to Vendor 1 under the terms of the contract. The \$2,000 cheque was deposited into a bank account used by the consultant. Therefore, Vendor 1 received the proper payments of \$6,520.54 but an extra \$2,000 without substantive supporting documentation noted by the forensic accountants, was deposited into a bank account used by the consultant.

13 cheques totalling \$18,768.82 deposited into a bank account used by the consultant

Vendor 2 was under contract with BIA 1 in both 2018 and 2019 for flower planter maintenance. Over those two periods, 24 cheques totalling \$29,729.46 were made payable to Vendor 2. Of this total, only 11 cheques totalling \$10,960.64 actually were received by Vendor 2. The remaining 13 cheques totalling \$18,768.82 were deposited into a bank account used by the consultant. Therefore, Vendor 2 was paid part of what it was owed being \$10,960.64, and the extra \$18,768.82, for some of which the forensic accountants could find no supporting documentation, was deposited into a bank account used by the consultant.

Vendor paid by undisclosed source the same day the consultant resigned

The records also show that Vendor 2 received \$8,532.02 on June 15, 2019 from an undetermined source as a payment on BIA 1's amount owing to them. We note that June 15, 2019 is the date that the consultant resigned by email after being questioned about the \$2,000 payment to Vendor 1. This may have been a repayment of BIA 1 funds deposited into a bank account used by the consultant.

\$3,501.80 cheque payable to a vendor routed into a bank account used by the consultant

Vendor 3 is a professional organization that charges annual membership fees. On March 14, 2018, Vendor 3 invoiced BIA 1 for 2018 fees in the amount of \$3,501.80. BIA 1 records show that a cheque was issued to Vendor 3 in this amount shortly thereafter. However, Vendor 3 did not receive the funds because the cheque was deposited into a bank account used by the consultant on April 27, 2018.

Vendor received payment 7 months late

In June 2018 and again in September 2018, Vendor 3 followed up with the consultant to obtain payment. In November 2018, Vendor 3 received its payment. However, the source of the November payment remains unidentified; the payment did not come from BIA 1's bank account or bank accounts we understand to be used by the consultant. This may have been a repayment of funds routed through the bank account used by the consultant.

Possible fictitious invoice resulted in cheque of \$4,048.16 payable to a vendor being deposited into a bank account used by the consultant

Further, according to its records, BIA 1 paid its 2019 fees to Vendor 3 on January 7, 2019 in the amount of \$4,048.16. However, the cheque was deposited into a bank account used by the consultant on January 14, 2019. It could be that the invoice for \$4,048.16 was possibly fictitious because Vendor 3 confirmed receipt of full payment by BIA 1 of its 2019 fees in a different amount in September 2019. However based on our review to date, we have been unable to confirm that.

Vendor received payment 3 months late but records show it was paid promptly

Vendor 4 provides seasonal products to BIA 1. On December 28, 2018, Vendor 4 invoiced BIA 1 \$1,521.60 for products. BIA 1's records show that the invoice was paid on January 16, 2019. However, the cheque did not get to Vendor 4 and was deposited into a bank account used by the consultant on January 22, 2019. Vendor 4 communicated with the consultant about payment and the account was outstanding until at least March 2019 before it was paid in full by an unidentified source. The payment to settle Vendor 4's account did not come from BIA 1 or an account being used by the consultant, and may have been a repayment of funds routed through a bank account used by the consultant.

\$5,593.50 cheque for proposed work deposited into a bank account used by consultant on the same day it was issued

Vendor 5 submitted a proposal for a dog show-related activity to BIA 1 on March 5, 2019. A cheque for the proposed work in the amount of \$5,593.50 was issued to Vendor 5 on March 27, 2019 and deposited into a bank account used by the consultant the same day.

Additionally, cheques totalling \$1,200 made payable to Vendor 5 were deposited into a bank account used by the consultant in June and July 2018. Vendor 5 advised the forensic accountants that none of the cheques issued aligned with invoices that were actually sent to BIA 1.

14 cheques totalling nearly \$15,000 payable to a vendor deposited into a bank account used by the consultant

Vendor 6 provided consulting services to BIA 1. Between May 2018 and May 2019, BIA 1 issued 14 cheques totalling \$14,818.76 to the vendor based on proposals, quotes and estimates. The forensic accountants reconciled the actual work done by Vendor 6 and there was no correlation between the dates and amounts reflected in the 14 cheques to work actually done by Vendor 6. All 14 cheques were deposited into a bank account used by the consultant shortly after being issued by BIA 1.

4 cheques totalling \$3,455 payable to a vendor deposited into a bank account used by the consultant

Vendor 7 proposed to coordinate a community family event for BIA 1. On the basis of this proposal, four cheques were made payable to Vendor 7 between June and November 2018. These four cheques totalled \$3,455 and were all deposited into a bank account used by the consultant. Vendor 7 was a valid entity which proposed an event, but the forensic accountants could not locate any documentation to support that the proposed community family events took place.

A cheque payable to a vendor supported by a quote for \$305.10 deposited into a bank account used by the consultant

Vendor 8 provided a quote for a bus shelter poster in March 2019 for \$305.10. A cheque in that amount was made payable to Vendor 8 and the cheque was deposited into a bank account used by the consultant shortly thereafter.

Consultant was responsible to find and pay staff for events

According to the consulting agreement with BIA 1, the consultant was responsible for staffing BIA events. He was required to produce and submit invoices to BIA 1 on behalf of the event staff for payments.

Insufficient records to validate payments

The forensic accountants observed that the invoices often had no contact information for the event staff member, amounts paid to each event staff member were different for the same event, and certain event staff payments had no supporting invoices. No other records were kept by BIA 1 and the consultant did not seek approval from the Board for bringing on more staff until after the event. There are insufficient records to follow up for more information.

18 cheques payable to various individuals totalling over \$10,000 deposited into a bank account used by the consultant

Total cheque payments to event staff/musicians/photographers from July 2018 to July 2019 that were deposited into a bank account used by the consultant was \$10,029. Due to the lack of available information, follow up was not done to determine who these individuals were, if they actually worked at the events or were volunteers.

A. 2. BIA 2

Formal service contract

According to the BIA 2 Board Chair, the Board sought the consultant's assistance because the previous incumbent had resigned and the consultant had worked with BIA 2 in the past, but not with the current Board. There were no red flags for the current Board. The consultant was approached by BIA 2 to assist them around June 2019. A formal service contract was signed in December 2019.

4 cheques totalling \$1,450 payable to vendors were deposited into bank accounts used by the consultant

The forensic accountants concluded from examining BIA 2's records from June 1, 2019 to August 11, 2020 that four cheques totalling \$1,450 payable to vendors were deposited into bank accounts used by the consultant between December 2019 and February 2020.

The four cheques were payable to three vendors (one vendor was issued two cheques) and 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. We do not have evidence of fraud because the two vendors who did respond confirmed they were paid. However, there is evidence that cheques payable to vendors were routed through bank accounts used by the consultant.

COVID-19 and a review of processes by a new Board triggered changes in payment process

It appears the cessation of routing of cheques through accounts used by the consultant coincided with changes in the accounts payable process in late February and March 2020. These changes were as a result of an ongoing Board review of BIA 2's practices and policies, as well as changes necessitated by the COVID-19 pandemic. Four months later, the Auditor General contacted BIA 2 to inform them of the investigation.

Vendors appear to have been paid at BIA 2

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. It is possible that cheques may have been deposited in error or for another unknown reason. However, the pattern of depositing vendor payments into bank accounts used by the consultant appears consistent with what occurred at BIA 1. In any case, for BIA 2, the payments were made to the vendors and it does not appear that fraud occurred at BIA 2.

B. Collection of Evidence from Financial Institutions

Deposit markings on cancelled cheques

As described in this report, the cancelled cheques payable to BIA vendors and individuals bore markings of the accounts they had been deposited into. This is a standard banking industry practice.

Summons issued to bank under *Public Inquiries Act*

The Auditor General used Section 33(4) of the *Public Inquiries Act*, 2009 to compel financial institutions to provide bank statements for the account into which the funds were deposited. Specifically, we compelled the consultant's financial institution to produce bank statements for the account into which the aforementioned 73 unusual cheque payments were deposited.

Financial institution complied and produced account statements

The financial institution complied with our summons, and the forensic accountants, under our guidance, used this information to confirm the consultant's receipt of the aforementioned cheques. It was then confirmed that the cheques with markings indicating funds that were to be sent to vendors, were deposited into the bank account used by or associated with the consultant.

A more fulsome analysis is required but not within the scope of our work

The consultant appears to have used accounts at several financial institutions. There were numerous e-transfers, and branch-to-branch transfers to individuals and other accounts, some apparently linked to the consultant's family members and/or corporations associated with family members. Inflows and outflows examined to date suggest the need for a more fulsome analysis, however due to the law enforcement investigation occurring, we limited the scope of this review.

C. Payments to Bookkeeper

14 cheques totalling over \$5,000 payable to bookkeeper deposited into a bank account used by the consultant

The forensic accountants identified 14 cheques totalling \$5,038.75 payable to BIA 1's bookkeeper from March 2018 to September 2018. These cheques were deposited into a bank account used by the consultant during this same time period. Invoices corresponding to these payments were in BIA 1's records.

Unable to determine if funds to pay bookkeeper were routed through a bank account used by the consultant

However, a series of e-transfers appear to have been sent from a bank account used by the consultant to the bookkeeper, and some of the dates and amounts of the bookkeeper's cheques align with the e-transfers. There were also a number of branch-to-branch transactions that were not identified by a recipient's name. A more fulsome examination of bank accounts controlled by the consultant may confirm whether or not payments to the bookkeeper were routed through a bank account used by the consultant.

We have not interviewed the bookkeeper because of an ongoing law enforcement investigation.

D. Recovery of Funds from BIA 1's Financial Institution

Over \$35,000 recovered

Since the conclusion of the forensic accounting firm's forensic review, a total of \$35,866.73 has been recovered by BIA 1 from its financial institution, based on signed declaration forms that confirmed vendors had not received funds. The status of the remaining outstanding funds has not yet been resolved.

E. Referral to Law Enforcement

**Law enforcement advised
the suspect has been
arrested**

We were made aware that the matter had been reported to law enforcement. However, the Auditor General operates independently of criminal investigations.

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."*

Conclusion

Evidence supports that there is a high risk that fraud took place at BIA 1

This report summarizes the cases of two BIAs that, in our view based on all evidence reviewed, there is a high risk that fraud occurred in the case of BIA 1. We did not detect fraud at BIA 2.

We did not interview the consultant

We have not interviewed the consultant nor the bookkeeper because of an ongoing law enforcement investigation.

Internal controls were weak

The BIA Boards are small therefore they often need to trust those that work for the Board. In the case of BIA 1, internal controls such as segregation of duties, controls over cheque signing, reconciling bank accounts and retention of original source documents appeared to have been either bypassed or the controls were weak. The situation overall demonstrates a control breakdown resulting in BIA 1 being at risk of fraud.

For example, there was a lack of segregation of duties at BIA 1 as the consultant was tasked with making purchases, receiving invoices, preparing cheques and mailing out cheques. We understand that the bookkeeper, who was responsible for recording the transactions, was hired by the consultant, working under the guidance of the consultant.

Support for executive training

BIA Board members are volunteers who may have various backgrounds/business knowledge. Board members can change every four years.

The BIA Board members we spoke to recognize their responsibility in managing the funds from the City and members of the public. One BIA Board Chair noted that BIAs generally would benefit from more support from the City to help guide Boards in ensuring that controls are set up properly. The Auditor General notes this may come in the form of short videos to raise awareness of how to set up financial operations, what can happen and what to look out for.

The City's BIA office which liaises with the respective BIA's, could assist with coordinating cross BIA support such as a position to perform bank reconciliations to support implementing the segregation of duties. The City could also request Internal Audit to support BIAs in a review of their financial controls to identify weaknesses and provide recommendations. These suggestions are reflected in our recommendations.

Expense monitoring and oversight by the Board

Based on the review of BIA 1 invoices supporting the cheque payments, it appears that in some cases, the Board members signed cheques for payment on the presentation of a quotation/estimate/proposal without a proper vendor invoice. In addition to the lack of segregation of duties and the high degree of trust placed on the consultant, there were other weaknesses noted at BIA 1, including payments for which we could not locate invoices, and numerous supporting invoices appeared to be photocopies.

It is important for all BIAs to be aware of such weaknesses in controls going forward.

Implementing our recommendations will lessen risk to other BIAs

It appears that the consultant had a wide span of control, potentially saw an opportunity to exploit a lack of controls and may have used it to their advantage. Implementation of our recommendations by all BIAs will lessen the risk of fraud. 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.

Recommendations

- 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.**

Objectives, Scope and Methodology

Objective and scope of the review	This was an investigative review conducted in conjunction with a contracted forensic accounting firm. We undertook sufficient work to confirm whether there was a high risk of fraud and to make recommendations to help ensure the BIAs are aware of the controls that help prevent such frauds from happening. Our review focused on the allegations that involved City resources and property.
Our approach	Our investigative approach included: <ul style="list-style-type: none">• review and analysis of emails, summoning banking documents, reviewing invoices, supporting documentation, contracts, policies and legislation, websites and corporate searches• interviews with Board members and current staff, as required• other investigative and analytical procedures, as required
This is an investigation, not an audit	The work performed in relation to this investigation report does not constitute an audit conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS).
Scope limitation	The scope of this investigation was limited to reviewing the transactions identified by BIA management as being processed by the consultant, and not the entire control framework for either the specific BIAs or BIAs in general. Accordingly, the results may be affected by: <ul style="list-style-type: none">• incomplete documentation and support for invoices not supplied or located by management or the financial institution, and• our decision to not interview the consultant nor the bookkeeper because of a law enforcement investigation at the time of our review.
Review provides reasonable basis for our findings and conclusions	Despite these limitations, based on the detailed analysis and the evidence obtained, we believe we have gathered and reviewed sufficient appropriate information to provide a reasonable basis for our findings, conclusions and concerns.

Appendix 1: Management's Response to the Auditor General's Report Entitled: "Toronto Business Improvement Areas (BIAs) Accounts Payable Fraud Investigation"

Recommendation 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.

Management Response: <input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree
Comments/Action Plan/Time Frame: Enhanced training will be rolled-out by Q3 in 2021 as part of broader enhancements to Board training currently being developed in consultation with City Clerks. Other methods of strengthening financial controls and fraud prevention will also be explored in consultation with the Auditor General.

Recommendation 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.

Management Response: <input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree
Comments/Action Plan/Time Frame: Enhanced training will be rolled-out by Q3 in 2021 as part of broader enhancements to Board training currently being developed in consultation with City Clerks. Other methods of strengthening financial controls and fraud prevention will also be explored in consultation with the Auditor General.

Recommendation 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.

Management Response: <input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree
Comments/Action Plan/Time Frame: We will reach out to Business Improvement Areas in Q2 2021 to consider their needs as we enhance Board training.

**AUDITOR
GENERAL**

TORONTO

