



Auditor General's 2021 Annual Report on the Fraud and Waste Hotline

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**AUDITOR
GENERAL**

TORONTO

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ANNUAL REPORT

Annual report on Hotline activity

This is the Auditor General's 2021 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 2017 to 2021 is more than \$28.2 million (actual losses) plus \$970,000 (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 may leverage 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.

2021 Accomplishments and Challenges

The Forensic Unit continued operating the Hotline during the pandemic

In 2021, the Forensic Unit continued to operate the Fraud and Waste Hotline through any COVID-19 pandemic restrictions. Our complaint management system along with other technology tools allowed us to continue to work seamlessly in a remote environment.

Investigative reports and reviews conducted in 2021

In addition to operating the Hotline, the Forensic Unit continued to focus on conducting major investigations. Exhibit 2 includes summaries of four investigations with reports issued to Audit Committee in 2021. Several other major investigations are also in progress, and we anticipate that some of these will be concluded and reported on in 2022.

Backlog in investigation and resolution of complaints

Although our Office currently has several active investigations underway, there are still a number of investigations waiting to be addressed, which are delayed due to limited resources.

For the City's size and complexity, the Forensic Unit is lean. As detailed in Exhibit 1, the Hotline continued to receive a high number of complaints, which was approximately a 40 per cent increase over 2019. This high volume continues to be a challenge for the Forensic Unit to process complaints in a timely manner with the current staffing complement.

Audits were delayed because staff resources were needed for high-risk investigations

Also, conducting investigations requires a significant number of staff resources, time, and in some cases, costs associated with hiring external specialists. In recent years, because of the backlog of high-risk investigations, the Auditor General herself, has worked on investigations to supplement the Forensic Unit and she also moved audit staff into the Unit to conduct investigations. As a result, the Auditor General has had to delay or defer audits included in the Work Plan.

Council's support needed to help address growing number of high-risk investigations without delaying audit projects

Heading into 2022, there continues to be a growing number of high-risk complaints that have yet to be addressed. Without Council's support to restore the Office's budget to pre-pandemic levels, the Auditor General may need to continue assigning audit staff to investigations, which means that other audit projects on the Work Plan may have to be delayed.

Providing oversight over investigations conducted by City Agencies and Corporations

Currently, the *Toronto Public Service By-law* does not require Agencies and Corporations to report allegations of fraud to the Auditor General's Office. At this time, as an Office, we have been unable to proactively review complaints received by Agencies and Corporations due to resource constraints. Going forward, it will be important for the Auditor General to provide more oversight. This will give the Auditor General a City-wide view of potential fraud risks. Some oversight of the Agency and Corporations' process and investigation outcomes would further support accountability and transparency in the Toronto Public Service. Additional resources would assist with commencing this work. Complainants always have the option of making complaints related to Agencies and Corporations directly to the Auditor General's Office to ensure anonymity.

The Auditor General continues to perform investigations and hire specialists when needed

The Auditor General will continue to operate the Fraud and Waste Hotline and respond to fraud risks as they emerge. Having the flexibility to leverage experts and specialized investigative tools to supplement our investigations has in some cases been helpful in identifying and investigating matters that needed to be referred to the police.

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 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.

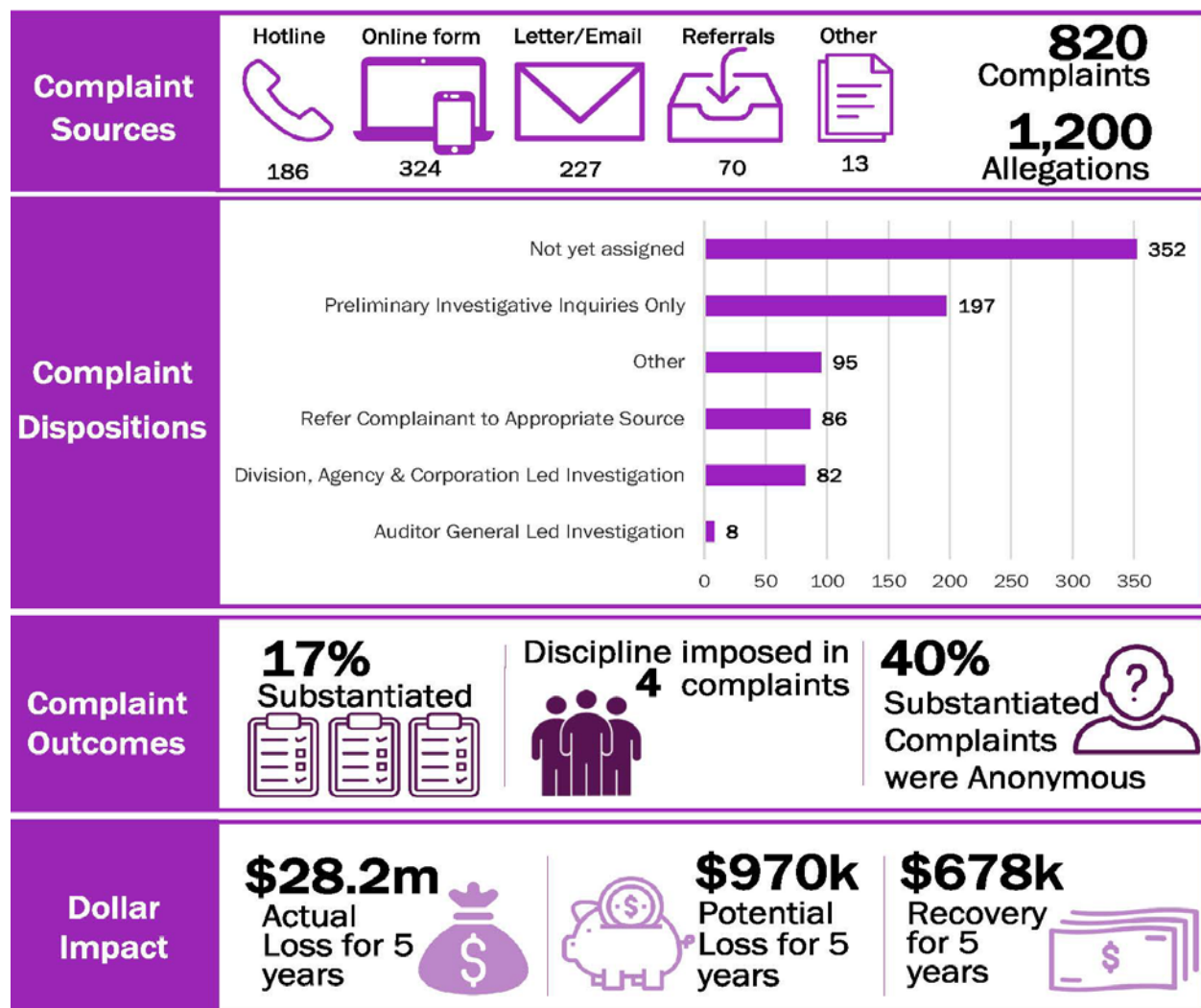
Raising awareness

With the ongoing pandemic and backlog of complaints and investigations, the Auditor General's Office had limited communication initiatives during the year. In 2022, the Auditor General's Office plans to refresh our communication initiatives that may include raising 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 2021. The volume of complaints and allegations have remained similar to 2020, with a 3 per cent decrease.

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 2021 are included as Exhibit 2.

Exhibit 3 – Complaint Summaries

Summarized details of a sample of complaints concluded in 2021 are included as Exhibit 3. These summaries are provided as requested by Audit Committee.

EXHIBIT 1 – DETAILED STATISTICAL SUMMARY

Leveraging complaint data

Audit standards require that Fraud and Waste Hotline data be considered in all performance audits. Collecting, monitoring and analyzing data on complaints received may identify areas of concern within the City and trends that may point to more systemic problems in areas such as procurement, overtime, contract management, 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:

- *City Needs to Improve Software License Subscription Tracking, Utilization and Compliance*
- *Getting to the Root of the Issues: A Follow-Up to the 2019 Tree Maintenance Services Audit*
- *Information Technology Projects Implementation: Information Privacy and Cybersecurity Review of Human Resource System*

1. Total Complaints

820 complaints received representing 1,200 allegations

Since the Fraud and Waste Hotline Program was initiated in 2002, the Auditor General's Office has handled almost 12,000 complaints. Each complaint may include multiple allegations. In 2021, 820 complaints were received representing approximately 1,200 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 over the past 10 years between 2012 to 2021.

Figure 2: Complaints Received – 2012 to 2021

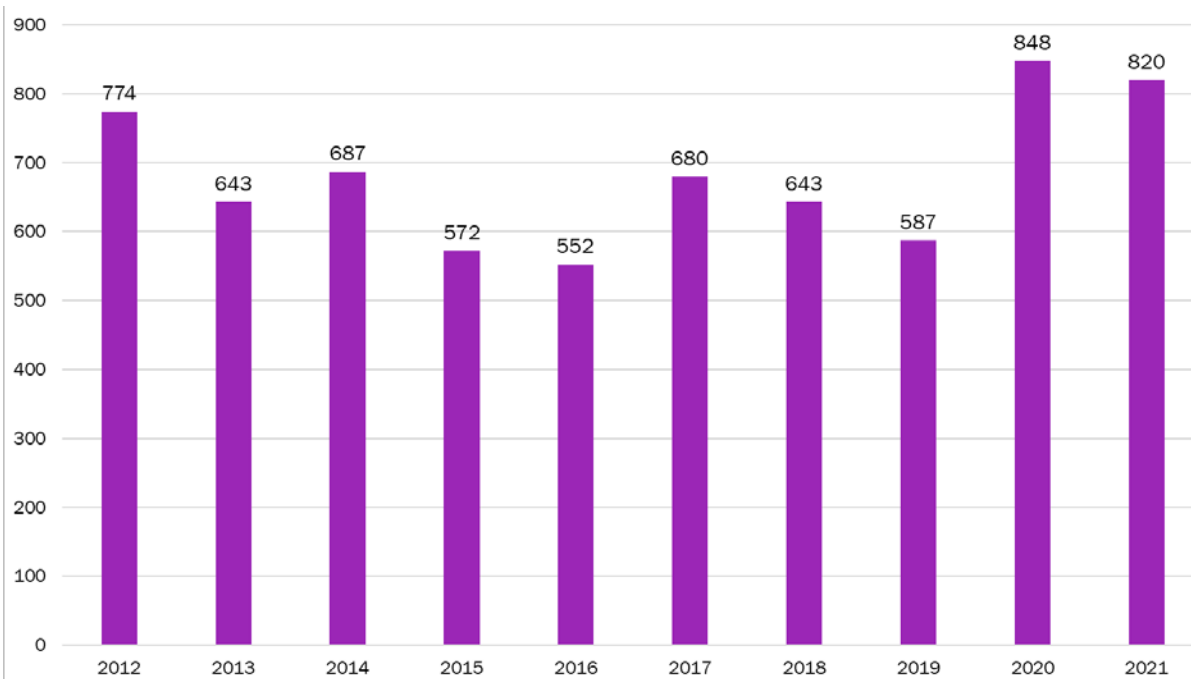
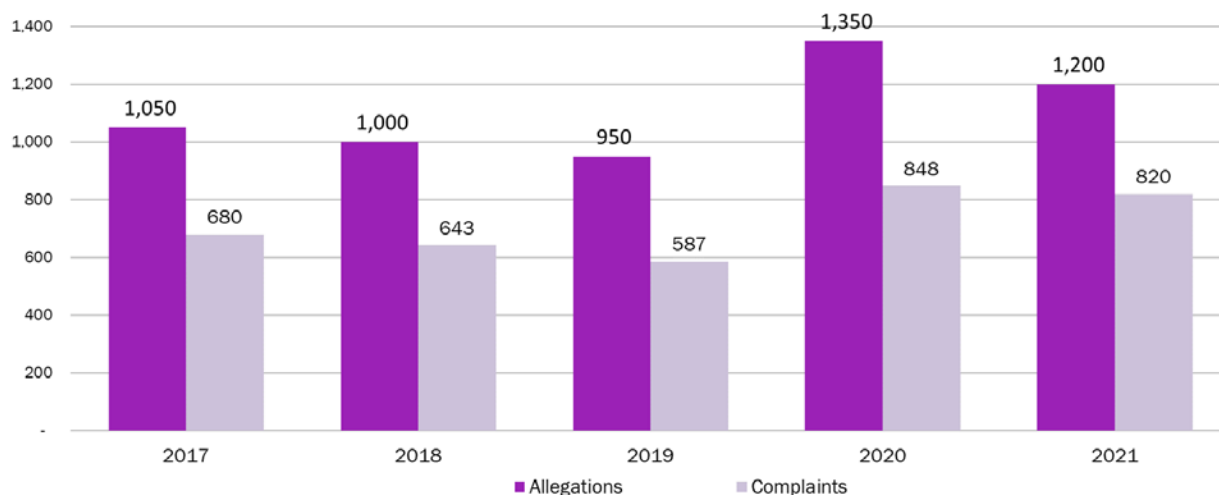


Figure 3 shows the number of allegations included in complaints received over the past five years. The average number of allegations over the past five years is approximately 1,100 per year.

Figure 3: Complaints and Allegations Received – 2017 to 2021



Similar number of complaints received as compared to 2020

In 2021, 820 complaints were received, which is similar to 2020 and approximately 40 per cent higher than 2019 numbers.

The Hotline also continued to receive complaints related to the COVID-19 pandemic throughout 2021. Approximately 7 per cent (55 out of 820) complaints were related to COVID-19 concerns (2020: 10 per cent or 89 complaints).

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 physical distancing rules
- time theft by City employees during the pandemic
- misuse of City's sick leave policy, using COVID-19 justifications

How COVID-19 complaints were reviewed and addressed

Most COVID-19 complaints were not related to wrongdoing. 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 Toronto Public Health and 311 Toronto

2. Source of Complaints

40% of complaints through online form

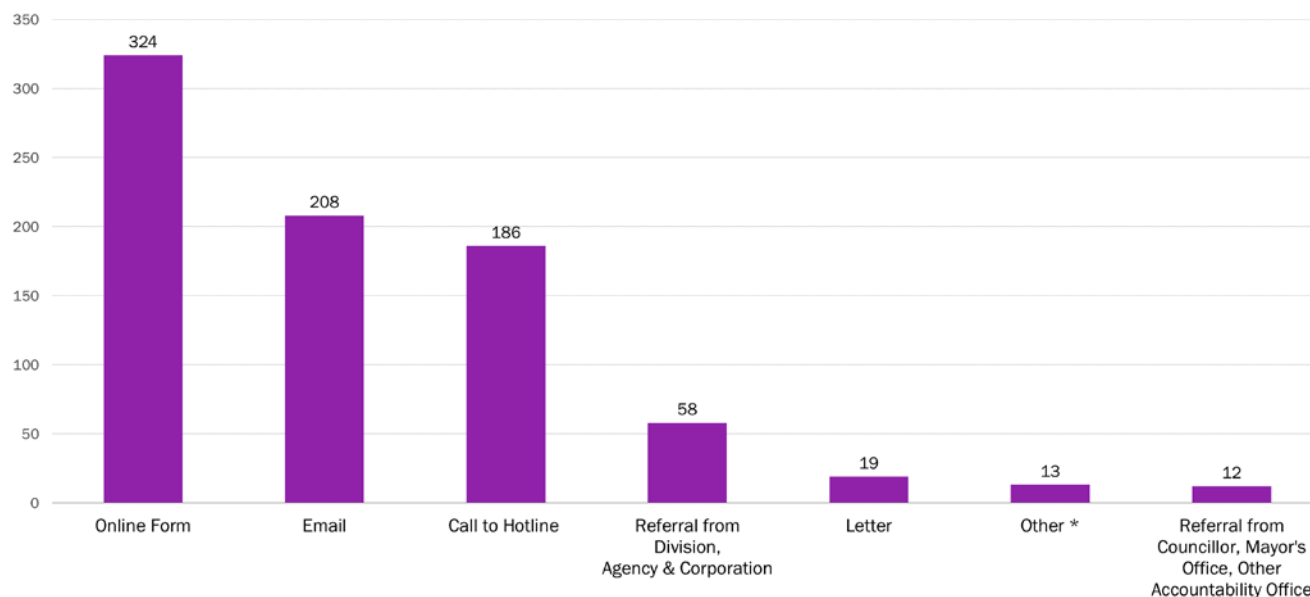
Forty per cent of all complaints were received through the Auditor General's secure online complaint form.

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 4 provides a summary of the methods used to report complaints to the Fraud and Waste Hotline Program in 2021.

Figure 4: 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 72% of complaints

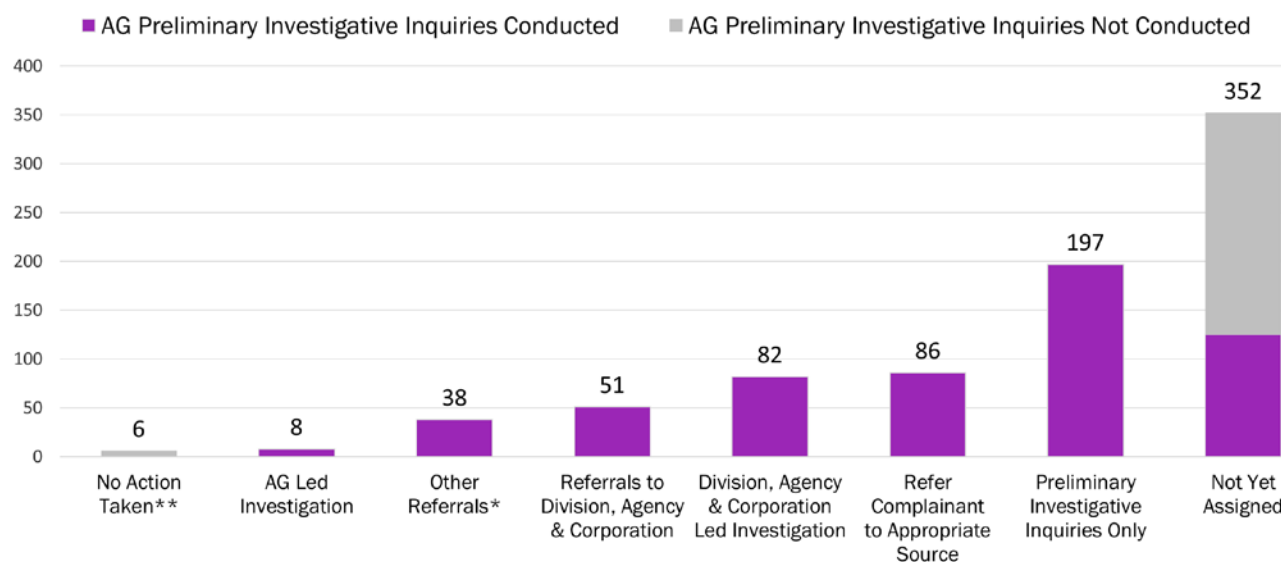
Prior to determining the disposition, the Auditor General's Office conducts a significant amount of preliminary investigative work or inquiries to identify whether allegations have merit.

In 2021, our Office performed preliminary investigative work on the majority (587 or 72 per cent) of complaints received. Preliminary investigative inquiries are also conducted prior to referring complaints to divisions for action.

Of the remaining 233 cases, 97 per cent have not yet been actioned and are part of the backlog of complaints. In most cases, these complaints will also have preliminary investigative work performed. Allegations with limited detail or merit may be held until further details are received.

Figure 5 provides a breakdown of the disposition of complaints received in 2021 and illustrates that in the majority of complaints (72 per cent) the Auditor General's Office conducts preliminary investigative work.

Figure 5: 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.

Investigations

Twenty-four per cent of all complaints received (197 complaints) were closed following preliminary investigative work. Eight complaints resulted in a full investigation by the Auditor General's Office and 82 complaints were investigated by City Management with our oversight.

Referrals to Divisions and Agency and Corporations

Six per cent of all complaints (51 complaints) were referred to City Management for review and appropriate action or for information only.

Refer complainant to appropriate source

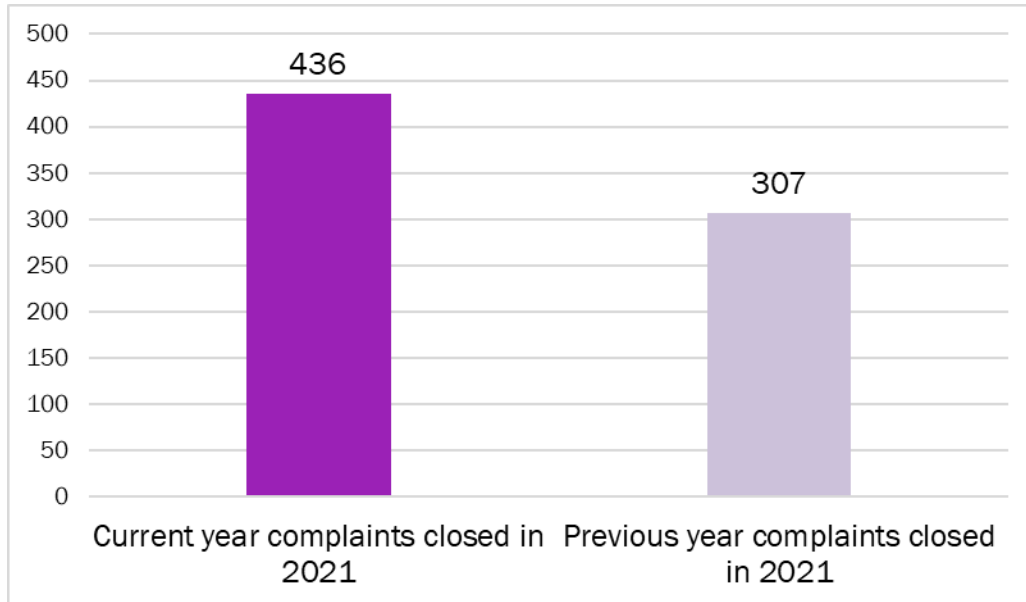
In 10 per cent of complaints (86 complaints), the complainants were re-directed to the appropriate source or provided with more relevant information, as the matters did not pertain to wrongdoing involving the City.

4. Complaint Conclusion

	<p>The Forensic Unit manages each complaint until it has been resolved or concluded.</p>
<p>Unsubstantiated complaints may highlight other issues of concern</p>	<p>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.</p>
<p>Substantiated complaints 17%</p>	<p>Seventeen per cent (15 complaints) of the 90 complaints from 2021 that were investigated have been substantiated in whole or in part. This number is expected to increase as outstanding 2021 investigations are completed in 2022.</p>
<p>Anonymous complaints</p>	<p>Six out of 15 (40 per cent) of the substantiated complaints were anonymous.</p>
<p>Internal control weaknesses</p>	<p>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.</p>
<p>Previous years complaints concluded in subsequent years</p>	<p>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.</p>
<p>11% of complaints closed from previous years were also substantiated</p>	<p>In 2021, 307 complaints from previous years were also closed and 11 per cent (35 complaints) of those were substantiated in whole or in part.</p>

Figure 6 shows that a total of 743 complaints were closed in 2021, of which 436 complaints are from the current year and 307 complaints are from previous years.

Figure 6: Current Year vs. Previous Years Complaints Closed in 2021



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 15 complaints from 2021

In 2021, divisional management reported that discipline was imposed in four of the substantiated complaints. In an additional 11 instances, divisional management took other appropriate action with vendors, employees or subsidy recipients.

Discipline or other appropriate action in 35 complaints from previous years

For previous years cases that were substantiated in 2021, discipline was imposed in 15 cases and other appropriate action was taken in 20 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.

\$227,000 actual losses

For complaints received in 2021, quantifiable actual losses to the City were approximately \$227,000. This amount is expected to increase as outstanding 2021 complaints are concluded in 2022.

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 2021, 20 complaints from 2020, eight from 2019, three from 2018 and two complaints each from 2016 and 2017 were concluded as substantiated or substantiated in part.

\$29.2m cumulative actual and potential losses for 5 years

The cumulative total of actual and potential losses from complaints received in previous years (2017 to 2021) is more than \$28.2 million (actual losses) plus \$970,000 (potential losses) had the fraud not been detected.

EXHIBIT 2 – MAJOR INVESTIGATION SUMMARIES

Below are summaries of major investigations that resulted in a report being issued to Audit Committee in 2021. These summaries demonstrate that a substantial amount of resources are required to conduct investigations.

In 2021, the Forensic Unit also invested significant time and resources into several other ongoing investigations which may be concluded and reported on in 2022.

Toronto Business Improvement Areas (BIAs) Accounts Payable Fraud Investigation

Two BIAs were reviewed

The Auditor General's Office undertook an investigative review of two BIAs due to allegations of fraud received via the City's BIA office regarding the actions of a consultant who worked for each BIA at different times beginning in 2017.

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

The alleged fraud was initially discovered during preparation for the year-end audit at BIA 1. Board members determined 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. This request went unanswered and within 24 hours, the consultant resigned from BIA 1.

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 later confirmed by a forensic accounting firm contracted by the Auditor General's Office to undertake a forensic review on their behalf.

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

After resigning from BIA 1, the consultant started working for BIA 2. The forensic review by the Auditor General's Office 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.

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.

Suspect arrested by Police and charged with fraud

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 report provides recommendations to prevent similar situations from occurring

The purpose of the Auditor General's report was 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.

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 by the City with BIA Boards to identify emerging needs

The report is available at:

<https://www.torontoauditor.ca/report/toronto-business-improvement-areas-bias-accounts-payable-fraud-investigation/>

Challenges in Contract Management – Auditor General’s Review of the Corporate Real Estate Management Division

Review of CREM billing accuracy and contract management process to verify that invoice payments are appropriate

The Auditor General’s Office through the Fraud and Waste Hotline received an allegation that the Corporate Real Estate Management (CREM) Division (formerly Facilities Management) was paying inaccurate or inflated invoices.

The Auditor General’s Office conducted a review of billing accuracy and contract management processes. While we did find some billing errors and invoice processing issues, intentional overbilling was not noted. We also identified areas of procurement and contract management processes for CREM to improve.

The Auditor General’s Office examined invoices between 2016 and 2020 to clarify billing issues

The Auditor General’s Office examined invoices between 2016 and 2020, including the time period around when the complainant made the allegations about billing issues. CREM processes approximately 40,000 invoices annually, so the Auditor General’s review also consisted of a high-level data analysis for transactions dated between 2013 and 2020 to supplement our invoice sampling.

19 recommendations to improve contract management

The Auditor General’s Office made 19 recommendations to help CREM as it continues to improve how it procures services, manages contracts, and pays invoices going forward. They include:

1. Improving the future procurement call/solicitation language to address gaps we identified in this report
2. Ensuring future procurement call/solicitation documents provide proper guidance on the approval process related to contract changes and ensuring that management retains support for the contract changes
3. Ensuring billings are in accordance with express terms of contracts and sufficient details are provided on the invoices
4. Ensuring CREM staff request supporting documentation to substantiate invoiced amounts before releasing payment
5. Developing a complete and up-to-date equipment inventory list
6. Ensuring preventive maintenance (PM) work is being completed and charged per the contract
7. Performing periodic invoice audits and consider adopting a robust statistical sampling method and using extrapolation to pursue recovery of overpayments on a timely basis.

CREM has moved forward to transform contract management practices but there is more work to be done

CREM has been implementing new practices as it moves to transform invoice payment and contract management practices. While we note that CREM’s transformation is not complete, we are satisfied that their efforts are heading in the right direction, and we have included in our detailed findings some examples where management has moved forward. The findings of this report will continue to be of great value as CREM completes this transformation.

The report is available at:
<https://www.torontoauditor.ca/report/challenges-in-contract-management-auditor-generals-review-of-the-corporate-real-estate-management-division/>

Investigation into Allegations of Reprisal: Insufficient Evidence to Support Reprisal

Review of allegation of reprisal from former employee who was terminated

The Auditor General's Office issued a report on the results of an investigation into an allegation of reprisal from a former City of Toronto employee whose position was terminated. The former employee claimed the termination of their employment was reprisal by management for disclosing billing concerns and potential conflicts of interest between a Director and vendors.

The Auditor General's Office has responsibility to investigate reprisal in accordance with the Toronto Public Service Bylaw

In accordance with the *Toronto Public Service By-law*, Chapter 192, the Auditor General's Office has the responsibility to investigate reprisal, in consultation with the City Manager or designate. Reprisal investigations are complex. Termination is one of the most severe types of reprisal, and therefore the Auditor General initiated an investigation into the allegations.

The Auditor General concluded that there was insufficient evidence found to substantiate reprisal

Under the *City of Toronto Act*, the Auditor General is also responsible for assisting city council in holding itself and city administrators accountable for the quality of stewardship over public funds and for achievement of value for money in city operations. Ensuring that employees can come forward in a safe environment to report potential wrongdoing is a key internal control that helps to safeguard City assets and ensure value for money. The Auditor General has concluded that there is insufficient evidence found to substantiate that the former employee was the subject of reprisal for reporting concerns of potential wrongdoing during the course of their employment or for raising questions about potential conflicts of interest. Therefore no further action is recommended with respect to the alleged reprisal.

The report is available at:
<https://www.torontoauditor.ca/report/investigation-into-allegations-of-reprisal-insufficient-evidence-to-support-reprisal/>

Results of Agreed-Upon Procedures to Assess Controls over Pay & Display Credit Card Revenues

Allegations received through the Fraud and Waste Hotline

The Auditor General received a complaint through the Fraud and Waste Hotline regarding the Toronto Parking Authority's vendor ("the Vendor") of Pay & Display machines and related services.

The complainant alleged that:

1. Toronto Parking Authority (TPA) credit card revenue was redirected by the Vendor (meaning TPA was not receiving all parking revenue processed by the Vendor through the Pay & Display machines).
2. TPA did not exercise appropriate due diligence in procurements from the Vendor.

Additional procedures conducted by external auditor to examine controls over credit card revenues

Under the Auditor General's independent oversight, TPA engaged its external auditor to undertake agreed-upon procedures to examine controls over the Vendor's system by which TPA credit card parking revenues are processed.

This work was conducted to address the first allegation and was over and above the normal procedures the external auditor performs annually as part of the audit of TPA's financial statements.

2 observations identified by the external auditor

The external auditor reported that the majority of control procedures tested yielded no exceptions, but identified that:

- The Vendor did not have a formal reporting mechanism in place to identify, assess, track and report internal control deficiencies. The absence of such a mechanism may result in a failure to detect ongoing control deficiencies and take corrective actions as required.
- While access to the software system underlying the Pay & Display machines is restricted to a few authorized users, related user activities were not being monitored by the Vendor, which may lead to unauthorized actions not being detected and resolved.

No evidence that credit card revenues were being redirected

The external auditor issued its final report on the additional agreed-upon procedures to TPA on April 9, 2020. We reviewed the external auditor's report and agree with their recommendations.

Although we did not conduct in-depth testing of the Vendor's systems and records ourselves, no evidence came to our attention through the work of the external auditor that would suggest that TPA credit card parking revenue was being redirected by the Vendor.

AG Recommendation

The Auditor General issued one recommendation to the TPA Board in order to address the findings of the external auditor. The recommendation included steps to strengthen controls at the Vendor and to obtain an annual Canadian Standard on Assurance Engagements 3416 report (CSAE 3416 report) / SOC1 (Service Organization Control) Type 2 report.

The Auditor General's Office has closed this Fraud and Waste Hotline allegation – no further work will be conducted at this time.

Second allegation involving procurement practices with the Vendor

TPA has purchased Pay & Display equipment and related services on a non-competitive / sole-source basis from the same vendor since 1998, which is when TPA introduced Pay & Display machines.

TPA's Vendor is the exclusive Canadian supplier for the manufacturer of the Pay & Display machines, which TPA uses at all of its on-street and non-gated off-street facilities. While TPA owns the Pay & Display equipment, the operating system controlling the equipment is a proprietary system owned by the Vendor. The Vendor manages TPA's network of Pay & Display machines under a Master Services Agreement with TPA, which expires in 2031.

2009 AG Report outlined history of sole-source purchasing of Pay & Display machines

In 2009, the Auditor General's Office reported out on its audit of "Toronto Parking Authority Pay and Display Parking Operations - Review of Revenue, Expenditure and Procurement Practices". The 2009 report outlined TPA's history of sole-source purchasing of Pay & Display equipment, as well as supporting parts and maintenance. The Auditor General reported that TPA policies (at the time) provided management broad discretionary power to make exceptions to the procurement process. This increased the risk that purchasing terms and conditions may not have been the most competitive in the market. Since the 2009 audit, TPA has entered into additional agreements with their Vendor including the Master Services Agreement and agreement for Data Management Services.

AG may conduct further work in the context of current procurement rules and contract management

Given the length of time that has passed since the Auditor General's Office last conducted an audit in this area, and because of the longstanding relationship between TPA and this Vendor, we may consider doing further work in the future to examine this relationship in the context of current procurement rules and contract management.

The report is available at:

<https://www.torontoauditor.ca/report/results-of-agreed-upon-procedures-to-assess-controls-over-pay-display-credit-card-revenues/>

EXHIBIT 3 – COMPLAINT SUMMARIES

Below are summaries of various reviews and investigations concluded in 2021. A sample of summaries has been requested by Audit Committee so that its members can better understand the nature of the complaints we receive. These selected summaries are from complaints that were substantiated in full or 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 employee discipline 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 \$385,000 and the termination of employment of four employees. One complaint identified internal control weaknesses that were rectified or are in the process of being rectified by management.

1. Safety Concerns

1.1. Complaint about a Risk to Public Safety

The Auditor General's Office received a complaint through the Fraud and Waste Hotline alleging that a City Corporation was inadequately maintaining hydro vault equipment, and because the equipment was underneath restaurant patios, that equipment posed a potential threat to public safety.

The Auditor General's Office made inquiries into the allegations, including reviewing the matter with the Corporation and the City Division responsible for issuing patio permits. The Corporation assisted by providing a list of hydro vault locations cross-referenced to the listing of patio permits from the City Division. The Corporation identified eight locations where equipment was in close proximity to the public.

It is the City's responsibility to issue permits, and in doing so to ensure those locations are safe for the public. Therefore, our Office followed-up with the City Manager's Office to identify if patios are positioned above hydro equipment. The vast majority were in compliance with Chapter 742 of the *Toronto Municipal Code*, which establishes distance requirements for cafes and fence placement. The one location that was not fully in compliance already had its permit cancelled for another reason. In addition, and only out of an abundance of caution, starting in 2020 as part of the CafeTO program, further policies and procedures along with compliance checks regarding distance requirements from hydro equipment were put in place. This is to ensure that where there could be a potential risk, measures are in place to ensure public safety is not compromised.

Regarding the allegations that equipment is not being maintained, the Corporation briefed us on the standards it follows and the requirements it must meet because it is regulated by the Ontario Energy Board. It also noted that Toronto Hydro is governed by a Board of Directors with a wide breadth of experience. The Board helps to monitor that the Corporation is meeting its obligations which includes ensuring equipment is being adequately maintained. While the Auditor General

did not conduct an audit of the equipment maintenance processes, the Auditor General has scheduled a future audit at the Corporation because it has not been audited by her office in a long time. The operational area that the audit will examine has not been decided.

1.2. Substance Abuse Policy Violation

The Auditor General's Office received a number of complaints through the Fraud and Waste Hotline alleging that several City employees were using cannabis during work hours and some may have been subsequently operating a City vehicle, thereby creating a risk to employee and public safety.

The allegations were referred to the Division for a first-line review and their internal investigation concluded that it was unsubstantiated. However, following a review of their findings, the Auditor General identified concerns with the lack of thoroughness of the Division's investigation. The Auditor General was also concerned that there may be some retaliation by the employees being investigated against the employee that raised the concern. In addition, our Office continued to receive complaints relating to cannabis use in the workplace.

The Auditor General made a request to the Division Head to conduct a new independent investigation using external investigators and that the affected employee be supported and protected until the investigation was completed. The Division Head and the City takes such allegations seriously, and the Division Head was very responsive.

An external investigator was hired and after conducting surveillance and interviews along with other investigative measures, the external investigator reported that on a balance of probabilities, there was drug use by a number of employees in breach of the City's Substance Abuse Policy. The investigation also found that the allegations of harassment were substantiated and that the harassment was a direct result of the complainant's reporting of wrongdoing, and it constituted reprisal.

Employment with the City was terminated for one employee and 10 employees were issued a suspension, ranging from two to 20 days. Nine of the 10 suspended employees were also given final warnings.

This complaint highlights the importance of the Auditor General's oversight of Divisional investigations, the need to follow up on safety-related concerns, and the importance of identifying and addressing reprisal.

2. Fraudulent Contracts

The Auditor General's Office was advised by a Division that during their account reviews, staff identified several City of Toronto electricity accounts were fraudulently enrolled into contracts with two third-party energy retailers through Toronto Hydro.

An investigation by Divisional Management revealed that the contracts with the two energy retailers were set up on behalf of the City using a retired employee's identity. Further review of the contracts discovered that the position titles, email addresses and signatures used in both contracts were inaccurate and the signatures appeared to be falsified. The Auditor General has confirmed through expert handwriting analysis that the signatures were falsified. The retired employee confirmed to the Auditor General that they did not sign the contracts with the energy retailers on behalf of the City.

The energy retailers were advised that the contracts were “null and void” and the City was reimbursed for the total amount of payments made to these energy retailers through Toronto Hydro (approximately \$250,000).

The Auditor General’s investigation into this matter is ongoing and an investigation report is expected to be tabled at the June 6, 2022 Audit Committee.

3. Misuse of City Funding

The Auditor General's Office was advised by a Division that an investigation was initiated on an agency with a service agreement for City funding. The review was being conducted as a result of financial viability issues related to the agency's accumulated deficit.

The investigation was led by the Division, in consultation with Legal Services, and concluded that the agency had a number of operational and financial concerns. Findings included:

- lack of transparency in recording accounting transactions and failure to follow generally accepted accounting principles,
- Human Resources administration issues such as missing employment contracts and inaccurate salary payments,
- falsified invoices submitted to the Division, without proof of payment,
- improper utilization of petty cash,
- exorbitant purchases of cleaning supplies and
- inappropriate shareholder advances and intercompany transfers.

Further, the agency did not have policies, procedures or a distribution plan to govern the distribution of City funding. The Division noted that the validity of the audited financial statements could not be confirmed due to the falsified supporting documentation and the distinct lack of audit trails.

The financial loss to the City was calculated at approximately \$7,300 and the Division recovered the entire loss.

The agency is no longer operating following their closure during the pandemic and their service agreement with the City was terminated.

4. Vendor Contract Issues

4.1. Conflict of Interest and Contract Violation

The Auditor General's Office received a complaint through the Fraud and Waste Hotline alleging that a City vendor was performing concrete repair work at a private residence after finishing City-related work in the same neighbourhood.

The investigation was led by the Division and concluded that the employee of the vendor had performed private work for a friend, using unused materials from the City's contract, which the vendor noted would have otherwise been wasted. The City contract was based on bid item pricing and not time and materials. The City did not pay for the private work.

However, the vendor's actions violated the terms of the contract, as it outlines that a contractor is not to solicit or engage in any private work, in the work area, while under contract with the City. The City has not been billed for any work outside of the permitted items and the vendor has been advised of the violation. This violation will be highlighted when completing the Contractor Performance Evaluation at the end of the contract.

4.2. Policy Violation

The Auditor General's Office received a complaint through the Fraud and Waste Hotline alleging that an employee of a City waste collection vendor was inappropriately disposing organic waste from compost bins into the garbage stream. Video evidence was provided to our Office as part of the complaint submission.

The investigation was led by the Division, who met with the vendor to review the allegations. Based on the evidence provided by the Division, the vendor concluded that their employee was mixing and disposing organic waste inappropriately. The individual's employment was terminated. The City provided the vendor with a memorandum that outlines the policy and consequences for violation, which the vendor posted for its employees to view.

To determine whether it was a pervasive concern and to monitor contractor performance, the Division performed audits and inspections over a six-week period. The audit revealed that there were no further observed instances of mixing.

The allegations appear to be an isolated incident and the vendor has taken steps to demonstrate efforts to prevent any future occurrences.

5. Conflict of Interest and Breach of Privacy

The Auditor General's Office was advised by a Division that an employee allegedly inappropriately accessed the case file of a family member for personal gain.

The investigation was led by the Division and concluded that the employee inappropriately accessed a family member's case file 24 times, without authorization from a supervisor, for the purposes of providing updates and coaching on the eligibility process for a subsidy. The employee's actions constituted a conflict of interest and a privacy breach under Section 32 of the *Municipal Freedom of Information and Protection of Privacy Act*.

The employee was suspended for 10 days without pay and was reassigned to an operational role with limited access to files. The employee also received a final warning and was expected to complete additional training upon returning from their suspension.

6. 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.

6.1. Long-term Disability Fraud

The Auditor General's Office was advised by a Division that an employee was allegedly operating a personal business while receiving long-term disability (LTD) benefits.

An investigation was conducted by the Division in consultation with the Pension, Payroll & Employee Benefits and People & Equity divisions, that concluded the employee was operating an unreported personal business and that the employee misrepresented their physical limitations on their LTD application. Long-term disability benefits were ceased and resulted in an overpayment of approximately \$14,800.

Employment with the City was terminated and the employee is ineligible for rehire. The City is pursuing recovery.

6.2. Falsified Benefits Claims

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

An investigation was conducted by the Division in consultation with the Pension, Payroll & Employee Benefits and People & Equity divisions. The investigation concluded that dozens of falsified claims totalling approximately \$13,000 were submitted by the employee for themselves and their family members where the service that had been claimed was not, in fact, provided.

The employee has repaid the full amount. However, employment with the City was terminated and the employee is ineligible for rehire.

6.3 Falsified Benefits Claims

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 was conducted by the Division, in consultation with the Pension, Payroll & Employee Benefits, People & Equity and Legal Services divisions. The investigation concluded that the employee had submitted unsupported extended health care benefit claims totalling approximately \$2,500. The claims review performed by the benefits administrator also halted payment on additional claims totalling approximately \$350.

The employee resigned prior to completion of the investigation and is ineligible for rehire. The City has recovered a portion of the loss and is pursuing recovery of the remaining balance.

The Auditor General's investigation into this matter is ongoing.

7. Abuse of Sick Time

The Auditor General's Office was advised by a Division regarding allegations that a City employee inappropriately used sick days to travel to various destinations around the world.

The investigation was conducted by the Division and concluded that the employee engaged in the fraudulent use of sick days to travel. Photos from the employee's social media account showed them participating in activities such as hiking, backpacking and mountain climbing. The employee admitted that they were the author of the social media posts.

Employment with the City was terminated.

8. Subsidy Claim Fraud

8.1. Failure to Disclose 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 by the Division and concluded that the individual did not appropriately disclose their household income, including income from an employer outside of the country, and therefore received a subsidy they were not entitled to. The total amount of the ineligible overpayment was approximately \$35,400.

The Division is pursuing recovery.

8.2. Failure to Disclose Income and Eligibility Information

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

The investigations were conducted by the Divisions, one of which substantiated the allegations. They concluded that the individual had failed to disclose income and assets, a change in household composition and an absence from Ontario, and therefore received a subsidy they were not entitled to. The total amount of the ineligible overpayment was approximately \$20,700.

The Division is pursuing recovery.

8.3. Misrepresenting Eligibility Information

The Auditor General's Office received an anonymous complaint through the Fraud and Waste Hotline alleging that a member of public lived outside of Toronto and was using a family member's address in Toronto in order to qualify for a subsidy. In addition, it was alleged that the individual was claiming to be a single parent but in fact had a common-law partner for many years.

The investigation was led by the Division and concluded that the individual lived outside the City of Toronto and inaccurately declared their household composition. Therefore, the individual received a subsidy they were not entitled to and the total amount of the ineligible overpayment was approximately \$42,000.

The Division terminated the subsidy and is pursuing recovery.

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