



Auditor General's 2022 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 2022 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 2022 Report to the Nations on Occupational Fraud, 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 2018 to 2022 is more than \$27.9 million (actual losses) plus \$1.5 million (potential losses) had the fraud not been detected. Additional benefits that are not quantifiable include:

- the deterrence of fraud or wrongdoing
- strengthened internal controls
- improvements in policies and procedures
- increased operational efficiencies
- the ability to use complaint data to identify trends, address risks, make action-oriented recommendations to management and inform our audit work plan

Forensic Unit has expertise to investigate a broad range of complex allegations

The Auditor General’s Forensic Unit is comprised of a team of professionals who collectively possess the expertise to triage a broad range of complaints and conduct investigative work into complex allegations. Due to the small size of the team, the Forensic Unit 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.

2022 Accomplishments and Challenges

High volume of complaints received

In 2022, the Fraud and Waste Hotline received 1,032 complaints representing approximately 1,200 allegations, the highest in a year since the launch of the Hotline Program. This, combined with the increased volume of complaints since 2020, has added to the significant backlog and our ability to process complaints in a timely manner.

Continued focus on resolution of complaints

We continued to focus on clearing the backlog this year and to do so, the Auditor General assigned resources from the audit team to bolster the Forensic Unit staffing complement. We also developed and implemented a triaging process to determine the level of risk and priority of addressing complaints. Significant progress was made in closing outstanding complaints; however, it should be noted that many high-risk and more complex files remain open and have yet to be fully resolved.

Investigative reviews conducted in 2022

In addition to operating the Hotline, the Forensic Unit completed one major investigation in 2022 that is summarized in Exhibit 2 of this report. Several other major investigations are also in progress, and we anticipate that some of these will be concluded and reported on in 2023.

Backlog in investigations continues

Although our Office currently has 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. During the year, the Hotline continued to receive a high number of complaints, approximately 26 per cent more than last year, 22 per cent higher than 2020 and a 76 per cent increase over 2019. As mentioned above, this high volume continues to be a challenge for the Forensic Unit to process complaints in a timely manner while simultaneously conducting major investigations.

Audits may be delayed due to backlog in complaints and investigations

Heading into 2023, the Auditor General may need to continue assigning audit staff to assist on investigations and the Hotline, which means that audit projects on the 2023 Audit Work Plan may have to be delayed.

Providing oversight over investigations conducted by City Agencies and Corporations would support further accountability

Currently, the *Toronto Public Service By-law* does not require Agencies and Corporations to report allegations of fraud to the Auditor General's Office, and our Office has been unable to proactively review complaints they receive due to resource constraints. It's important to note that complainants have the option to make allegations related to Agencies and Corporations directly to the Auditor General's Office, so we are aware of these complaints.

Some oversight of their processes and investigation outcomes would support further accountability and transparency in the Toronto Public Service, and also give the Auditor General a more complete City-wide view of potential fraud risks. Additional resources would be needed in order to commence this work.

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 tools to supplement our investigations has been helpful in identifying and investigating high-risk and time sensitive matters.

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.

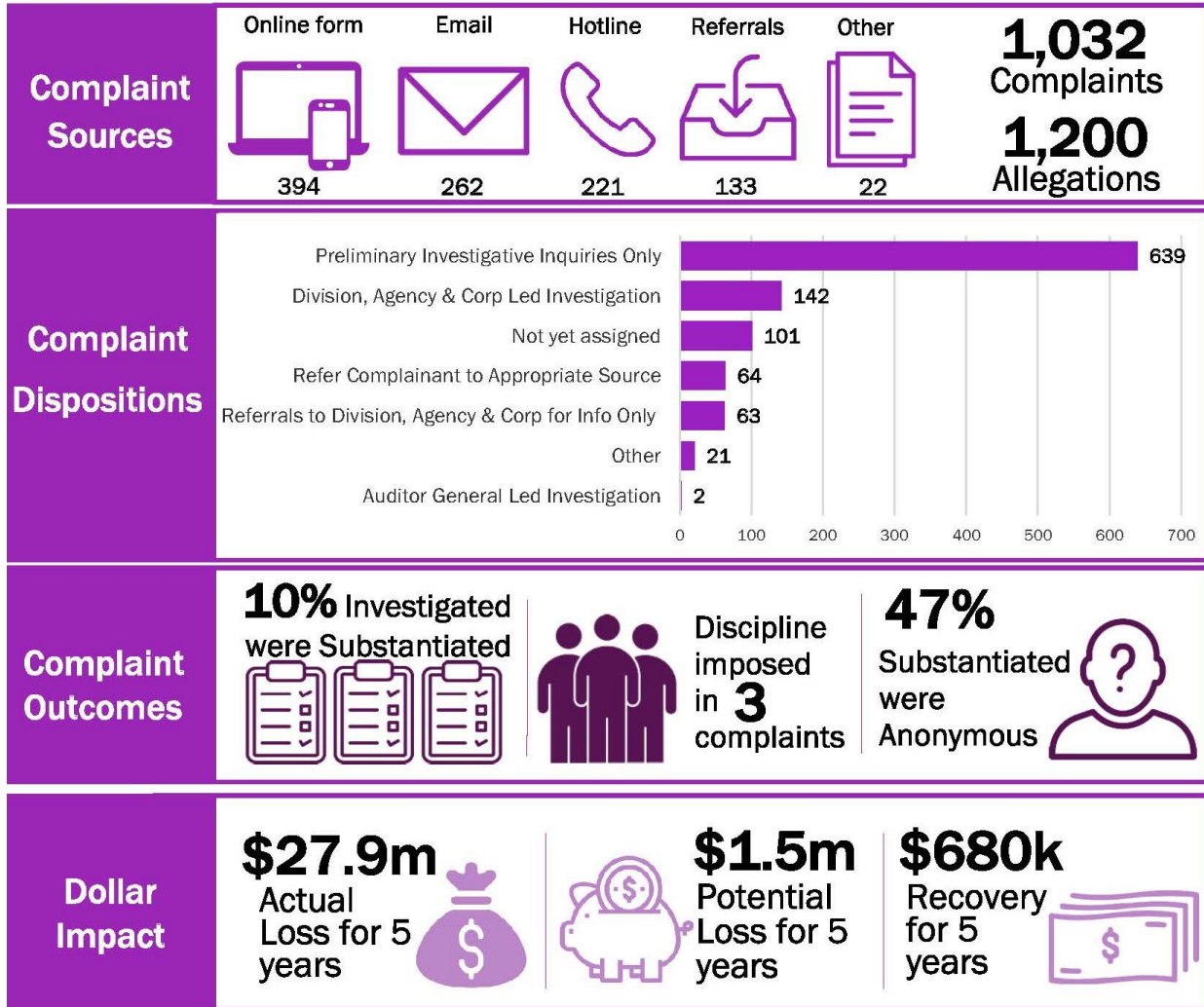
Raising awareness

With the backlog of complaints and investigations, the Auditor General's Office had limited communication initiatives during the past few years. Moving forward, our Office plans to refresh our communication initiatives, which will 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 2022.

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 report(s) issued by the Auditor General in 2022 are included as Exhibit 2.

Exhibit 3 – Complaint Summaries

Summarized details of a sample of complaints concluded in 2022 are included as Exhibit 3.

EXHIBIT 1 – DETAILED STATISTICAL SUMMARY

Leveraging complaint data	Audit standards require that fraud risks be considered in all performance audits. Collecting, monitoring and analyzing data and trends on complaints received through the Fraud and Waste Hotline, may identify areas of concern within the City and may point to more systemic problems.
Complaint data informs audit project selection	<p>Complaint data from the Hotline is also one of the factors considered that may result in a performance audit being conducted. For example, performance audits that have been initiated in part due to data from the Hotline include:</p> <ul style="list-style-type: none">• <i>Toronto Community Housing Corporation – Embedding Accountability into Service Delivery: Lessons Learned from the Audit of Contracted Property Management Services</i>• <i>City Needs to Improve Software License Subscription Tracking, Utilization and Compliance</i>• <i>Getting to the Root of the Issues: A Follow-Up to the 2019 Tree Maintenance Services Audit</i>
Trends from 2022 complaints received	Complaint data is also used to identify trends and in 2022 included issues with subsidy claims, contract management, time theft, and conflict of interest. Some of these complaints are summarized in Exhibit 3.

1. Total Complaints

1,032 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 13,000 complaints. Each complaint may include multiple allegations. In 2022, 1,032 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.
Overall number of complaints received are increasing	In 2022, the Hotline had a 26 per cent increase in complaints over 2021, 22 percent over 2020 and 76 per cent higher than in 2019. The increase over last year can be attributed to a rise in the number of subsidy complaints and those which are outside the Hotline’s jurisdiction (not related to the City of Toronto).

Figure 2 outlines the number of complaints received over the past 10 years between 2013 to 2022.

Figure 2: Complaints Received – 2013 to 2022

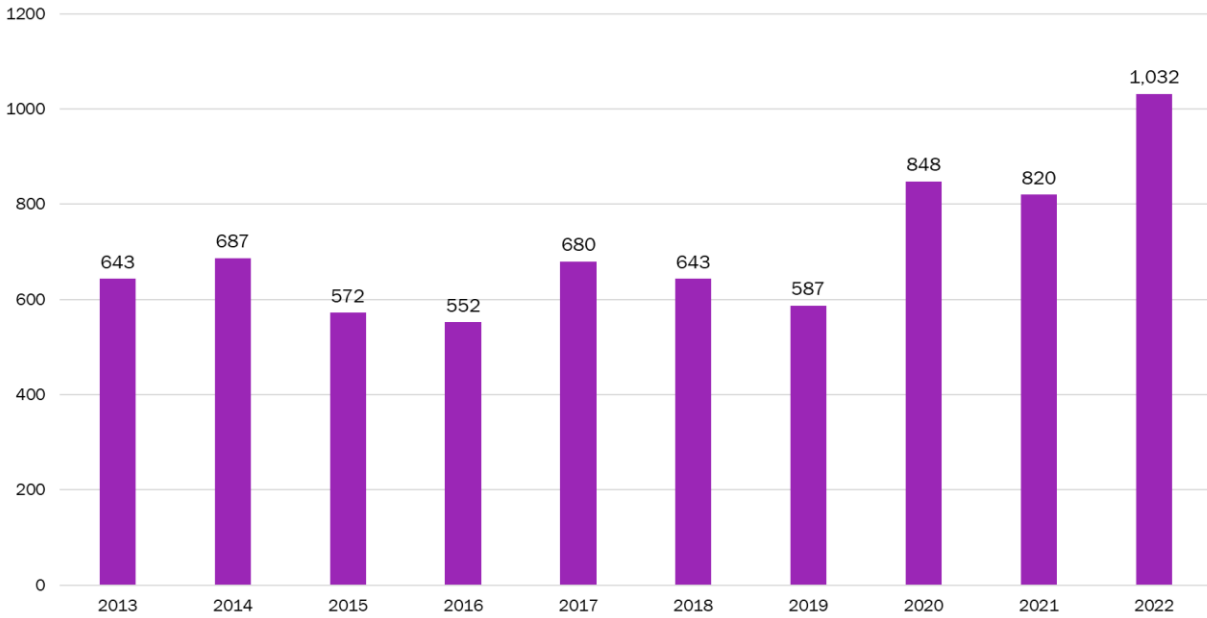
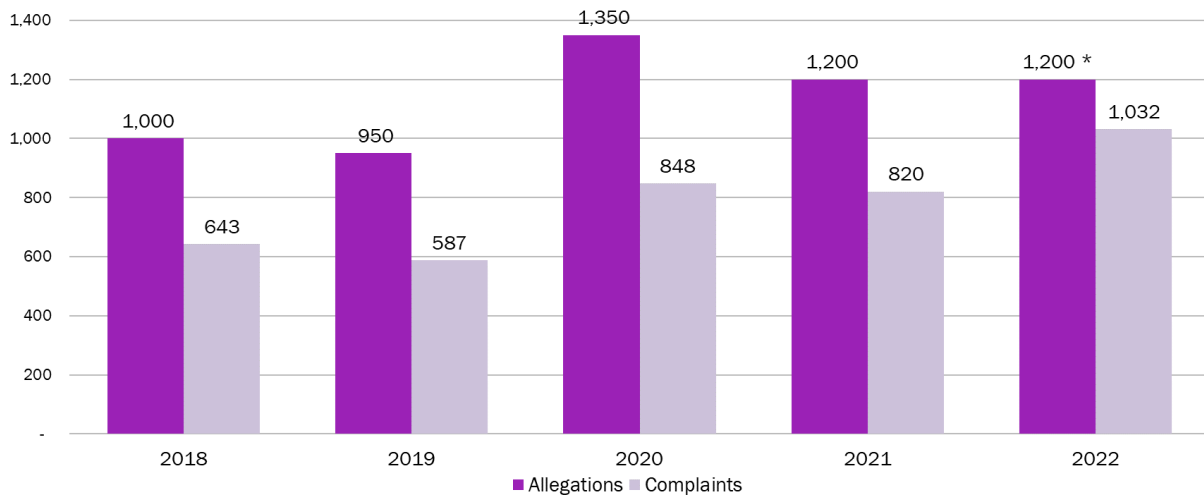


Figure 3 shows the number of allegations included in complaints received over the past five years. The average number of allegations over the past five years is approximately 1,150 per year.

Figure 3: Complaints and Allegations Received – 2018 to 2022



*Although more complaints were received in 2022 than in 2021, approximately the same number of allegations were calculated based on the types of complaints received this year.

2. Source of Complaints

Many methods available to report a complaint

The general public, City staff and anyone doing business with the City can report suspected fraud, waste, or wrongdoing involving City resources. Complaints can be made via:

- Secure online form
- Email
- Calling the Hotline
- Mail

38% of complaints through online form

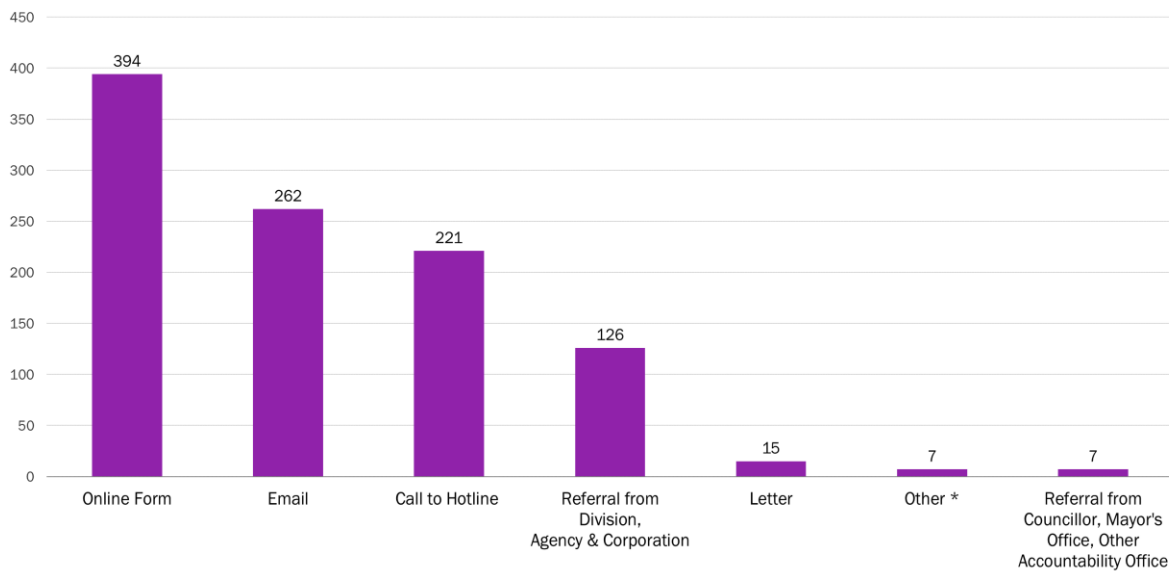
In 2022, the most commonly used method of reporting was online, with 38 per cent of all complaints received through the Auditor General’s secure online complaint form.

Hotlines help detect fraud through tips

According to the Association of Certified Fraud Examiners 2022 Report to the Nations on Occupational Fraud, organizations with reporting hotlines were more likely to detect fraud through tips than organizations without hotlines (47 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 2022.

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.

Triage process helps assess the risk and priority of incoming complaints

In 2022, all complaints received were triaged to assess the risk and priority level of the allegations. This process is now the first step of conducting preliminary investigative work.

Prior to determining the disposition, the Auditor General’s Office will usually conduct additional inquiries to identify whether allegations have merit.

Preliminary investigative work conducted in 99% of complaints

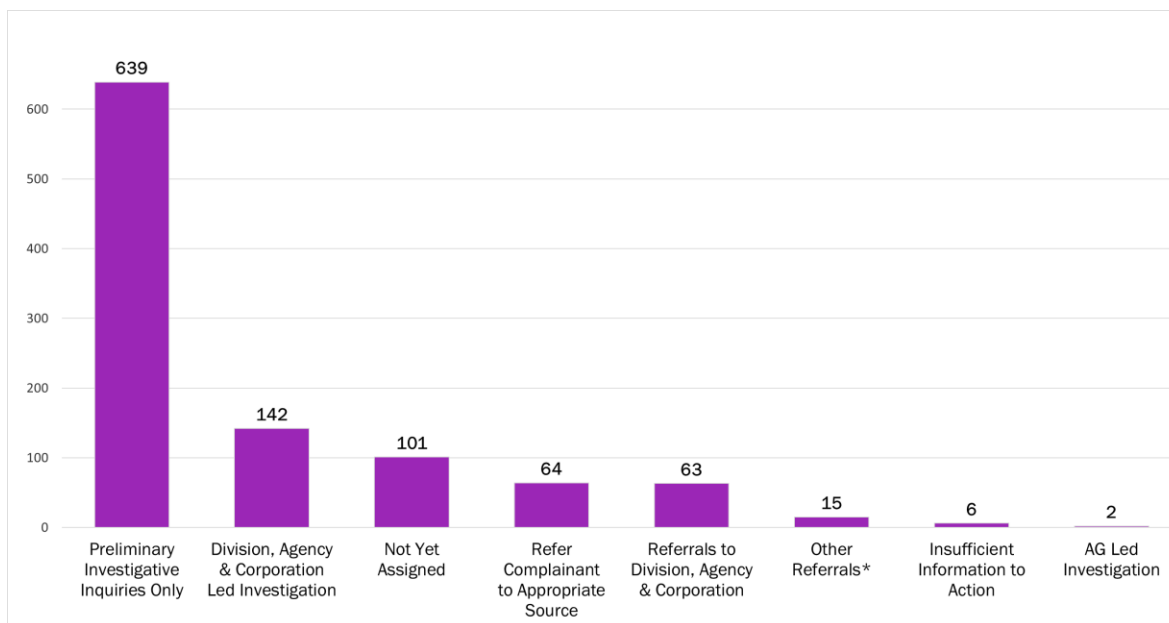
In 2022, our Office performed some level of preliminary investigative work on the majority (1,026 or 99 per cent) of complaints received. Preliminary investigative inquiries are also conducted prior to referring complaints to divisions for action.

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.

Figure 5 provides a breakdown of the disposition of complaints received in 2022.

Figure 5: Disposition of Complaints



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

Preliminary Inquiries and Division, Agency & Corporation led investigations

Sixty-two per cent of all complaints received (639 complaints) were closed following preliminary investigative work and 142 were investigated by City Management with our oversight.

AG investigations

Of the complaints received in 2022, two resulted in a full investigation by the Auditor General's Office. However, there are several other investigations that are ongoing from complaints received in prior years, and others may still result in further investigation by the Auditor General before they can be resolved.

Referrals to Division, Agency & Corporation for information only

Six per cent of all complaints (63 complaints) were referred to City Management for review and appropriate action or for information only. Examples of such complaints include employee misconduct, hiring issues or harassment allegations.

Refer complainant to appropriate source

In 6 per cent of complaints (64 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. For example, service complaints such as garbage removal would be re-directed to 311 Toronto.

4. Complaint Conclusion

The Forensic Unit manages each complaint until it has been resolved or concluded.

Unsubstantiated complaints may highlight other issues of concern

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.

Substantiated complaints 10%

Ten per cent (15 complaints) of the 144 complaints from 2022 that were investigated have been substantiated in whole or in part. This number is expected to increase as outstanding 2022 investigations are completed in 2023.

Anonymous complaints

Seven out of 15 (47 per cent) of the substantiated complaints were anonymous.

Internal control weaknesses

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.

Previous years complaints concluded in subsequent years

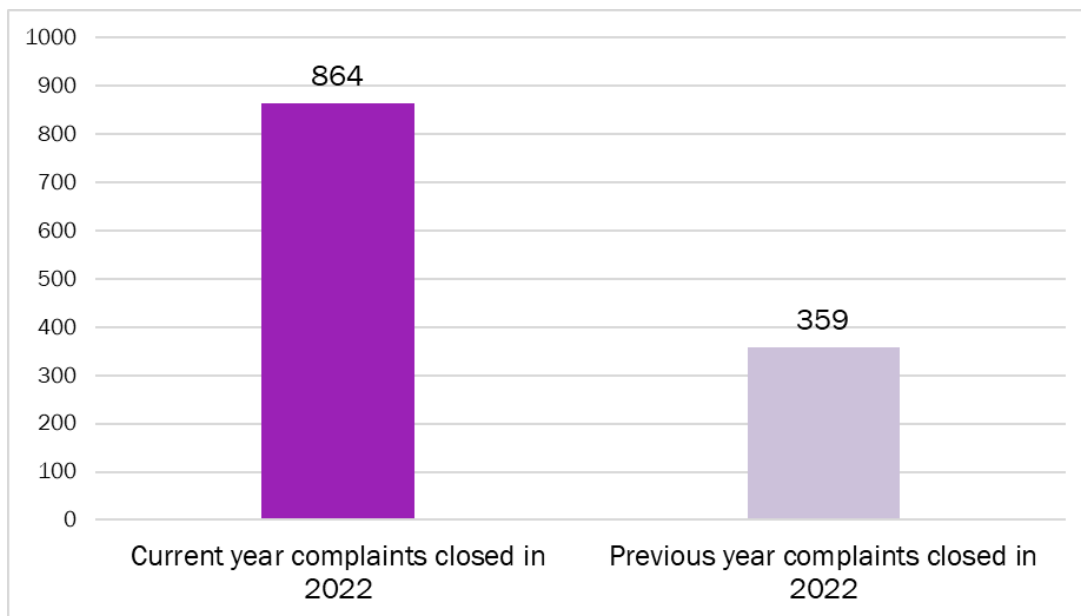
Some complaints cannot be concluded until a future year. In cases where a previous years' complaint is concluded, statistics are updated in the Auditor General's database to capture information such as whether the complaint was substantiated and whether there was a loss to the City.

6% of complaints closed from previous years were also substantiated

In 2022, 359 complaints from previous years were also closed and 6 per cent (20 complaints) of those were substantiated in whole or in part.

Figure 6 shows that a total of 1,223 complaints were closed in 2022, of which 864 complaints are from the current year and 359 complaints are from previous years.

Figure 6: Current Year vs. Previous Years Complaints Closed in 2022



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 2022

In 2022, divisional management reported that discipline was imposed in three of the substantiated complaints. In an additional 12 instances, divisional management took other appropriate action with vendors, employees or members of the public, such as subsidy recipients.

Discipline or other appropriate action in 20 complaints from previous years

For previous years cases that were substantiated in 2022, discipline was imposed in nine cases and other appropriate action was taken in 11 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 2022 Report to the Nations on Occupational Fraud reported that 52 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.

\$121,000 actual losses

For complaints received in 2022, quantifiable actual losses to the City were approximately \$121,000. This amount is expected to increase as outstanding 2022 complaints are concluded in 2023.

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 2022, 12 complaints from 2021, four from 2020 and two complaints each from 2018 and 2019 were concluded as substantiated or substantiated in part.

\$27.9m actual and \$1.5m potential losses for 5 years

The cumulative 5-year total of actual and potential losses from complaints received in previous years (2018 to 2022) is more than \$27.9 million (actual losses) plus \$1.5 million (potential losses) had the fraud not been detected.

EXHIBIT 2 – MAJOR INVESTIGATION SUMMARIES

Below is a summary of a major investigation that resulted in a report being issued to Audit Committee in 2022. This summary demonstrates that a substantial amount of resources is required to conduct investigations.

We have also included an update to an investigation report that our Office issued in 2018 titled “*Raising the Alarm - Fraud Investigation of a Vendor Providing Life Safety Inspection Services to the City of Toronto*”. This summary demonstrates the impact our investigation reports and recommendations have in raising public awareness and prompting City employees/management, as well as members of the public, to report similar or ongoing issues to the Fraud and Waste Hotline. In addition, our Office continues to monitor and keep up to date on issues that have been investigated in the past.

In 2022, the Forensic Unit also invested significant time and resources into several other ongoing investigations which may be concluded and reported on in 2023.

Installation and Maintenance of Traffic Signs Contract – Follow-up on Complaints Received

Initial complaint received through the Fraud and Waste Hotline

In mid-2016, the Fraud and Waste Hotline received a complaint alleging a utility contracting services vendor (“the Vendor”) of overbilling and a lack of oversight by Division management for not taking action against the Vendor. The Vendor provides installation and maintenance services regarding traffic signs. The Auditor General’s Office conducted preliminary inquiries and determined that it was appropriate to refer the complaint to the Transportation Services Division (“the Division”) for review and suggested leveraging the Internal Audit (“IA”) Division to conduct an analysis to help address the allegations.

Internal Audit assisted the Division with an analysis and provided 4 recommendations

In 2017, the IA Division issued a report of their analysis and outlined four recommendations for the Division to consider. They noted input errors by the Vendor, and credits for those amounts were received by the Division, but no intentional overbilling was found. Divisional management agreed to implement IA’s recommendations by Q3 of 2018.

Second complaint received in 2021

In December 2021, the Auditor General received another complaint that there were still concerns involving the same vendor with additional allegations that included:

1. Inefficient use of time by the vendor, a large amount of the day related to non-site travel
2. No list of daily planned work provided to the City and no daily logs making it difficult for oversight
3. The vendor's maintenance and installation of traffic signs on a portion of the City roads could be completed by City employees who could likely complete the work for less cost

Auditor General met with complainant and requested Division to conduct first line review

The Auditor General's Office conducted preliminary inquiries including meeting with the complainant to discuss their concerns, referring the complaint to the Division for a first line review and requesting a follow-up on the status of IA's recommendations from 2017.

Outcome of Division's investigation of the additional allegations

The Division's investigation substantiated the first allegation, concluding that the Vendor spent 26.5 per cent of the billable time patrolling streets looking for sign infrastructure to fix. Furthermore, the figure appears high and potentially some further contract controls need to be implemented to ensure there is value obtained in the patrolling time.

Some Internal Audit recommendations from 2017 not implemented

Our Office met with the Division in April 2022 to discuss the status of implementing IA's recommendations from 2017 and the Division advised that some recommendations had not yet been operationalized. To ensure that the process improvements for oversight of the Vendor continue, the IA recommendations should be formally incorporated in a Divisional standard operating procedure. Per the Division, they plan to have the standard operating procedures in place by Q1 2023 and will complete a compliance review in Q3 2023.

3 recommendations to help ensure value for money

The contract with the Vendor was set to expire on December 31, 2022 and the Auditor General therefore made three important recommendations in our report for Divisional Management to:

- strengthen contract language when vendor procurement is pursued
- improve contract management in advance of awarding a new contract for 2023 and
- ensure the initial IA recommendations are implemented.

These recommendations will help to ensure value for money for the City on the service provided by the vendor.

The report is available at:

<https://www.torontoauditor.ca/report/installation-and-maintenance-of-traffic-signs-contract-follow-up-on-complaints-received/>

Auditor General’s Report in 2018 Identified Issues with Life Safety Inspections

Previous AG report on Fire & Life Safety issued in 2018

In June 2018, the Auditor General published a report titled “*Raising the Alarm - Fraud Investigation of a Vendor Providing Life Safety Inspection Services to the City of Toronto*”¹.

Investigation into a life safety vendor included several findings

This report summarized our investigation into allegations that a life safety vendor under contract with the City routinely submitted inspection reports and invoices for work not done, forged signatures of their own staff and used false identities as signatories to contracts. Our investigation found that:

- The bulk of Ontario Fire Code mandated inspection reports (for this and other vendors) could not be found to verify the work was done.
- There was a lack of documentation and problems with contracts and invoices.
- Invoices showed potential overbilling, missing information, inconsistencies, performance issues, and potentially manipulated inspection reports. However, these invoices were routinely paid by the City even though supporting documentation was missing and concerns were previously identified.

Problems were not just with one vendor

The investigation also found that there were systemic issues with how the Facilities Management Division (now known as the Corporate Real Estate Management Division (CREM)) was awarding contracts for life safety inspection work and how the City was monitoring the quality of work performed by life safety inspection vendors.

Indifference to issues being raised and City staff did not understand their responsibilities

While some staff had raised concerns about this and other vendors, the internal culture was indifferent to and ignored those concerns. In addition, City staff did not seem to be fully aware of their responsibilities under the Ontario Fire Code, including the building owner's responsibility to ensure proper documents are received and retained to demonstrate compliance with the Ontario Fire Code. In our investigation, we found that City staff did not verify whether inspection work was done before paying the vendor, despite concerns raised by some employees.

¹ <https://www.torontoauditor.ca/report/raising-the-alarm-fraud-investigation-of-a-vendor-providing-life-safety-inspection-services/>

17 recommendations made by the AG

The Auditor General made 17 recommendations to address these systemic issues. She also highlighted that a culture shift was needed within the City to ensure accountability, safety and compliance with the Ontario Fire Code.

15 out of 17 recommendations implemented per Management

Management has since accomplished several changes since we made our recommendations in the 2018 *Raising the Alarm* report. Management indicated that 15 of our 17 recommendations are fully implemented (or no longer applicable) and they are continuing to focus on the outstanding items.

Progress is being made

Although we have not yet had the opportunity to complete formal follow-up work on outstanding recommendations, we have been in regular communication with CREM and are confident that progress has been steady.

4 life safety vendors have been suspended from bidding on City contracts

As a result of the City's work and our report, a total of four life safety vendors have since been temporarily suspended from bidding on contracts with the City², including the vendor that was the subject of the *Raising the Alarm* report and one additional vendor that was identified on page 86 of the report.

Follow-up report will be issued by the AG Office

A more fulsome follow-up report will be issued by our Office in due course.

² <https://www.toronto.ca/business-economy/doing-business-with-the-city/searching-bidding-on-city-contracts/suspended-disqualified-firms/>

EXHIBIT 3 – COMPLAINT SUMMARIES

Below are summaries of various reviews and investigations concluded in 2022. A sample is provided so that Audit Committee and members of the public 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 12 complaint summaries. These complaints resulted in a total loss of over \$553,000 and two employment terminations, one employee suspension, one employee resignation and two files referred to police.

1. Subsidy Fraud

1.1. Business Improvement Area Consultant Continues Committing Fraud

In 2021, the Auditor General's Office undertook an investigative review of two BIAs (Business Improvement Area) due to allegations of fraud related to the actions of a consultant who worked for each BIA at different times beginning in 2017. Through our investigation, we found more than \$70,000 was routed from the two BIAs into bank accounts used by the consultant and the consultant was identified, arrested, and charged with fraud by the Toronto Police Service. Further details can be found in our public report titled "*Toronto Business Improvement Areas (BIAs) Accounts Payable Fraud Investigation*"³.

Subsequent to the investigation, the Auditor General's Office received a new complaint from one of the BIA's alleging that the same consultant received a subsidy while working on contract at the BIA's and did not declare their income.

The initial subsidy fraud investigation was led by the Division and concluded that the individual failed to disclose the income received from one BIA that resulted in an overpayment of approximately \$16,700.

However, the Auditor General's Office had knowledge that the consultant had worked at three other BIA's. Through independent oversight of the Division's initial investigative work, we noted that the overpayment amount was only related to one BIA, and we therefore contacted the three other BIA's and obtained the income information required for the Division to re-perform the overpayment analysis. When all four BIA's were accounted for, the total amount of overpayment increased to \$136,500.

³ <https://www.torontoauditor.ca/report/toronto-business-improvement-areas-bias-accounts-payable-fraud-investigation/>

The Division referred the case to the Toronto Police Service.

1.2. Failure to Disclose Other Income

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

The investigation was led by the Division and concluded that both individuals did not appropriately disclose the benefits they received from other government programs as income and therefore received subsidies they were not entitled to. The total amount of the overpayment was approximately \$41,700.

The City has recovered approximately \$1,500 to date and have referred the matter to the Toronto Police Service for prosecution.

1.3. City Employee Collecting Subsidies

The Auditor General's Office was advised by a Division that an employee was collecting subsidies from a Division and a City Corporation while working full-time.

An investigation was led by the Division and concluded that the employee intentionally withheld information about their employment, earnings and shelter costs. The employee would not have been eligible to receive a subsidy based on their employment income with the City. An investigation conducted by the Corporation also found the employee failed to report their employment income, marital status and misrepresented their household composition to receive a subsidy they were not entitled to.

The total combined amount of the ineligible overpayment was approximately \$86,000.

Employment with the City was terminated, and the Division and Corporation will be pursuing recovery and criminal charges against the individual.

1.4. Misrepresentation of Eligibility Information

The Auditor General's Office received a complaint through the Fraud and Waste Hotline alleging that three members of the public living in the same household were receiving subsidies through fraudulent claims.

The investigations were conducted by a Division and a City Corporation. The Division concluded that two individuals failed to disclose their income, while the Corporation concluded that one of these individuals did not appropriately report their household composition and was allowing two other people to be living in their unit without authorization. The total combined amount of overpayment was approximately \$64,000.

Although the individuals continue to receive certain subsidies from the City, the Division is pursuing recovery monthly from the recipient's subsidy and the Corporation has commenced legal action to terminate the tenancy and recover the losses.

A small repayment has been made to date.

1.5. Failure to Disclose Household Composition and Income Eligibility

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 a City Corporation and concluded that the individual did not declare a change in household composition and misrepresented household income by failing to report the income earned by an undeclared occupant. The total amount of the ineligible overpayment was approximately \$41,600.

The Corporation is pursuing termination of the lease agreement and recovery of the loss.

2. Conflict of Interest and Breach of Trust

The Auditor General's Office found that a City employee inappropriately used their position to sign off on a project that was outside of the jurisdiction of their work duties and was a project they were involved with prior to working at the City. Our Office notified the Division and requested further investigation and follow-up on the potential conflict of interest.

The Division conducted a thorough investigation and consulted with Employee and Labour Relations regarding the best course of action to take. Through research, interviews and a detailed review of the employee's projects in the database, the allegations were substantiated.

The Division found that the employee worked on several City projects in a personal business capacity, prior to joining the City. The investigation concluded that the employee knowingly altered City records, signed off on a project that was outside of their jurisdiction and failed to disclose a possible or perceived conflict of interest on a property that had a connection with their personal business.

The employee's action constituted a violation of the *Toronto Public Service By-law* (Chapter 192), the Division's Conflict of Interest (COI) Policy and the City of Toronto's Acceptable Use of Information Technology Assets Policy.

The employee resigned before the Division could complete their investigation. However, based on the investigative work conducted, Management advised us that they would have concluded that the employee was not honest or truthful, and not forthcoming in some of their explanations to the key areas of concern in the investigation, which would have amounted to a breach of trust in the employment relationship.

Employee and Labour Relations recommended to the Division that the employee file be updated with this information and the findings of the investigation.

3. Misuse of City Funding

The Auditor General's Office received an anonymous complaint through the Fraud and Waste Hotline related to a not-for-profit agency with a service agreement for City funding. It was alleged that two agency staff were using the City's funding for personal gain and that the Board of Directors may be complicit.

The investigation was led by the Division and concluded that there was a substantial lack of internal controls related to the financial and administrative activities of the agency. Findings included:

- Human Resources administration issues such as improper management of timekeeping records and non-compliance with the Employment Standards Act,
- third party agreements without appropriate signatures,
- duplicate payments to vendors and expenses without supporting documents and did not appear to be related to agency operations,
- no systematic process in place for recording and tracking of revenue and account receivables and
- bank reconciliations not completed in a timely manner with delays ranging between 3 to 8 months.

Furthermore, there was a lack of oversight from the Board of Directors and many instances of non-compliance with the agency's own by-laws.

To address these findings, the Division developed a remediation action plan that was sent to the agency, which included several recommendations for policy and governance improvements. The agency is to provide the Division with an implementation strategy with a time frame for completion.

The financial loss to the City was calculated to be approximately \$56,800 and the Division recovered the entire loss.

4. Improper Contract Management

The Auditor General's Office received several complaints through the Fraud and Waste Hotline regarding allegations of inappropriate land transactions at a City Agency. One of the allegations was that the Agency was operating a property and had an opportunity to purchase the property, but the Agency deferred the acquisition to another buyer. It was alleged that the Agency then accepted a lease agreement for the property knowing that the Agency would be operating the property at a loss.

The Auditor General's Office conducted investigative work into this allegation and made specific inquiries to the Agency. The Agency confirmed they did not purchase or lease the land, but rather entered into a six-month pilot management services agreement with the landowner in 2013 to operate the property. The Agency's management advised us that the pilot was to help determine whether the brand image of the Agency would impact the productivity of the operation at the property. The pilot arrangement did not include a revenue share with the Agency, but allowed the Agency to recover a fixed monthly fee to offset the Agency's operating costs. The results of the pilot indicated that the brand image of the Agency had a positive impact on the operation, resulting in increased productivity.

At the end of the six-month pilot period, a new service agreement was drafted but never finalized, and the Agency continued to operate under the terms of the pilot program until the property was sold to a new owner in 2017. The agreement with the Agency was terminated in 2018, however, the continued operation under the pilot agreement terms for an additional 5 years resulted in a loss of approximately \$126,000.

With respect to processes related to financial, contract management and other governance issues such as this situation, the Agency indicated they have addressed many of the past process issues identified by our Office through acting on, and implementing, positive measures based on several Auditor General recommendations. Our Office will continue to follow-up on any recommendations from past reports that are still in the process of being implemented.

5. Contractor did not Complete a Service Request

Following the publication of the Auditor General's report titled '*Getting to the Root of the Issues: A Follow-Up to the 2019 Tree Maintenance Services Audit*' in February 2021, both the Fraud and Waste Hotline and the City continued to receive complaints related to tree maintenance services. The Hotline continues to monitor and follow-up on matters of waste or not receiving value-for-money on these services.

In one such example, the Auditor General's Office was advised by a Division that a member of the public was alleging that a service request for tree pruning was marked as completed by the contractor, but no pruning was done on a tree at the intended location.

The investigation was led by the Division and through a review of their records, they concluded that the contractor mistakenly pruned a tree at another address on the same street.

The Division banned the contractor crew leader from working on the City's tree maintenance contract and the contractor subsequently terminated this individual's employment.

The contractor agreed to prune the tree at its intended location at no cost to the City.

6. Time Theft

6.1. Abuse of Sick Days and Time Theft

The Auditor General's Office received several anonymous complaints through the Fraud and Waste Hotline with allegations that an employee inappropriately used sick days and committed frequent time theft by taking extended breaks and not working during their shift.

The investigation was led by the Division and concluded that the employee did take longer than usual breaks during work hours and fraudulently used five sick days to work a second job at a similar facility, which resulted in an estimated loss of approximately \$900.

The employee's behaviour and actions demonstrated non-compliance with City and Divisional policies and as result, employment was terminated.

6.2. Time Theft and Inappropriate Mileage Expense Claims

The Auditor General's Office received an anonymous complaint through the Fraud and Waste Hotline regarding allegations that five employees were committing time theft and submitting inappropriate mileage expense claims.

The investigation was led by the Division and concluded that the time theft allegations were unfounded.

However, the investigation did find that one of the five employees had submitted inaccurate mileage expenses that did not align with actual site visits and claimed mileage from the employee's home instead of from the workplace. This was in violation of the City's *Kilometrage Reimbursement for Use of Personal Vehicle for City Business Policy*. At the time the claim was submitted, the supervisor had advised the employee that mileage expenses cannot be claimed from home, but did not make the overpayment correction when the error was discovered.

The employee was provided with a letter of reprimand outlining the expectations of the position and notified that only the revised mileage expense would be paid. The supervisor was also reminded that all mileage claims need to be reviewed for accuracy and any overpayments corrected as soon as they are identified.

6.3. Time Theft and Second Job

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

The investigation was led by the Division and concluded that the employee submitted incorrect time sheets, which was acknowledged by the employee and confirmed using City vehicle GPS information. The GPS data located the employee in City parks, private property and other non-City business addresses.

The employee was suspended for 5 days.

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