

Auditor General's 2023 Annual Report on the Fraud and Waste Hotline

Date: February 8, 2024

To: Audit Committee

From: Auditor General

Wards: All

SUMMARY

This report represents the 2023 annual report on fraud, waste and wrongdoing at the City including the activities of the Fraud and Waste Hotline Program (the Hotline Program). 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.

In 2023, 1,054 complaints comprised of approximately 1,450 allegations were received by the Auditor General's Office, the highest in a year since the launch of the Hotline Program and similar to the number of complaints (1,032) received last year.

The Hotline Program has helped to reduce losses and resulted in the protection of City assets. The actual and potential losses from complaints received from 2019 to 2023 are \$27.7 million (actual losses) plus \$1.0 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.

RECOMMENDATIONS

The Auditor General recommends that:

1. City Council receive this report for information.

FINANCIAL IMPACT

The recommendation in this report has no financial impact.

DECISION HISTORY

The *City of Toronto Act* identifies that, as part of her responsibilities, "the Auditor General is responsible for assisting City Council in holding itself and city administrators accountable for the quality of stewardship over public funds..."

Stewardship over public funds involves reviewing controls and verifying that allegations of fraud and waste are addressed.

The Fraud and Waste Hotline Program began as a six-month pilot program starting on March 1, 2002. City Council approved it as a permanent program at its meeting of November 6, 2002, along with the recommendation that the Auditor General report to Audit Committee on the operation and activities of the Hotline Program.

COMMENTS

The Hotline is managed by the Auditor General's Forensic Unit, which is comprised of a team of professionals who collectively possess the expertise to resolve a broad range of complaints and conduct investigative work into complex allegations. Due to the small size of the team, the Forensic Unit occasionally leverages audit staff or outside experts to assist on complex investigations.

The Forensic Unit also provides independent oversight of management-led investigations by reviewing the adequacy of work conducted, including steps taken to deter fraud, reduce losses and protect City assets.

One of the benefits of the annual report is to demonstrate to employees and the public that the City of Toronto is committed to taking action when issues of fraud, waste or other wrongdoing are reported to the Auditor General's Office.

In 2023, 1,054 complaints comprised of approximately 1,450 allegations were received. In addition to reviewing these complaints, the Auditor General continued to focus on conducting investigations.

The Auditor General's report entitled "Auditor General's 2023 Annual Report on the Fraud and Waste Hotline" is attached as Attachment 1.

Detailed statistics concerning the activities of the Hotline Program are included in the Annual Report as Exhibit 1. Exhibit 2 contains a summary of a major investigation that resulted in a report being issued to the Audit Committee, as well as another investigation where our Office conducted a significant amount of work. Exhibit 3 provides summaries of various reviews and investigations concluded in 2023.

Highlights of the 2023 statistics are as follows:

2023 Annual Results

- Almost 14,000 complaints received since 2002
- \$27.7 million actual losses plus \$1 million potential losses over a 5-year period (2019-2023) had the fraud not been detected
- 1,054 complaints received in 2023 representing approximately 1,450 allegations; the number of complaints is approximately the same as 2022 (1,032), and 29 per cent more than in 2021 (820)
- All complaints from 2023 involved some level of preliminary investigative work by the Auditor General's Office, including a triage process to assess the risk and priority of incoming complaints
- 144 complaints from 2023 were investigated by the Auditor General and/or the City's Divisions, Agencies, and Corporations
- 21 per cent (30) of 144 complaints investigated were substantiated in whole or in part. This number is expected to increase as outstanding 2023 investigations continue to be completed in 2024
- 27 per cent (8 out of 30) of substantiated complaints were anonymous
- Actions taken as a result of investigations include:
 - 5 employees disciplined
 - 25 instances where other appropriate actions with vendors, employees or members of the public (such as subsidy recipients) were taken
- \$495,000 actual loss, \$100,000 potential loss and \$31,000 recovery for complaints substantiated and closed in 2023. These amounts are expected to increase as outstanding 2023 complaints are completed in 2024
- Typically, 52 per cent of victim organizations do not recover any of their fraud losses according to the Association of Certified Fraud Examiners 2022 Report to the Nations on Occupational Fraud

Previous Years Complaints Closed in 2023

- 125 complaints from previous years were closed in 2023 and 25 per cent (31) of those were substantiated in whole or in part
- Actions taken as a result of investigations include:
 - 7 employees disciplined
 - 24 instances where other appropriate actions with vendors, employees or members of the public (such as subsidy recipients) were taken

CONTACT

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SIGNATURE

Tara Anderson
Auditor General

ATTACHMENTS

Attachment 1: Auditor General's 2023 Annual Report on the Fraud and Waste Hotline