



Auditor General's 2023 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 2023 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. According to 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 the City's losses and has 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.

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

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 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 City management-led investigations by reviewing the adequacy of work conducted, including steps taken to deter fraud, reduce losses, and protect City assets.

2023 Accomplishments and Challenges

Continued high volume of complaints received

In 2023, the Fraud and Waste Hotline received 1,054 complaints representing approximately 1,450 allegations, the highest in a year since the launch of the Hotline Program and similar to last year. This, combined with the increased volume of complaints since 2020, has created a backlog and impacted our ability to process and review complaints in a timely manner.

Focus on resolution of complaints

We focused on clearing the backlog this year and to do so, the Auditor General filled vacant positions and assigned resources from the audit team to bolster the Forensic Unit staffing complement. We also continued with our triaging process that was implemented last year, to determine the level of risk and priority of addressing complaints. Continued progress was made in closing outstanding complaints (see Figure 6 on page 11 for details); however, it should be noted that many high-risk and complex files remain open and have yet to be fully resolved.

Investigative reviews concluded in 2023

In addition to operating the Hotline, the Auditor General’s Office conducts investigations. Conducting investigations into high-risk allegations can require a significant number of staff resources, time, and in some cases, costs associated with hiring external specialists. Since 2019, we have issued 10 public reports on major investigations, while other investigative reviews were reported through the Fraud and Waste Hotline Annual Report or directly to management.

In 2023, the Forensic Unit issued a public report on one major investigation that is summarized in Exhibit 2 of this report. Several other investigations are also in progress or waiting to be addressed, and we expect that some of these will be concluded and reported on in 2024. The Auditor General also anticipates that the need for complex and in-depth forensic investigations will continue.

Ongoing backlog of complaints and investigative work to be addressed

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 the same number as received last year, and 29 per cent higher than in 2021. 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.

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 complex 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 report wrongdoing as part of their duty to be faithful to the employer and not knowingly jeopardize its interests.

More information can be found on the Auditor General’s website - <https://www.torontoauditor.ca/report-fraud/>

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. In Exhibit 3, we have summarized an investigation that was conducted into allegations of reprisal (see Summary #4 on page 25 for details).

Raising awareness

Our Office has made efforts to increase awareness on employee’s responsibility to report wrongdoing to the Auditor General’s Office as required under the *Toronto Public Service By-law*. This included communication to City staff through Strategic Communication emails and the Intranet.

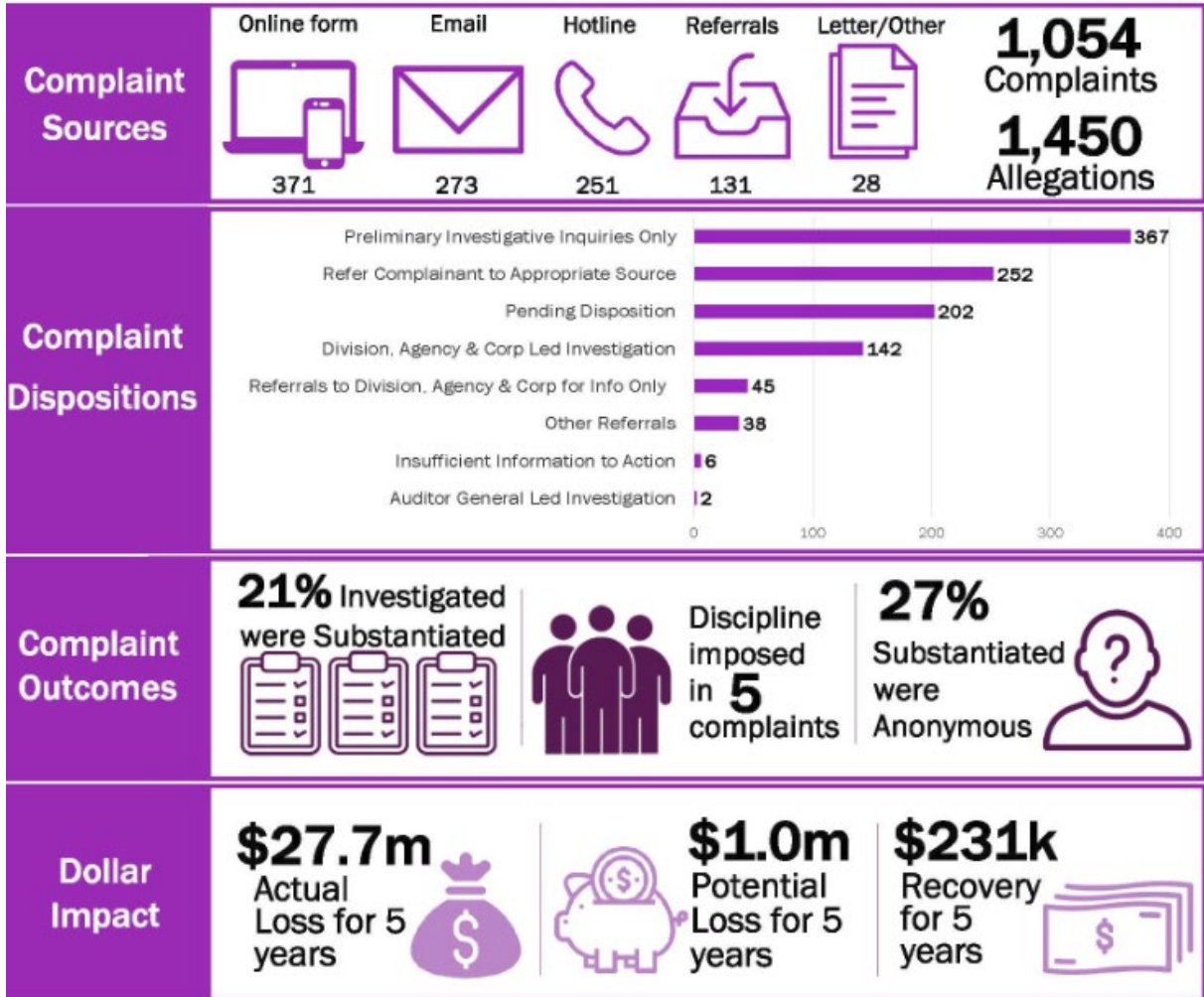
We have also updated the *Report Fraud, Waste or Wrongdoing* section of the Auditor General’s website, to educate staff and members of the public on the types of complaints that we investigate and should be reported to the Hotline, as well as clarifying those which are outside the Hotline’s jurisdiction (i.e., not related to the City of Toronto).

In 2024, our Office will continue to refresh our communication initiatives to further increase awareness.

Key Statistics

The infographic below provides key statistics at a glance for the Fraud and Waste Hotline program for 2023.

Figure 1: Key Statistics



Exhibits

Exhibit 1 – Detailed Statistical Summary

Detailed statistics summarizing the activities of the Hotline Program are included in this report as Exhibit 1.

Exhibit 2 – Investigation Summaries

Summarized details of the major investigative report(s) issued by the Auditor General as well as other investigations that were concluded in 2023 are included as Exhibit 2.

Exhibit 3 – Complaint Summaries

Summarized details of a sample of complaints concluded in 2023 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 systemic problems.

Complaint data informs audit project selection

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:

- *Building Better Outcomes: Audit of Toronto Building’s Inspection Function*
- *A Review of the Procurement and Award of the Winter Maintenance Performance-Based Contracts*
- *Audit of the Toronto Transit Commission’s Streetcar Overhead Assets: Strengthening the Maintenance and Repair Program to Minimize Asset Failures and Service Delays*

Trends from 2023 complaints received

Complaint data is also used to identify trends and in 2023 included issues with subsidy and benefit claims, contract management, time theft, and conflict of interest. Some of these complaints are summarized in Exhibit 3.

1. Total Complaints

1,054 complaints received representing 1,450 allegations

Since the Fraud and Waste Hotline Program was initiated in 2002, the Auditor General’s Office has handled almost 14,000 complaints. Each complaint may include multiple allegations. In 2023, 1,054 complaints were received representing approximately 1,450 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 2023, the Hotline received approximately the same number of complaints as 2022 (1,032), and 29 percent more than in 2021 (820). The sustained increase in the past two years, as compared to all prior years, is mainly attributed to a rise in the number of subsidy complaints and those which are outside the Hotline’s jurisdiction (i.e., not related to the City of Toronto).

Figure 2 outlines the number of complaints received over the past 10 years between 2014 to 2023.

Figure 2: Complaints Received – 2014 to 2023

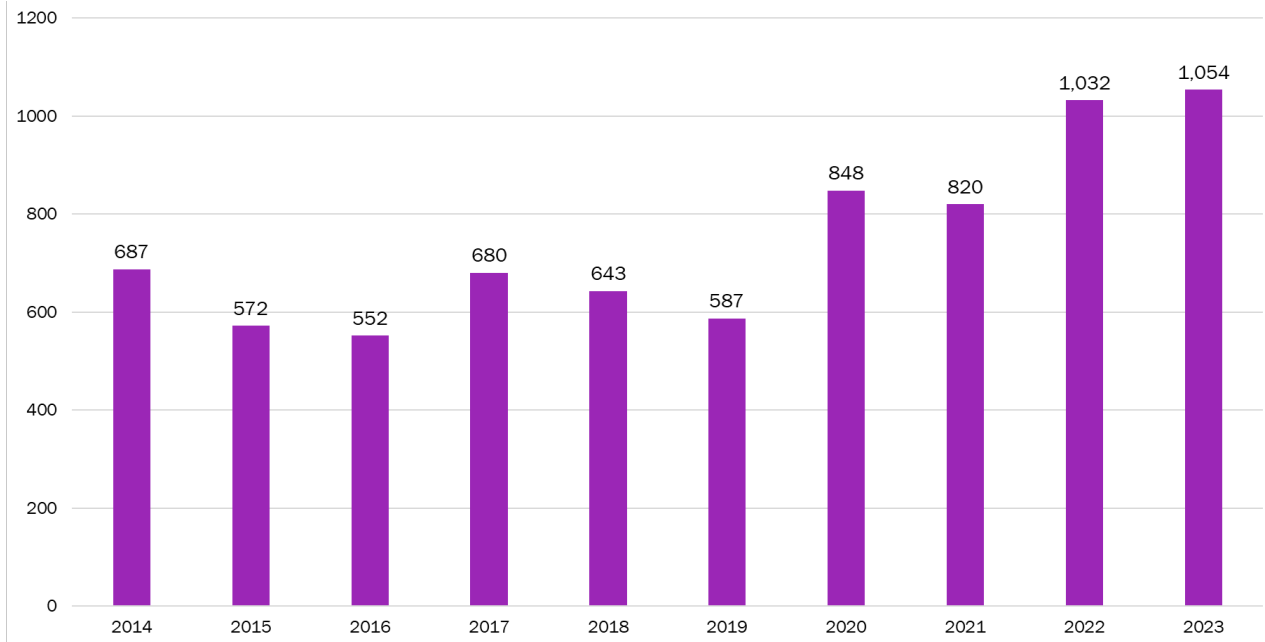
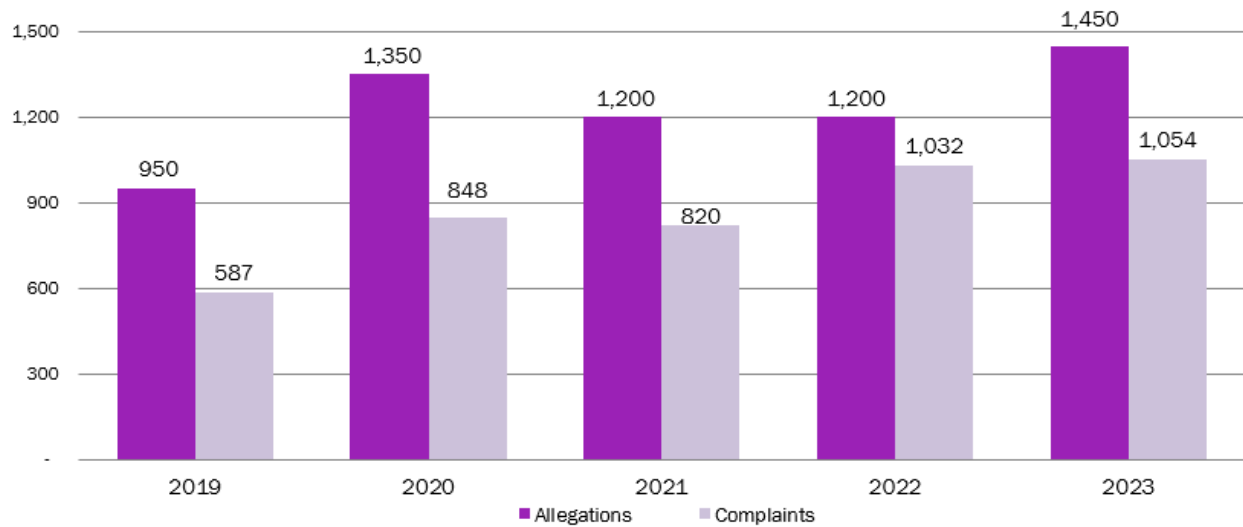


Figure 3 shows the number of allegations included in complaints received over the past five years. The average number of allegations over the past five years is approximately 1,250 per year.

Figure 3: Complaints and Allegations Received – 2019 to 2023



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

35% of complaints through online form

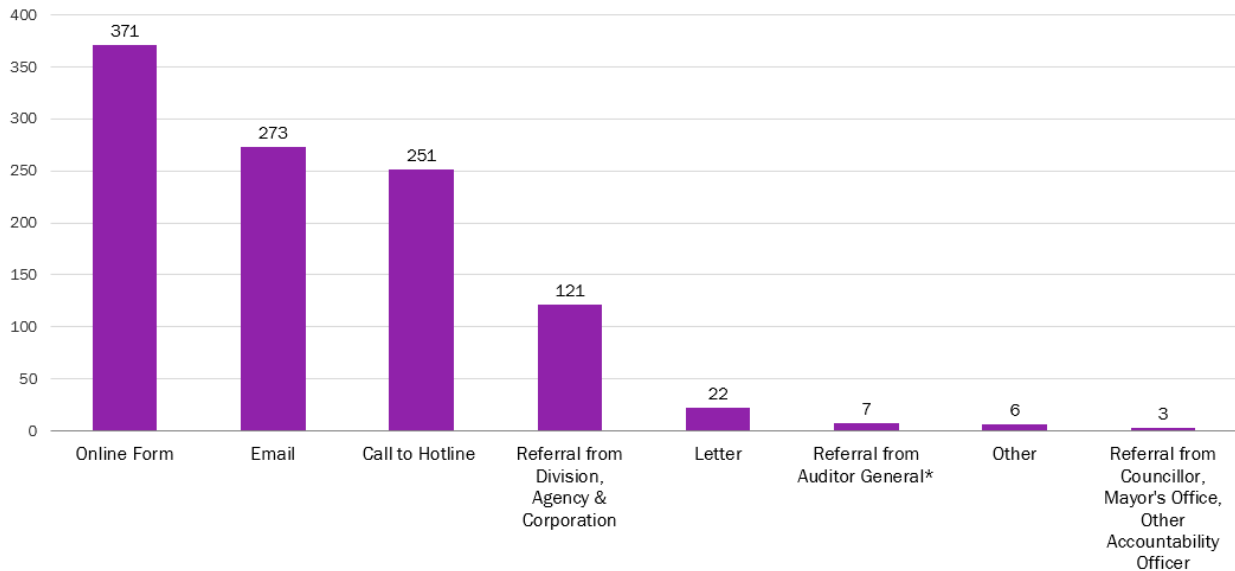
In 2023, the most commonly used method of reporting was online, with 35 per cent of all complaints received through the Auditor General’s secure online complaint form.

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 2023.

Figure 4: Source of Complaints



*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 2023, all complaints received were triaged to assess the risk and priority level of the allegations. This process is the first step of conducting preliminary investigative work.

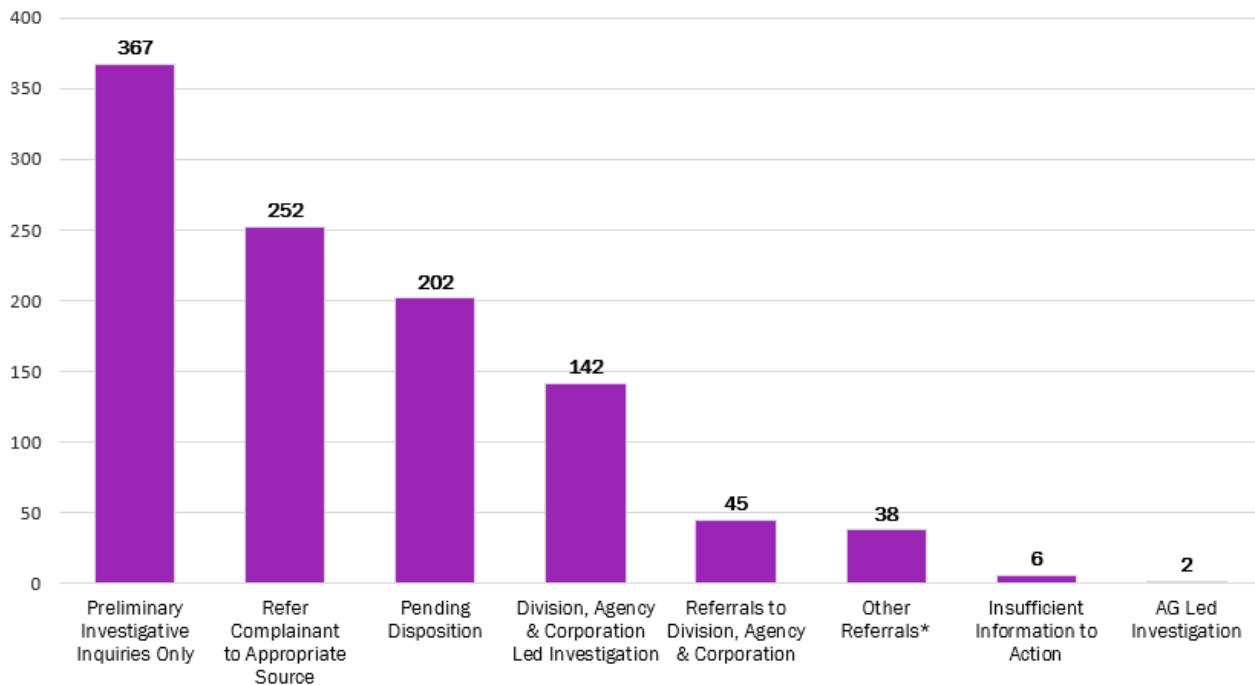
Prior to determining the disposition, the Auditor General’s Office will usually conduct additional inquiries to identify whether allegations have merit. Preliminary investigative inquiries are also conducted prior to referring complaints to divisions for action.

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 2023.

Figure 5: Disposition of Complaints



*Other referrals include to 311, future AG audit, other Accountability Officers, and agencies outside of the City.

Preliminary Inquiries	Thirty-five per cent (367) of all complaints received were closed following preliminary investigative work by the Forensic Unit. In some cases, the allegations were not related to the City of Toronto, but could not be re-directed to an appropriate source (e.g., complainant was anonymous). In other cases, it was determined that no further action could be taken or was needed based on the complaint details received and our preliminary analysis of the information.
Division, Agency & Corporation led investigations	Thirteen per cent (142) complaints were referred within the City and investigated by management with our oversight.
AG investigations	Of the complaints received in 2023, two resulted in full investigations 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	Four per cent (45) of all complaints were referred to 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 24 per cent (252) of 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 redirected to 311 Toronto.
Pending Disposition	Nineteen per cent (202) of all complaints received this year do not have a disposition assigned since determination of next steps on the complaints are pending.

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 some cases, a review or investigation may highlight internal management control issues and risks that need to be addressed.
Substantiated complaints 21%	Twenty-one per cent (30) of the 144 complaints from 2023 that were investigated have been substantiated in whole or in part. This number is expected to increase as outstanding 2023 investigations are completed in 2024.

Anonymous complaints Twenty-seven per cent (8 out of 30) of the substantiated complaints were anonymous.

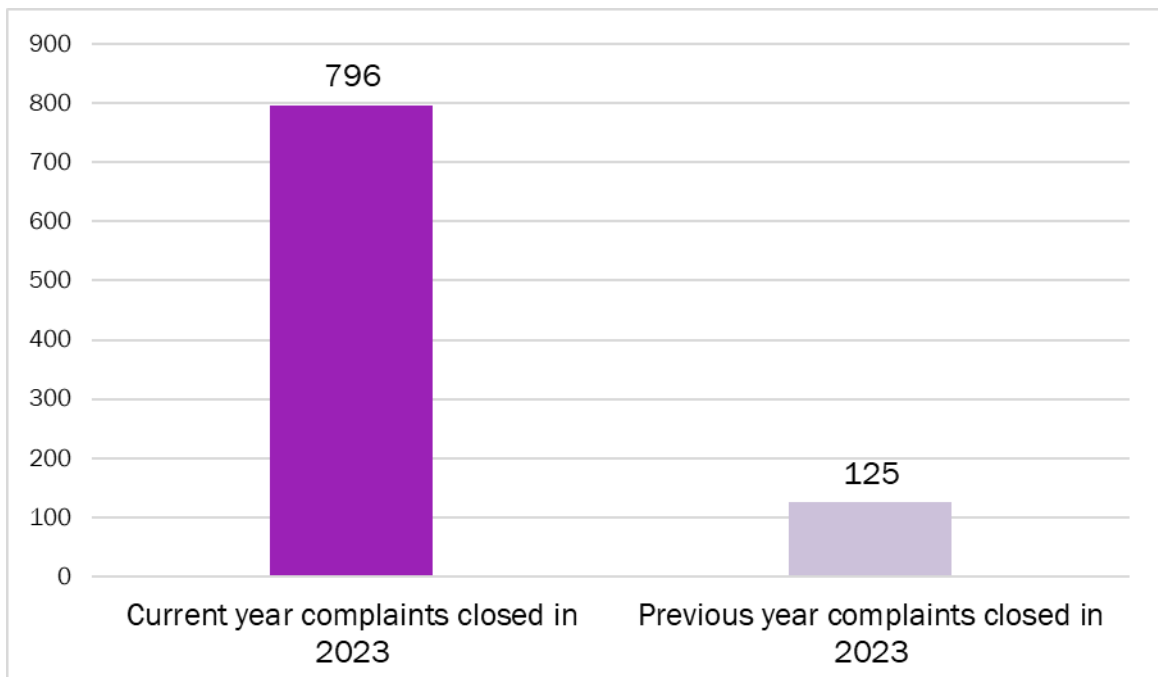
Internal control weaknesses Where internal control weaknesses contributed to or facilitated wrongdoing in substantiated complaints, divisions have confirmed that the internal control weaknesses have been or are being addressed.

Previous years complaints concluded in subsequent years Some complaints cannot be concluded until a future year. In cases where a previous year’s 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.

25% of complaints closed from previous years were also substantiated In 2023, 125 complaints from previous years were also closed and 25 per cent (31) of those were substantiated in whole or in part.

Figure 6 shows that a total of 921 complaints were closed in 2023, of which 796 complaints are from the current year and 125 complaints are from previous years.

Figure 6: Current Year vs. Previous Years Complaints Closed in 2023



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 management. Information regarding disciplinary action taken is communicated to and tracked by the Auditor General's Office.

Discipline or other appropriate action in all substantiated complaints from 2023

In 2023, management reported that discipline was imposed in five of the 30 substantiated complaints. In an additional 25 instances, management took other appropriate action with vendors, employees or members of the public, such as subsidy recipients.

Discipline or other appropriate action in 31 complaints from previous years

For previous years cases that were substantiated in 2023, discipline was imposed in seven cases and other appropriate action was taken in 24 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.

Our office tracks the actual and potential losses, and the recovery of the actual losses for all substantiated complaints¹, as summarized in Table 1. Detailed explanations of these values are also included below.

Table 1: Summary of Losses and Recoveries for 2023 and 5-Year Total

	Current year (2023) Total	5-Year Cumulative Total
Actual Losses	\$143,000 + 352,000 (prior years) = \$495,000	\$27.7 million
Recoveries	\$31,000	\$231,000
Potential Losses	\$100,000	\$1.0 million

\$143,000 actual losses from complaints received and substantiated in 2023

For complaints received and substantiated in 2023, quantifiable actual losses to the City² were approximately \$143,000. This amount is expected to increase as outstanding 2023 complaints are concluded in 2024.

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 captured once they are concluded in subsequent years.

\$352,000 actual losses from prior years complaints

Prior year complaints that were concluded as substantiated or substantiated in part in 2023 included 24 complaints from 2022, four from 2021, two from 2020, and one complaint from 2019. These complaints resulted in actual losses of approximately \$352,000 to the City.

\$31,000 recovered

The City recovered approximately \$31,000 of actual losses in 2023.

¹ **Actual Loss** – a loss incurred by the City as a result of fraud or wrongdoing.

Potential Loss – a loss that would otherwise have been incurred by the City had the fraud not been reported and investigated.

Recovery – the amount of actual loss the City was able to recover after the fraud was identified and investigated.

² Actual losses include Financial Supports provided by the City (e.g., social assistance benefits/payments; various subsidies) that are fully or partially funded by other orders of government. Financial Supports provided to clients are reflected as gross expenditures in the City's Operating Budget, while offsetting program delivery funding received from other orders of government are reflected as revenues.

\$100,000 of potential losses avoided

The City also avoided potential losses of approximately \$100,000 from all complaints substantiated and closed in 2023. The City would have otherwise incurred this loss had the fraud not been reported and investigated. For example, in complaints related to subsidy fraud, the City would have continued to pay the client a monthly subsidy payment had the fraud not detected a recipient's ineligibility.

\$27.7m actual and \$1.0m potential losses for 5 years

The cumulative 5-year total of actual and potential losses from complaints received and concluded in previous years (2019 to 2023) are \$27.7 million (actual losses) plus \$1.0 million (potential losses) had the fraud not been detected.

\$231,000 of actual losses recovered in the last 5 years

The City also cumulatively recovered \$231,000 of actual losses in the last 5 years (2019 to 2023).

Savings from the Fraud and Waste Hotline Program

Requirement to report on savings achieved

The Toronto Municipal Code requires that the Auditor General's Office report annually to City Council on the activities of our Office, including the savings achieved.

In the "Demonstrating the Value of the Auditor General's Office" report, we include savings from the Hotline

As a result, in the 2023 "*Demonstrating the Value of the Auditor General's Office*" annual report, the following values from complaints received through the Hotline Program are included:

- recovery of actual losses for complaints closed and substantiated in 2023 as a **one-time recovery**
- potential losses over a five-year period for complaints which have an ongoing dollar impact (e.g., subsidy fraud) as an **avoided cost**

A one-time recovery of \$4,000 and avoided costs of \$404,000 over a five-year period are included in the report, resulting from complaints received through the Hotline Program.

Quantifiable benefits arising from complaints identified by divisional management and referred to the Hotline Program are not included in our 2023 calculations.

The 2023 "*Demonstrating the Value of the Auditor General's Office*" annual report will be presented at the February 23, 2024 Audit Committee meeting.

EXHIBIT 2 – INVESTIGATION SUMMARIES

Below is a summary of a major investigation that resulted in a report being issued to Audit Committee in 2023. This summary demonstrates that a substantial number of resources are required to conduct investigations.

We have also included a summary for investigative work conducted around allegations of wrongdoing regarding Rental Replacement Policies. The Auditor General’s Office did not issue a public report on the matter, however determined it would be appropriate to include a more in-depth summary in this Annual Report.

In 2023, the Forensic Unit also invested time and resources into several other ongoing investigations which may be concluded and reported on in 2024.

Investigation into Allegations of Wrongdoing Regarding Building Inspections of 2 Houses

This investigation examined allegations of wrongdoing regarding the construction of two large houses by one builder in Toronto. One of the houses was more than 600 square meters in size and had a firewall, basketball court, and underground parking for six vehicles. The other house was not as large, but had similar elements such as underground parking spaces for several vehicles. The houses were located in different districts, and different Toronto Building Division employees conducted building code and zoning reviews and inspections.

4 allegations

The complainant made four allegations:

1. The builder was making changes to the houses without having those changes approved by Toronto Building.
2. The changes made to these houses were potentially non-compliant with the Ontario Building Code (OBC).
3. The builder fraudulently used the architect’s credentials to make changes to the houses.
4. The builder had “connections” at the City of Toronto, who were in some way helping the builder to bypass the regular Toronto Building plan review and/or inspection process.

The complainant said it was possible that Toronto Building’s inspectors were not catching unapproved changes and was concerned that the houses, once complete, would not be safe.

In order to determine the validity of the allegations, the Auditor General's Office conducted a review of the building files for the two houses, conducted more than a dozen interviews, contracted a structural forensics engineer, reviewed hundreds of documents, and conducted data analysis on building inspection information.

**Allegation 1:
substantiated**

Regarding the allegation of the builder making changes to the houses without having those changes approved by Toronto Building – this allegation was confirmed. Our investigation determined that the builder made material changes to both houses without getting the proper approval from Toronto Building.

**Allegation 2: unable to
determine**

We were unable to determine whether this allegation was fully substantiated due to challenges in obtaining information about how House 1, in particular, was constructed.

**Allegation 3:
unsubstantiated**

The third allegation was not substantiated – we did not find evidence that the architect's stamp/seal was being used without their approval to revise the drawings for these houses.

**Allegation 4:
unsubstantiated**

The fourth allegation, that the builder had connections at the City who in some way helped him bypass rules, was also unsubstantiated. The Auditor General's Office interviewed key staff, Code/Zoning Examiners and Inspectors, to determine if any of them were motivated in some way to help the builder get changes passed without having to go through regular processes. We found no evidence of this based on the information we reviewed.

**Why this investigation
matters**

While this investigation focused on two houses and one builder, it demonstrated that there is a risk that some builders might be making changes to their buildings that are not in compliance with the OBC and/or not approved by Toronto Building, and therefore could be unsafe. This risk is further increased if Toronto Building is not notified to review and inspect the changes and/or the changes are not caught during the inspection process.

Further issues identified

In addition to looking at the complainant's specific allegations, the Auditor General identified several other issues while conducting this investigation. These wider-ranging issues with how Toronto Building conducts inspections and code reviews included:

1. A risk-based approach to inspections is not used
2. The importance of using powers to enforce compliance
3. Material and note-worthy changes were not identified through the inspection process
4. The inspection order is not always logical
5. The City-approved plans are not always used for inspecting

Further details about these five issues can be found in the report here:

<https://www.torontoauditor.ca/report/investigation-into-allegations-of-wrongdoing-regarding-building-inspections-of-2-houses/>

6 recommendations

The Auditor General made six recommendations to help the City address the gaps identified in the report. Once implemented, the Division will be in a stronger position to carry out its mandate and support its staff as they continue to review plans and conduct inspection work to verify that houses and buildings are being constructed in compliance with City-approved plans, the OBC and the Building Code Act.

Allegations of Wrongdoing Regarding Rental Replacement Policies

The City has policies that intend to preserve the stock of affordable rental housing

The City's Official Plan Rental Replacement Policy requires that where six or more rental units³ are lost to new development, the same number of rental units must be replaced in the new development. A policy objective of the City's Official Plan is to preserve and protect the stock of affordable rental housing⁴.

Pursuant to Section 111 of the City of Toronto Act, Chapter 667 of the Toronto Municipal Code, "Residential Rental Property Demolition and Conversion Control", was enacted to help to implement this policy.

Allegations received by the Fraud and Waste Hotline

In December 2020, a complaint was received through the Fraud and Waste Hotline regarding a specific development that was subject to the City's Rental Replacement Policy and included requirements for affordable rental replacement units. The complaint alleged that staff of a City agency were provided preferential access to affordable housing units in this development. Specifically, the complaint alleged that an executive of the agency sought a "below-market unit" for a family member and forwarded information to staff that "offered the chance to rent the units exclusively to [agency] staff" and that the opportunity was "only for direct employees of [the agency]".

³ Affordable units are required to be rented at no more than the average market rent for the City of Toronto (Canada Mortgage and Housing Corporation rent) by bedroom type, inclusive of utilities

⁴ The Official Plan states "As long as there is insufficient new supply to meet the demand for rental housing, our existing stock of affordable rental housing is an asset that must be preserved."

Investigation of allegations

As a result of the complaint received, the Auditor General commenced an investigation. The purpose of the investigation was to:

- Determine whether there was any preferential treatment of the City agency employees or of family members related to the executive of the City agency
- Determine whether there was any fraud or wrongdoing in how the affordable rental replacement units were tenanted

The investigative work conducted by the Auditor General's Office included, but was not limited to, reviewing emails as well as conducting interviews and making inquiries with the various involved parties, in order to gather relevant supporting information to establish a chronology of events.

Limited-scope audit of rental replacement was completed in February 2022

The investigation was also informed by a separate audit conducted in response to a July 2021 request by City Council to consider conducting an audit to determine the extent to which developers have complied with the City of Toronto's Rental Replacement Policy. In February 2022, the Auditor General issued a report, [Revisiting Legacy Rental Replacement Policies to Align them with the City's Affordable Rental Housing Expectations](#), which presented the results of the Auditor General's limited-scope audit of rental replacement agreements.

Investigation findings

As a result of the investigative work conducted in response to the Hotline complaint, we found that:

Section 111 Agreement was signed in August 2016 with no specifics on marketing a unit or eligibility requirements

- When the Section 111 agreement was signed for the subject development in August 2016, the agreement required that "[t]he Owner shall offer all Rental Replacement Units to the public on a fair and open basis consistent with general provisions in the rental market..." There was no distinction in the requirements regarding affordable rental vs. mid-range rental replacement units and there were no further guidelines, requirements or rules from the City about what constituted marketing a unit on a "fair and open basis consistent with general provisions in the rental market". Furthermore, the Section 111 agreement did not include eligibility requirements for new tenants such as income or asset limitations.

Agency Executive emails staff on opportunity in May 2020

- A May 7, 2020 email communication from the [then] executive of the City agency to all agency staff, the Board and the City's [then] Deputy City Manager, Corporate Services (DCM) stated *"I know a developer that is finishing a highrise...As part of their approvals, they are required to rent out something like 30 units at below market rents...I cannot guarantee that there are units available, but I am highlighting this as it looks like a great deal for someone who wants that location. Let me know. And PS, this is only for direct employees of [the agency]"*.

Agency Executive withdraws opportunity in June 2020

- On June 8, 2020, the executive wrote to specific staff asking them to withdraw their names from consideration and on June 9, 2020, the executive issued another email to all agency staff, the Board and the City's DCM advising that *"it has been brought to my attention that this opportunity could be viewed by some as City staff jumping a line to access the opportunity...there is still the perception that because we work for a City Corporation we have some sort of inside track. Inside track, yes, but only because I know the developer, not because we work at the City!"* and that *"regrettably I have to withdraw the offer. I am not happy, but since good intentions could be misconstrued as malevolent intent, this is necessary."*

Same approach used to market rental replacement units, whether the units had affordable rent or not

- Our office made inquiries to the agent hired by the developer to handle the marketing and leasing of the rental replacement units. Specifically, we inquired about how the rental replacement units were marketed and whether rental replacement units were advertised as having "affordable rent". The agent advised that the rental replacement units were advertised via signage at the building site, View-it and Kijiji. They further indicated that they did not receive any special instructions on how the rental replacement units were to be marketed and tenanted and that their approach in doing so was the same regardless of whether or not the units had affordable rent. Given there were no specific guidelines in the Section 111 Agreement, in their view, *"all [the] units were offered on a fair and open basis without discrimination or bias"* and were on a *"first come first serve"* basis.

Some individuals associated with the initial opportunity obtained an affordable unit

- The agent confirmed that there were individuals (staff of the City agency or people associated with them) who inquired about or applied for the rental replacement units after they were made aware of the opportunity to access them at “*below market rents*” beyond the normal marketing mechanisms (such as through advertisements on websites). The agent also confirmed that three affordable rental replacement units were secured by such tenants, however, they clarified that the applications they submitted to secure the rental replacement units were “*approved in the ordinary course*”, that is, on a “*first come first serve*” basis with “*no special process*”.

Two agency employees terminated

- The agency took action regarding two employees who proceeded with obtaining a rental unit, contrary to the June 9, 2020 email from the executive that withdrew the opportunity, by terminating their employment.

The related family member did not obtain a unit

- The executive from the City agency confirmed that the related family member did not obtain a unit. The agent also confirmed the same when asked by the Auditor General’s Office.

Disagreement between the City and the developer on the marketing of the rental replacement units

Separate from the Auditor General’s 2022 audit and this investigation, in June 2020 City Planning staff inquired with the developer about whether the rental replacement units were marketed on a fair and open basis. While the City disagreed with the developer’s responses that the rental replacement units were offered fairly and equally, according to the correspondence exchanged, the developer explained that no guidelines or requirements for marketing procedures were in the agreements. These responses were consistent with those we received from the developer’s marketing agent, as noted above. The most recent communication about this disagreement was in March 2022 when the developer refused to accommodate any further City requests related to the agreements. Since then, City Planning, with support from Legal Services, has advised our Office that they have amended the Residential Rental Property Demolition and Conversion Control By-law; established a working group to develop coordinated terms and conditions for all new affordable rental housing; and amended the template Section 111 Agreement/Terms Sheet going forward.

Conclusions

**Investigation Objective 1:
Substantiated in Part**

Based on the investigative work completed, the Auditor General has concluded that the May 7, 2020 email communication from the [then] executive of the City agency advising all agency staff, the Board and the City’s DCM of the rental opportunity resulted in a potential for, or at a minimum, a perception of preferential access for City agency staff to the affordable housing units in this development. While the agent hired by the developer to handle marketing and leasing has indicated that all applications were “*approved in the ordinary course*”, that is, on a “*first come first serve*” basis, agency staff who ended up renting affordable rental replacement units in the development were made aware of the opportunity beyond the normal marketing mechanisms used by the agent. **Therefore, the allegation is substantiated in part.**

**Investigation Objective 2:
Unable to conclude**

With regards to the question of whether there was any fraud or wrongdoing in how the affordable rental replacement units were tenanted, notwithstanding the investigative work conducted, we were unable to conclude on whether there was wrongdoing due to the lack of guidelines in the agreement. The Section 111 agreement for the development only requires that “*[t]he Owner shall offer all Rental Replacement Units to the public on a fair and open basis consistent with general provisions in the rental market...*” There was no distinction in the requirements regarding affordable rental vs. mid-range rental replacement units and there were no further guidelines, requirements or rules from the City about what constituted marketing a unit on a “*fair and open basis consistent with general provisions in the rental market*”. Furthermore, the Section 111 agreement did not include eligibility requirements for new tenants such as income or asset limitations.

If additional information comes to light that significantly impacts these conclusions, the Auditor General will report back to the Audit Committee after further investigation of the matter.

Focus on strengthening agreements in the future

Given that these findings are consistent with the audit findings across a broader sample of developments with rental replacement units, it is the Auditor General's view that there is greater value in focusing on strengthening the requirements in the agreements by addressing the recommendations in the 2022 audit report.

Specifically, agreements should be strengthened to:

- include clear expectations of how future affordable rental replacement units are made available in a fair and open manner to the general public, and
- ensure that future affordable rental replacement agreements between the City and owners include clear, specific requirements for owners to provide formal access plans that include information about how affordable rental replacement opportunities are to be advertised to the general public, including lower-income households, and how new tenants of affordable rental replacement units are to be selected.

Actions City Planning has taken

As noted above, City Planning, with support from Legal Services, has advised they have taken the following actions:

- In December 2023, City Council adopted changes to the Residential Rental By-law, including requirements for the use of the City's Centralized Rental Housing Access System
- City Planning established a working group to develop coordinated terms and conditions for all new affordable rental housing, whether secured by City Planning or the Housing Secretariat
- New term sheets and agreements incorporate requirements to use the City's Centralized Housing Access System and income requirements for affordable replacement rental units not occupied by returning tenants.

These actions to address the recommendations in the 2022 audit report will be verified through the Auditor General's follow-up process on outstanding recommendations.

EXHIBIT 3 – COMPLAINT SUMMARIES

Below are summaries of various reviews and investigations concluded in 2023. These summaries are provided so that Audit Committee and members of the public can better understand the nature of the complaints we receive. These summaries are from selected 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 13 complaint summaries in 8 categories of fraud, waste or wrongdoing. These complaints resulted in a total loss of over \$270,000, termination of two employees, and two individual subsidy files closed, with one file being referred to police. Several complaints also identified internal control weaknesses that management has advised were addressed or are in the process of being addressed.

1. Conflict of Interest with Employment at the City

The Auditor General's Office received a complaint through the Fraud and Waste Hotline regarding allegations of conflict of interest involving a City employee. The complainant alleged that an employee was working for the City and as a subcontractor for City-issued contracts, through a company owned by the employee.

The Auditor General's Office conducted preliminary analysis and confirmed the employee's ownership of the subcontracting company, but also identified that the employee had resigned.

An investigation was subsequently led by the Division, which involved an analysis of documents from the Division's database containing project and contract files. The Division concluded that there may have been at least four instances of a potential conflict of interest violation by the company providing services as a City subcontractor and owned by the former employee. These were situations where a subcontractor relationship was not disclosed to the City, or where the Division did not approve the appointment of a different subcontractor.

As a result of this complaint, the Division is making internal control improvements to avoid future conflict of interest situations, which include updating its fraud awareness training and reviewing the existing conflict of interest policies to ensure staff awareness. In addition, the Division collaborated with relevant City Divisions such as Purchasing and Materials Management, to confirm that bid documents include a statement on engaging current or former City employees in City contracts any time within a specific timeframe of having left the City.

2. Circumventing Mandatory Requirements of a City Contract

The Auditor General's Office received a complaint through the Fraud and Waste Hotline alleging a consultant administering a City awarded contract had circumvented the mandatory requirements of the Request for Proposal (RFP), by supplying staff with qualifications that did

not meet the RFP specifications. Furthermore, the complainant alleged that two City employees selected to manage both the consultant and the contract had willfully allowed this to occur, resulting in waste of City funds due to additional resources required to achieve expected results.

The Auditor General's Office asked the Division to investigate the allegations, and specifically, that an independent review be carried out to assess the qualifications of the consultant's staff against the requirements stipulated in the RFP. Following the investigation, the Division concluded that the allegations were unsubstantiated. The work was completed per the City's expectations, and there was no evidence that the level of experience affected the day-to-day decision making in the administration of the contract.

As part of the Auditor General's Office's oversight role, we reviewed the Division's investigation findings and determined that since the level of experience for certain staff provided by the consultant was less than the minimum required in the RFP, the allegations brought forward by the complainant were in fact substantiated in part.

Based on the recommendations made by the independent review of the allegations, the Division has focused on improving organization of their document management system and established a set of guiding principles for Managers on best practices for document management. As well, the Division reinforced the requirement to obtain Manager approval on any requests for staff changes and these approvals are to be saved in the document management system.

3. Mismanagement of Funds and Poor Governance Practices

The Auditor General's Office was advised by a Division of allegations regarding financial mismanagement and poor governance practices involving an external agency funded by the Division, due to misappropriation of funds by a former agency employee.

An investigation was commenced by the Division, however, further additional complaints about the matter were received that resulted in the joint involvement of another affected Division. A comprehensive financial review of the organization was conducted, as well as a governance and policy review, which was undertaken by an external consultant. The financial review substantiated the allegation of financial mismanagement, and the governance review documented significant concerns related to governance, oversight, and ethical behaviour. The governance review also identified that some processes and corporate requirements in place were met, but overall, it was concluded that the allegations were substantiated.

From their review, the external consultant recommended that the agency take steps to improve its governance through education and that it establishes a timeframe to develop a plan to bring its governance practices in line with compliance expectations. Furthermore, it was recommended that the agency should conduct a bi-annual self-assessment and monitor governance effectiveness to improve board performance.

The Divisions were unable to determine any direct losses to the City; funded programs and services remained open and available until the conclusion of the funding agreements.

Overall, as a result of the investigation, the Divisions terminated funding agreements with the agency, and the City is withholding a final payment of approximately \$56,000 pending receipt of additional documentation in relation to this matter.

The Auditor General's Office is continuing to follow-up with the Divisions as the matter is not fully resolved at this time.

4. Insufficient Evidence to Support Reprisal

The Auditor General's Office received a complaint through the Fraud and Waste Hotline by a City employee alleging reprisal by management for reporting suspected wrongdoing. The employee claimed that a significant increase in workload and a work area re-assignment was an act of reprisal because of complaints the employee previously submitted to the Auditor General's Office.

In accordance with the *Toronto Public Service By-law*, Chapter 192, the Auditor General has the responsibility to investigate allegations of reprisal, in consultation with the City Manager or designate. 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.

Our Office initiated an investigation into the allegations, which included a meeting with the employee, an interview with management, and review of supporting documentation to understand the circumstances surrounding the alleged workload increase and rationale for the work area re-assignment.

The Auditor General concluded that there was insufficient evidence to substantiate that the employee was the subject of reprisal for reporting concerns of potential wrongdoing within the Division. Based on the work we conducted, it was determined that the changes made by management were a result of regular operational demands and regular work fluctuation. Furthermore, management making the operational decisions indicated that they were not aware of the previous allegations submitted by the employee. Therefore, no further action was required with respect to the allegations of reprisal.

As noted in previous public reports, the Auditor General takes all allegations of reprisal seriously. Reprisal allegations take a great deal of time to investigate because of the complexities – by nature, retaliation is often difficult to prove. Although there was insufficient evidence for reprisal in this case, there are many benefits of a reprisal investigation, one of which is closure for those involved. Reprisal investigations also help to retain public confidence; if there was no reprisal, the public needs to know that, and if there was reprisal, the public needs to feel confident that the City is committed to taking appropriate steps to address the allegations.

5. Subsidy Fraud

The Auditor General's Office continues to receive a significant number of subsidy-related complaints alleging members of the public are receiving subsidies they are not entitled to, and in some cases, by fraudulent means.

We continue to encourage members of the public and City employees to report allegations of subsidy fraud to the Fraud and Waste Hotline for investigation, to ensure that all forms of financial assistance from the City are going to those who are most in need.

Below are summaries from five investigations related to subsidy fraud that were concluded in 2023.

5.1 Collecting Subsidies Using Multiple Fraudulent Identities

The Auditor General's Office was advised by a Division that a member of the public was receiving subsidies from applications that were completed using fraudulent identities. The suspected fraud was discovered during an employee's review, which noted that the applicants had similar voices on the telephone and history such as background, family status, contact information and actions taken. As a result, 58 application reviews were conducted of which 31 included payments issued and 27 were unsuccessful applications.

The Division's investigation concluded that the total overpayments made for the 31 payments issued was approximately \$61,000. Additionally, due to the investigation, the Division avoided losses of approximately \$42,000 with respect to payments that were not made for 27 unsuccessful applications.

The fraudulent subsidy files were closed and the matter was referred to Toronto Police Services for further investigation and prosecution. A second suspected individual was later identified whose information was also provided to Toronto Police Services.

The Division has implemented proactive methods to detect potentially fraudulent cases, including undertaking reviews of weekly reports identifying potential cases, conducting secondary reviews for all suspicious applications, and enhanced questions for cases with known patterns.

A recovery for the total overpayment amount is currently pending.

5.2 Failure to Disclose Employment Income

The Auditor General's Office received two complaints through the Fraud and Waste Hotline alleging that five members of the public were each receiving subsidies while failing to disclose income earned from a food delivery service.

An investigation was led by the Division and concluded that allegations against two of the individuals were substantiated. The individuals had failed to disclose their employment income, and therefore received subsidies they were not entitled to. The total amount of the ineligible overpayment for both parties amounted to approximately \$47,000.

Recovery of the full overpayment amount is pending and a small repayment has been made to date from one of the individuals.

5.3 Misrepresentation of Eligibility Information

The Auditor General's Office received a complaint through the Fraud and Waste Hotline that a member of the public was receiving two separate subsidies, from a Division and a City Corporation, while also receiving income from employment and a foreign personal business.

The Division determined that the individual was in receipt of a benefit from another government program, while the Corporation investigated and concluded that the individual was also receiving a subsidy from the City.

Although no evidence was found to support the claims that the individual owned a business, the Corporation's investigation confirmed that the individual was receiving employment income and

did not report a change in circumstances that would have resulted in loss of eligibility. The total amount of ineligible overpayment was approximately \$139,600 across a 15-year period.

The Corporation is pursuing termination of the subsidy and recovery of the loss through legal proceedings. The Division also confirmed that the benefit from the other government program was terminated due to no contact from the individual.

5.4 Improper Use of a Subsidized Housing Unit

The Auditor General's Office received a complaint through the Fraud and Waste Hotline alleging that a member of the public was sub-letting their social housing unit to another individual and charging them for rent.

An investigation was led by a City Corporation and concluded that the allegations were valid, that the tenant had in fact moved out and had allowed someone else to live in the unit. As a result of the investigation, the tenant officially gave notice to move out and the Corporation confirmed that all parties have since vacated the unit.

The Corporation reported that there was no loss to the City as this was related to a market rental unit. However, through this investigation, a social housing unit became available and could be provided to individual(s) who are eligible and in need.

5.5 Failure to Report Rental and Government Benefits Income

The Auditor General's Office received a complaint through the Fraud and Waste Hotline alleging that a member of the public was receiving a subsidy while also getting undeclared rental income.

An investigation was led by the Division and although they found insufficient information to substantiate the original undeclared rental income claim, it was identified that the individual had received various benefits from other government programs that were not reported as income. Therefore, the individual received a higher subsidy amount than they were entitled to, and the total ineligible overpayment was approximately \$15,200.

Although the individual's subsidy file remains open, the Division has initiated a monthly recovery of the overpayment.

6. Employee Benefits Fraud

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 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 and People & Equity divisions. The investigation concluded that the employee had submitted 33 claims where no service was provided and an additional 10 claims

that were unsupported, totaling approximately \$4,700. The claims review performed by the benefits administrator also halted payment on further claims totaling approximately \$320.

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

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 totaling approximately \$2,800 were submitted by the employee where the service that had been claimed was not, in fact, provided. The claims review performed by the benefits administrator also halted payment on additional claims of approximately \$60.

The employee has repaid the full amount and their benefits have been suspended.

7. Abuse of Sick Time and Breach of Trust

The Auditor General's Office was advised by a Division regarding allegations that a City employee inappropriately used a sick day to work a shift for another municipality.

The investigation was led by the Division and concluded that the employee had in fact fraudulently used four sick days to work for the other municipality, which was considered a breach of trust. The Division recovered all wages via a prior pay agreement, and therefore prevented a loss to the City of approximately \$1,600.

Employment with the City was terminated effective immediately.

8. Contractor Performance and Standards – Urban Forestry

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 continue 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.

Below is a consolidated summary of various complaints related to tree management services that were concluded in 2023.

The Auditor General's Office was advised by Parks, Forestry & Recreation Division of several allegations including various forms of contractor misconduct, failure to follow protocols or meet specifications, duplication / unsatisfactory work and overall performance issues. Some examples include:

- Tree on a residential property pruned twice in a short timeframe,
- Trees not pruned to work order specifications or City standards, and
- Excessive tree pruning on a residential property.

In another example, a complaint was referred to the Auditor General's Office by a Councillor with allegations of a contractor crew not following special instructions and potentially inadequate direction provided in a work order, which also resulted in excessive pruning.

The investigations concluded that the allegations were substantiated in each of these cases. Both the Division and contractors have implemented changes to internal processes and the Division has met with the contractors to discuss arboricultural practices at ongoing compliance meetings.

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