

Fraud Investigation Involving Multiple City of Toronto Electricity Accounts

Date: June 21, 2025
To: Audit Committee
From: Auditor General
Wards: All

SUMMARY

This report presents the results of the Auditor General's investigation of a complaint received through the Fraud and Waste Hotline, which alleged that electricity accounts for 14 City properties were switched from Toronto Hydro to two different third-party energy retailers without the City's knowledge.

In October 2019, the Corporate Real Estate Management (CREM) Division's Energy Management Team identified unusual invoices as part of their routine account review of electricity invoices.

Upon following up with Toronto Hydro and the two energy retailers, CREM discovered that the electricity accounts were switched in July 2019 to two contracts with an estimated total value of \$4.2 million, of which \$2.5 million represented what would have been lost by the City had the unusual invoices not been identified. This estimated potential loss was based on the difference between what the City would have paid Toronto Hydro versus what would have been paid to the energy retailers over the contract term.

CREM also noted that the City employee who purportedly signed the contracts had retired before they were signed and did not have authority to sign contracts of this value. The City directed the energy retailers to revert the affected electricity accounts back to Toronto Hydro and the payments made to the energy retailers under the void contracts were recovered by the City.

The Auditor General's Office commenced an investigation to try to identify who entered the City into these contracts and whether any City employee was involved in the fraud. The review was paused due to the COVID-19 pandemic and competing priorities, restarted in 2024, and finalized in 2025.

For background, while all electricity in Toronto is physically distributed by Toronto Hydro, Ontario has an electricity market where consumers can purchase their electricity

from either Toronto Hydro (at a regulated price, without markup by Toronto Hydro) or from a licensed energy retailer. By default, in accordance with Provincial legislation, consumers purchase from Toronto Hydro.

In some cases, energy retailers pay commissions to consulting firms that bring in new contracts to them. The consulting firms act as intermediaries between the energy retailers and consumers. It appears that the commissions received by the consultants was the motivation to enter the City into these contracts.

Our investigation concluded the following:

1. The alleged City employee did not sign the contracts and therefore the contracts were fraudulent.
2. Consulting firm owners appeared to have some involvement in establishing the contracts with energy retailers, but this could not be substantiated due to lack of evidence at this time, despite extensive efforts.
3. Retired City employees' identifications were fraudulently used to set up the contracts with the energy retailers. We were unable to identify if a City employee was involved in this case.

This matter has been referred to the Toronto Police Service (TPS) due to prior allegations against one of the consulting firm owners, including signature forgery. TPS will assess whether the circumstances meet the criminal threshold to warrant a criminal investigation.

It is important for the City, and its Agencies and Corporations, to be vigilant since the switch of electricity accounts to third-party energy retailers can occur without their knowledge and can result in a negative financial impact. It is important that City staff are diligent in reviewing and approving electricity invoices, to prevent or detect this potential fraudulent scheme early. Employee identities and credentials can also be used for fraudulent purposes, so it is critical to review contracts and invoices diligently prior to approval and payment.

The energy retailers suffered a loss as they were unable to recover the commissions paid to the consulting firm owners. However, the City did not incur a loss on these void contracts and has proper controls and processes in place to identify the switch of the electricity accounts with energy retailers.

We would like to acknowledge the diligence of CREM staff and management for identifying and following up on these fraudulent contracts, and recovering the payments made to the energy retailers under the void contracts for the City.

RECOMMENDATIONS

The Auditor General recommends that:

1. City Council request the City Manager, to forward this investigation report to other City Divisions, and Agencies and Corporations for their information, to encourage diligence in reviewing and approving invoices, with emphasis to those Agencies and Corporations that are responsible for reviewing their own electricity invoices.

FINANCIAL IMPACT

The financial impact of the recommendation in this report is not determinable at this time.

The two energy retailer contracts had an estimated total contract value of \$4.2 million, of which \$2.5 million represented what would have been lost by the City had the unusual invoices not been identified by CREM.

Our investigation found that for the five-month period where the contract was active, the City paid approximately \$250,000 to the two energy retailers from the start of the contract in September 2019 to when the contract was terminated in January 2020. The two energy retailers returned this money back to the City because the contracts were considered “null and void”.

DECISION HISTORY

The Fraud and Waste Hotline Program is operated by the Auditor General's Office. The Hotline Program provides City of Toronto staff and members of the public with a means to report any observed or suspected fraud, waste or wrongdoing involving City resources, as required under the *Toronto Public Service By-law's (TPS By-law) Disclosure of Wrongdoing and Reprisal Protection policy*.

<https://www.toronto.ca/legdocs/municode/toronto-code-192.pdf>

In January 2020, the Corporate Real Estate Management Division informed the Auditor General's Office of the fraudulent contracts under the TPS By-law and this investigation stems from that complaint.

COMMENTS

A high-level summary of key investigation findings is provided in the Investigation at a Glance.

The attached investigation report provides detailed investigation results to the Audit Committee and members of Council.

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SIGNATURE

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ATTACHMENTS

Attachment 1: Fraud Investigation Involving Multiple City of Toronto Electricity Accounts