

INVESTIGATION AT A GLANCE

Fraud Investigation Involving Multiple City of Toronto Electricity Accounts

THE COMPLAINT

The Auditor General's Fraud & Waste Hotline received a complaint alleging that 14 of the City's electricity accounts were switched from Toronto Hydro to two different third-party energy retailers without the City's knowledge.

The Corporate Real Estate Management (CREM) Division, upon following up with Toronto Hydro and the two energy retailers, discovered that the electricity accounts were switched in July 2019. The City employee who purportedly signed the contracts had retired before the contracts were signed and did not have the authority to enter into contracts of this value.

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.

Licensed energy retailers sell electricity to consumers using commercial contracts for a specified period.

In some cases, energy retailers pay commissions to consulting firms that bring in new contracts for 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.

BY THE NUMBERS

- **\$4.2 million** was the total contract value for the two energy retailer contracts
- **\$2.5 million** would have been lost by the City had the unusual invoices not been identified
- **\$250,000** was paid to the energy retailers under the fraudulent contracts, and was later recovered by the City

PURPOSE OF INVESTIGATION

Given the serious nature of the allegations and the dollar values involved, the Auditor General's Office conducted an investigation to try to identify who entered the City into these contracts and whether any wrongdoing was committed by a City employee.

WHAT WE FOUND

The Auditor General's Office conducted extensive work to try to determine who entered the City into these contracts and our investigation found:

1. Corroborative evidence confirming 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
3. Retired City employees' identifications were fraudulently used to establish contracts with energy retailers

Despite extensive efforts, we cannot determine who signed the contracts on behalf of the City due to lack of evidence at this time.

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.

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.

WHY THIS INVESTIGATION MATTERS

1. The *TPS By-law* outlines the Toronto Public Service's core values, which include serving the public well, acting with integrity, and using City property, services and resources responsibly. It was important to undertake this investigation to determine whether any wrongdoing was committed by a City employee.
2. It is also important for energy retailers to have proper controls in place to verify the legitimacy of the consumer before proceeding with an account switch, and to mitigate this risk from occurring in the future.
3. Finally, this investigation brings awareness that the City and its Agencies and Corporations can have their electricity accounts changed to third-party energy retailers without their knowledge, which could result in millions of dollars in extra costs. This report highlights the importance of the City and its Agencies and Corporations to be diligent in reviewing electricity invoices and ensure they all have a process in place to identify when a switch in the electricity accounts from Toronto Hydro to a third-party energy retailer is made. 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.