



CITY OF HAMILTON
CITY MANAGER'S OFFICE
Audit Services Division

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	June 25, 2018
SUBJECT/REPORT NO:	Fraud and Waste Hotline Report (AUD18007) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Charles Brown CPA, CA. CPA (Illinois) 905-546-2424 x4469
SUBMITTED BY:	Charles Brown CPA, CA, CPA (Illinois) Director, Audit Services, City Manager's Office
SIGNATURE:	

RECOMMENDATION

- (a) That Report AUD18007 respecting the implementation of a Fraud and Waste Hotline be received;
- (b) That the Director of Audit Services be directed to implement a Fraud and Waste Hotline;
- (c) That the Fraud and Waste Hotline be funded by the City of Hamilton from Reserves;
- (d) That intake to the Fraud and Waste Hotline be performed by an independent third party as part of a three year pilot project; and,
- (e) That the Director of Audit Services report back to the Audit, Finance and Administration Committee on the pilot during its third year.

EXECUTIVE SUMMARY

The purpose of this report is to seek Council's approval for the pilot of a Fraud and Waste Hotline program to provide an independent resource for employees or members of the public to report wrongdoing involving City resources, anonymously if preferred.

In its 2018 biennial global study on occupational fraud, the Association of Certified Fraud Examiners reports that frauds are more likely to be detected when a Fraud and Waste hotline is in place. In fact these studies have consistently found tips to be the most common detection method in uncovering fraud and abuse. Accordingly many municipalities across Canada have implemented a Fraud and Waste Hotline to augment their fraud detection processes and improve the chance of early discovery of wrongdoing (see Appendix "A" to Report AUD18007).

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

The implementation of a hotline, where citizens and employees are able to confidentially and anonymously report suspicions of wrongdoing, almost always results in significant increases in the reporting of fraud suspicions. The City of Winnipeg, for example, adopted a formal process under their Fraud, Theft and Related Irregularities Administration Standard, but the investigative uptake on their policy resulted in only about one complaint per year. When they implemented a hotline the number of reported issues rose to 42 per year.

Currently, the City of Hamilton does not have a Fraud and Waste hotline. The Director of Audit Services has primary responsibility for the investigation of fraud under the City's Fraud Policy and Protocol, and for wrongdoing reported by employees under the Whistleblower By-Law. An employee who wishes to disclose a serious wrongdoing of which s/he is aware must do so under the City's Whistleblower By-law. However, the by-law requires that the person reporting the wrongdoing identify him/herself to the Director of Audit Services. The loss of anonymity deters potential wrongdoing reporters as they fear reprisals for reporting on co-workers and management. For citizens, there is no formal channel to submit anonymous or confidential reports, and such reports are rare.

In our research, we have found that many municipalities implement a Fraud and Waste Hotline using the confidential services of a third-party provider. This allows for an efficient and effective overall approach by making confidential reporting available to citizens, municipal employees, and contractors/agents (collectively referred to as reporters) seven days a week, 24 hours a day for reporting their suspicions, or proof of fraud, waste or wrongdoing. Users can provide anonymous information using an on-line web reporting channel or through trained live agents via a toll-free telephone service. Hotline reports are vetted and classified by the service organization and screened by Audit Services for disposition. The hotline service also provides interactive dialogue capability to which the reporters can log on securely through a confidential pass number. Through such capabilities Audit Services can pose additional questions to the reporters within the security of a web-based application while maintaining anonymity. There are several other advantages:

- helps mitigate the risk of unethical behaviour and reinforces the City's commitment to corporate governance and accountability;
- offers a preventive tool that can be a valuable deterrent to minimize risks related to fraud and waste;
- increases the potential for early detection of issues which affords greater opportunity for loss recovery and minimizing overall loss;
- provides an efficient mechanism for administrating intake;
- enables 24/7 coverage accessible to both employees and members of the public;
- provides a secure, independent reporting channel for employees or citizens who are reluctant to report concerns because of possible compromise to their anonymity;
- identifies areas where internal controls need to be modified or enhanced; and,

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

- assists Audit Services in evaluating risks, identifying potential audits and formulating its risk based work plan.

The implementation of a Fraud and Waste Hotline also supports the commitment made as part of the management response to the Corporate Ethics Review performed in 2013 to review and establish procedures and protocols for gathering reports of suspected non-compliance events.

Alternatives for Consideration – See Page 5

FINANCIAL – STAFFING – LEGAL IMPLICATIONS (for recommendation(s) only)

Financial: The cost for the third party operated Fraud and Waste Hotline has been estimated to be between \$25,000 and \$30,000 per year plus a one-time cost of set up and implementation of \$4,500. This does not include the cost of the City's Audit Services' staff time to investigate the wrongdoing allegations made by the reporters. Investigations are undertaken by the deferral of planned work or the use of contracted professionals which departments are expected to fund.

Staffing: Audit Services does not expect to increase staff with the introduction of a Fraud and Waste Hotline at this time. Other municipalities with a Fraud and Waste Hotline have dedicated from 0.5 FTE (City of Winnipeg) to 5.5 FTE (City of Toronto) to provide ongoing investigative resources. The need for such resources will depend on the results of the pilot and be brought to Council as part of the decision on whether to continue the hotline.

Legal: Assistance from Legal Services may be required to update the existing by-law and create the policy/procedure document for the Fraud and Waste Hotline.

HISTORICAL BACKGROUND (Chronology of events)

On April 10, 2003, the City Council approved the Fraud Policy and Protocol. Its purpose was to protect the City of Hamilton's revenue, property, information and other assets from being misappropriated either by members of the public, contractors, vendors, agents or its own employees. While it assigned responsibility to management for instituting controls to prevent and detect fraud, it did not encourage reporting instances when the controls may have been bypassed.

On November 11, 2009, City Council approved the Whistleblower By-Law (By-Law number 09-227). Its purpose was to encourage the reporting of serious wrongdoing, and protect reporters that have come forward to disclose the wrongdoing in good faith from reprisal. This by-law came into effect six months later on May 11, 2010.

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

The Whistleblower By-Law 09-227 would have to be updated to reflect the implementation of a Fraud and Waste Hotline operated by an independent third party.

RELEVANT CONSULTATION

The Fraud and Waste Hotline reports produced by other municipalities were reviewed. Also, the Association of Certified Fraud Examiners website was consulted.

ANALYSIS AND RATIONALE FOR RECOMMENDATION (Include Performance Measurement/Benchmarking Data if applicable)

The current Whistleblower By-Law defines “serious wrongdoing” as:

- a) a contravention of the criminal code, federal or provincial statute/regulation or City by-law;
- b) an act of omission resulting, or likely to result, in misappropriation or misuse of City funds or assets;
- c) a contravention of the City’s Code of Conduct for Employees that is likely to result in profit, payment or compensation to the employee(s);
- d) an act of omission that creates or is likely to create a substantial and specific danger or harm to the life, health or safety of any person; or
- e) an act or omissions that create or is likely to create a substantial and specific danger or harm to the environment.

Over the eight year period (May 2010 to March 2018) that the Whistleblower By-Law was been in effect in the City of Hamilton only 28 disclosures of serious wrongdoing have been made to the Director of Audit Services. This averages to 3.5 reported cases of wrongdoing per year. This number is very low when compared to other cities across Canada (see the table below).

	City of Sudbury	City of Toronto	City of Ottawa	City of Winnipeg	City of Edmonton	City of Calgary
Number of Complaints Received on Fraud and Waste Hotline	80 (from June to Dec 2017)	687 (Jan to Dec 2014)	319 (Jan to Dec 2015)	45 (Jan to Dec 2015)	80 (Jan to Dec 2015)	59 (Jan to Dec 2014)

A Fraud and Waste Hotline operated by an independent third party would be viewed as independent, objective and more trustworthy. It would encourage and engage employees to report serious wrongdoing. Other cities that have implemented a fraud/waste hotline include Vaughan, Windsor, and Halifax.

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

ALTERNATIVES FOR CONSIDERATION

(Include Financial, Staffing, Legal and Policy Implications and Pros and Cons for each alternative)

1. Do nothing – carry on with the current process

An employee wanting to disclose a serious wrongdoing continues to do so under the City's existing Whistleblower By-law. This means the reporter's identity is made known to the Director of Audit Services, a City of Hamilton employee, before the wrongdoing allegation is investigated. Since this removes anonymity, potential reporters are reluctant to come forward as they fear their identity will be discovered by other employees at the City.

Financial: None.

Staffing: None.

Legal: None.

Pros:

- No additional costs
- No additional staff

Cons:

- This alternative is inconsistent with the City's Steadfast Integrity Cultural Pillar since staff that may want to report wrongdoing are not encouraged to do so for fear of reprisals
- Potentially serious wrongdoing continues to be under reported and investigated. This erodes trust and confidence in the City's governance.

This alternative is not recommended.

2. Implement the Fraud and Waste Hotline in-house

Audit Services could utilize a separate partially manned phone line, voice mail for after-hours messages, and some form of web-based reporting. This would allow wrongdoing to be reported at any time and recorded separately from other Audit Services responsibilities. Awareness of the Fraud and Waste Hotline can be increased by advertising this service. While this should increase the number of wrongdoing incidents reported to Audit Services, it is not possible to quantify the extent of this increase.

Financial: An in-house Fraud and Waste Hotline will still require a separate phone line, a web presence, and a telephone answering service. This will require set up and operating costs that are relatively higher than that provided by a third party. Further, such costs will increase in proportion to the number of reports received as the information left by the reporters will often not be complete and resources will be required to contact the reporters for additional information. It is not possible to quantify such costs at this time.

Staffing: This alternative will not likely require an initial increase to staff. However, as the service becomes better known, and if the number of incoming reports increases, additional staff may be required.

Legal: Assistance may be required from Legal Services to update the existing by-law and create the policy/procedure document for the new Fraud and Waste Hotline.

Pros:

- As internal staff are simultaneously collecting and analysing the incoming tips, there is a greater probability that wrongdoing patterns will be uncovered more quickly.

Cons:

- Since Audit staff would be the ones reviewing and investigating all incoming reports, it would not be possible for reporters, many of whom are expected to be City employees, to remain anonymous. The reporter's phone number and email address could be easily tracked, or the Audit staff retrieving the phone messages could recognize the reporter's voice. Since the potential reporters are aware of this, the lack of anonymity would deter them from calling in for fear of reprisal.
- Costs will escalate as the service becomes better known and additional measures are implemented to provide anonymity to the reporters.

This alternative is not recommended since it not a best practice conducive to good governance.

3. Implement the Fraud and Waste Hotline using an independent third party.

This option involves the hiring of an independent third party to receive record and report on the wrongdoing identified by all City of Hamilton employees. The reporter's anonymity would be protected since their identity is only known by the third party. It is not divulged to anyone in the City. If additional information is required, the third party continues to act as a go-between, obtaining the additional information from the reporter and conveying it back to the City.

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

Financial: The cost for the third party operated Fraud and Waste Hotline has been estimated to be between \$25,000 to \$30,000 per year plus a one-time cost of set up and implementation of \$4,500. This does not include the cost of the City's Audit Services' staff time to investigate the wrongdoing allegations by the reporters.

Staffing: Audit Services does not expect to increase staff with the introduction of a Fraud and Waste Hotline at this time. Other municipalities with a Fraud and Waste Hotline have dedicated from 0.5 FTE (City of Winnipeg) to 5.5 FTE (City of Toronto) to provide ongoing investigative resources.

Legal: Assistance may be required from Legal Services to update the existing by-law and create the policy/procedure document for the new Fraud and Waste Hotline.

Pros:

- The implementation of a Fraud and Waste Hotline by encouraging the reporting of wrongdoing is a best practice and a way to increase good governance.
- Staff will be encouraged to report wrongdoing as this option provides greater anonymity than the other two alternatives; thus, decreasing the likelihood of reprisal against the reporter.
- Advertising this service will increase staff awareness of the Fraud and Waste Hotline. Therefore, it is reasonable to expect an increase in the number of wrongdoing reports submitted by staff.

Cons:

- More costly than the other options.

This alternative is recommended as a three-year pilot project.

ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN

Community Engagement & Participation

Hamilton has an open, transparent and accessible approach to City government that engages with and empowers all citizens to be involved in their community.

Our People and Performance

Hamiltonians have a high level of trust and confidence in their City government.

APPENDICES AND SCHEDULES ATTACHED

Appendix "A" to Report AUD18007 – Comparison of Fraud and Waste Hotlines Used by Selected Canadian Municipalities

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.