



Hamilton

# INFORMATION REPORT

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| <b>TO:</b>                | Chair and Members<br>Audit, Finance and Administration Committee   |
| <b>COMMITTEE DATE:</b>    | January 16, 2020   |
| <b>SUBJECT/REPORT NO:</b> | Fraud, Waste, and Whistleblower Update – Q3 2019<br>(AUD20001) (City Wide)   |
| <b>WARD(S) AFFECTED:</b>  | City Wide  |
| <b>PREPARED BY:</b>       | Brigitte Minard CPA, CA, CIA, CGAP<br>(905) 546-2424 Ext. 3107<br><br>Cindy Purnomo Stuive<br>(905) 546-2424 Ext. 2257 |
| <b>SUBMITTED BY:</b>      | Charles Brown CPA, CA, CPA (Illinois)<br>City Auditor<br>Office of the City Auditor                                    |
| <b>SIGNATURE:</b>         |  |

## COUNCIL DIRECTION

By-law 19-181 (Whistleblower By-law), Section 19 – Responsibility of the City Auditor requires reporting to Council quarterly, in the aggregate, on the number, nature and outcome of disclosures of serious wrongdoing made under this By-law.

On June 27, 2018, Council directed the City Auditor to implement a Fraud and Waste Hotline with intake performed by an independent third party as part of a three-year pilot project. The City's Fraud and Waste Hotline launched in July 2019.

## INFORMATION

This Information Report contains information about the number, nature and outcome of the Fraud and Waste Hotline reports and Whistleblower disclosures relating to By-law 19-181 for Q3 2019 (July – September 2019), along with historical information.

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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.

## **HISTORICAL BACKGROUND**

On June 27, 2018, Council directed the City Auditor to implement a Fraud and Waste Hotline. After this direction was received, it received some media coverage and there was an increase in the volume of items reported by both staff and citizens. Starting in Q3 2018, additional categories were added to capture this volume and will continue to be included on a go-forward basis.

The City of Hamilton's Fraud and Waste Hotline was formally launched in early July 2019. This report is the first to contain volume information related to the launch and this information will be included on an ongoing basis. The format of the quarterly report has been updated to reflect the launch of the hotline and the increased level of activity.

## **Q3 2019 SUMMARY**

The following Table shows Hotline reporting activity for the quarter and the disposition of each report including the number that resulted in an investigation being undertaken.

| <b>Description</b>                           | <b>Q3</b> | <b>Previously Reported Q1 and Q2</b> | <b>Year to Date Q1 to Q3</b> |
|--|-----------|--------------------------------------|------------------------------|
| <b>No Action/Not Enough Information</b>      | 3         | 4                                    | 7                            |
| <b>Referral - No Further Action Required</b> | 11        | 2                                    | 13                           |
| <b>Referral - Response Required</b>          | 1         | 3                                    | 4                            |
| <b>Investigations Launched</b>               | 13        | 5                                    | 18                           |
| <b>2019 Total Reports</b>                    | 28        | 14                                   | 42                           |

There were zero reports in Q3 regarding issues affecting or having implications for public safety.

## **Investigations – Case Types**

The following Table shows a breakdown of the subject matter of the investigation for those launched in Q3 and previously.

| <b>Description</b>                | <b>Q3</b> | <b>Previously Reported Q1 and Q2</b> | <b>Year to Date Q1 to Q3</b> |
|-----------------------------------|-----------|--------------------------------------|------------------------------|
| <b>Fraud</b>                      | 2         | 3                                    | 5                            |
| <b>Waste/Mismanagement</b>        | 8         | 0                                    | 8                            |
| <b>Combined Fraud &amp; Waste</b> | 3         | 2                                    | 5                            |
| <b>2019 Total Cases</b>           | 13        | 5                                    | 18                           |

In Q3 2019, the most common type of investigation related to waste/mismanagement. This is to be expected as the definition of fraud is narrower than waste/mismanagement. Fraud encompasses any array of irregularities and illegal acts characterized by intentional deception (forgery, alteration of documents, misrepresentation of information, misappropriation, unauthorized use, disappearance, destruction of assets, authorizing payment for goods/services not received, improper handling of money, false claims, violations of Code of Conduct). Waste involves taxpayers not receiving reasonable value for money in connection with any government funded activities, due to mismanagement or an inappropriate or careless act or omission by those with control over or access to government resources. Importantly, waste goes beyond fraud and doesn't necessarily involve a violation of law. Waste relates primarily to poor management, imprudent expenditure, inadequate oversight or abuse of policy and includes incurring unnecessary costs or risks due to ineffective practices, systems or controls.

Sometimes, investigations can contain elements of both fraud and waste/mismanagement. In Q3 2019, there were three of these investigations. Each investigation is unique and has a customized approach. The length of time to complete an investigation varies depending on the number of allegations, the scope of the investigation, and the complexity the matter being investigated.

**Report Status – Investigations (as of January 2, 2020)**

The following Table shows the current status of investigations launched in Q3 and previously.

| <b>Description</b> | <b>Q3</b> | <b>Previously Reported Q1 and Q2</b> | <b>Year to Date Q1 to Q3</b> |
|--------------------|-----------|--------------------------------------|------------------------------|
| <b>Open</b>        | 8         | 2                                    | 10                           |
| <b>Closed</b>      | 5         | 3                                    | 8                            |
| <b>2019 Total</b>  | 13        | 5                                    | 18                           |

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As of January 2, 2020, 8 of the 13 investigations launched in Q3 were open and active. Closing an investigation depends on the nature of the allegation, the complexity of the investigation, the ease in obtaining relevant information, and arranging relevant interviews.

**Whistleblower By-law Disclosures**

The following Table lists the number of Hotline reports that involve reporting by a qualifying Whistleblower.

| <b>Description</b>                          | <b>Q3</b> | <b>Previously Reported Q1 and Q2</b> | <b>Year to Date Q1 to Q3</b> |
|---|-----------|--------------------------------------|------------------------------|
| <b>2019 Reports Involving Whistleblower</b> | 1         | 1                                    | 2                            |

By-law 19-181 (Whistleblower By-law), Section 19 – Responsibility of the City Auditor requires quarterly reporting, in the aggregate, on the number, nature and outcome of disclosures of serious wrongdoing made under this By-law. In Q3, one of the Fraud and Waste Hotline Intake reports was a qualifying disclosure per the Whistleblower By-law, as assessed by the Office of the City Auditor. Under By-law 19-181 (Whistleblower By-law), Section 6 – Requirements with respect to a Qualifying Disclosure, the employee making the disclosure of serious wrongdoing identified themselves and their position with the City; the employee making the disclosure of serious wrongdoing has reasonable grounds to believe there has been serious wrongdoing by one or more employees; the employee making the disclosure of serious wrongdoing does so in good faith; the employee’s disclosure of serious wrongdoing was made to the City Auditor.

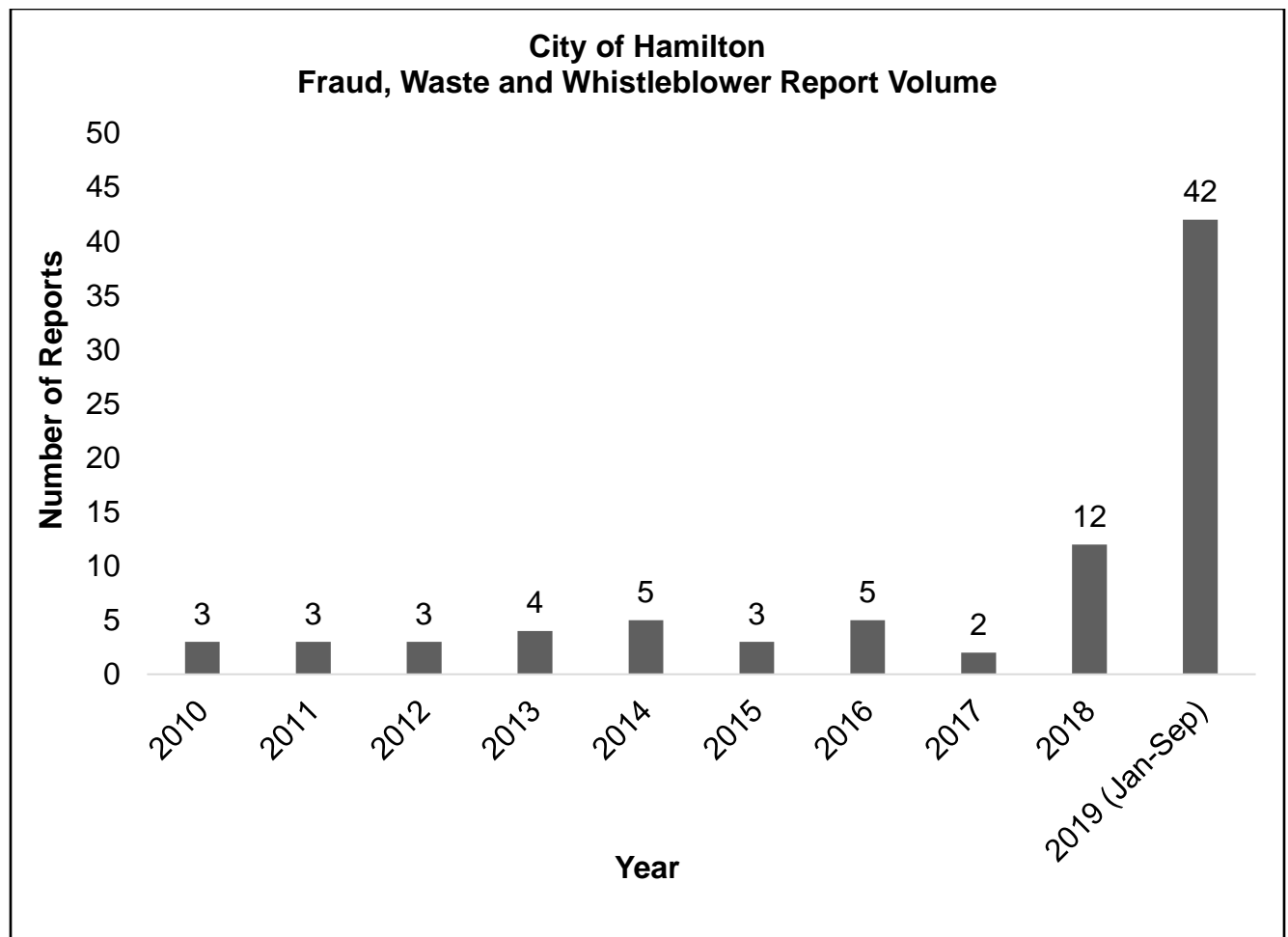
| <b>Category</b>             | <b>Number of Q3 Reports</b> | <b>Percentage of Q3 Reports</b> |
|-----------------------------|-----------------------------|---------------------------------|
| Qualifying Disclosure       | 1                           | 4%                              |
| Not a Qualifying Disclosure | 0                           | 0%                              |
| Not a Whistleblower Matter  | 27                          | 96%                             |
| 2019 Total                  | 28                          | 100%                            |

**Employees**

| Description                         | Q3              | Previously Reported Q1 and Q2 | Year to Date Q1 to Q3 |
|-------------------------------------|-----------------|-------------------------------|-----------------------|
| Reports Self-Identified as Employee | 50%<br>14 of 28 | 43%<br>6 of 14                | 48%<br>20 of 42       |

When making a report through the Fraud and Waste Hotline, reporters can self-disclose as an employee, even if they choose to remain completely anonymous with their report. In Q3 2019, 50% of reporters self-identified as an employee of the City of Hamilton. The Office of the City Auditor cannot validate this information due to the nature of hotline reporting.

**Historical Volume (2010 to Present)**



In 2018, volume increased after Council approved the creation of a Fraud and Waste Hotline, as some media coverage was received after this approval was given.

In 2019, for the first nine months the volume was 42 reports. This is more reports in the first nine months of the year compared to previous nine years combined.

Currently the routine initial review, assessments and investigations are generally being performed with existing resources in the Office of the City Auditor (OCA) by realigning roles and rearranging existing work, including the pause and delay of some projects underway or planned by the OCA.

### **Annual Report**

A more detailed annual report containing additional analysis, case samples and outcomes will be completed after the 2019 calendar year end analysis has been completed and will be submitted to the Audit, Finance, and Administration Committee.

### **HOW TO SUBMIT A REPORT**

The Fraud and Waste Hotline is available for the public, employees, and vendors that do business with the City of Hamilton.



confidential  
anonymous

# SPEAK UP

Report any wrongdoing

Use the Fraud and Waste Hotline

[www.hamilton.ca/Fraud](http://www.hamilton.ca/Fraud)

Call Toll Free 24/7 1-888-390-0393

  
Hamilton  
Office of the City Auditor

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The Fraud and Waste Hotline accepts reports through the following methods:

- **Online:** [www.hamilton.ca/fraud](http://www.hamilton.ca/fraud) A “Submit Report” button links to the third-party vendor page
- **Email:** [cityofhamilton@integritycounts.ca](mailto:cityofhamilton@integritycounts.ca)
- **Phone:** 1-888-390-0393
- **Mail:** PO Box 91880, West Vancouver, BC V7V 4S4
- **Fax:** 1-604-926-5668

If any reports are received directly by the Office of the City Auditor by telephone, email, fax, mail, or the web-based suggestions form ([www.hamilton.ca/audit](http://www.hamilton.ca/audit)) these complaints will be entered directly into the Hotline case management system and assessed similar to any other report.

**APPENDICES AND SCHEDULES ATTACHED**

None.