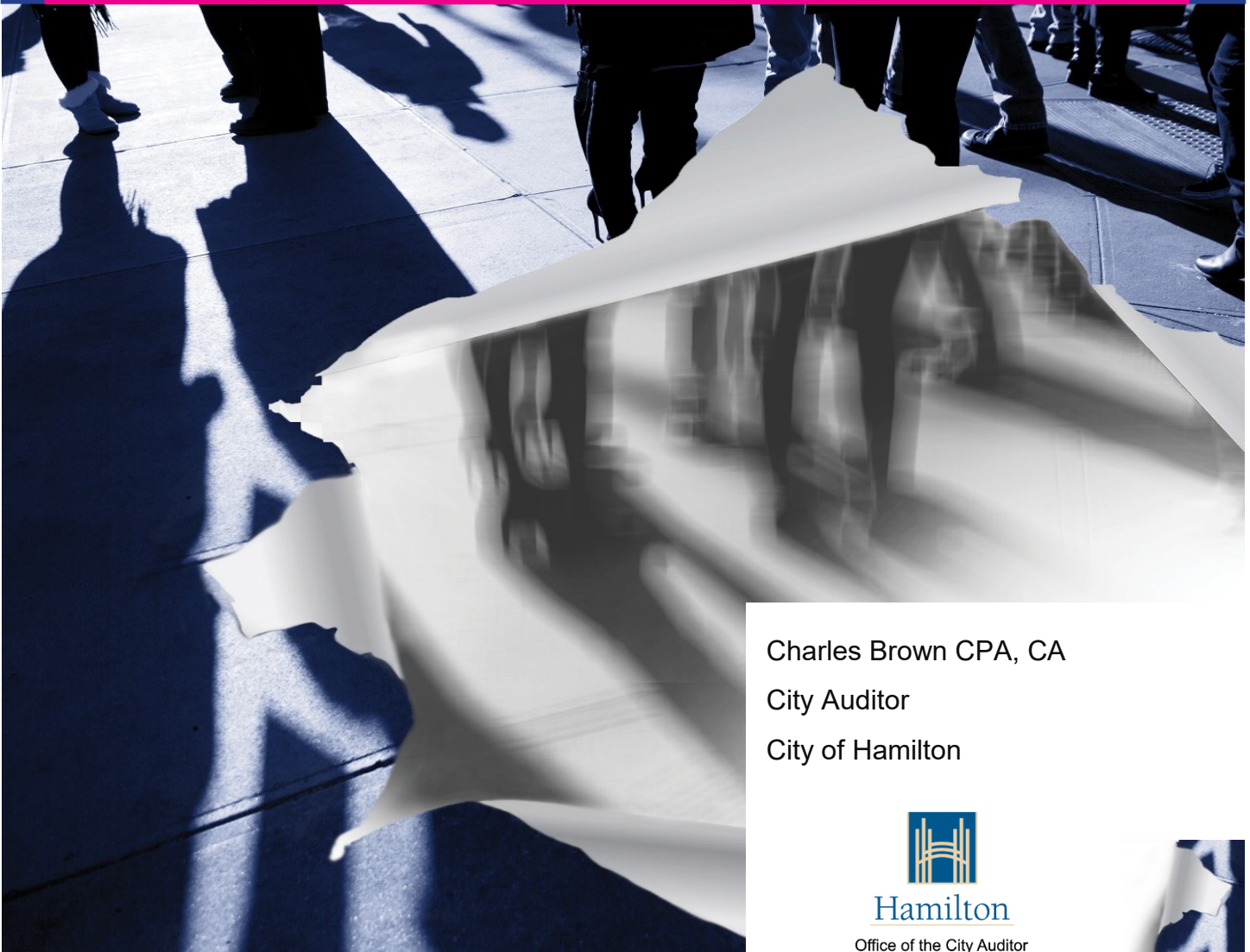


City of Hamilton  
Office of the City Auditor

# FRAUD AND WASTE ANNUAL REPORT

July 1, 2020 to June 30, 2021



Charles Brown CPA, CA  
City Auditor  
City of Hamilton



Hamilton

Office of the City Auditor

# Contents

|   | Page |
|---|------|
| Summary and Commentary . . . . .                    | 3    |
| About the Fraud and Waste Hotline . . . . .         | 5    |
| Alignment to the 2016-2025 Strategic Plan . . . . . | 5    |
| Introduction . . . . .                              | 6    |
| Fraud and Waste Hotline Program . . . . .           | 6    |
| Anonymity of the Fraud and Waste Hotline . . . . .  | 7    |
| Role of the City Auditor . . . . .                  | 7    |
| Report Sources . . . . .                            | 7    |
| Overview . . . . .                                  | 8    |
| Historical Volume . . . . .                         | 9    |
| Work Volume . . . . .                               | 10   |
| Reports . . . . .                                   | 11   |
| Employee Reports . . . . .                          | 11   |
| Reports from the Public . . . . .                   | 11   |
| Anonymous Reports . . . . .                         | 11   |
| Whistleblower Disclosure . . . . .                  | 12   |
| Report Categories . . . . .                         | 13   |
| Prior Year Reports . . . . .                        | 13   |
| Substantiation . . . . .                            | 14   |
| Loss or Waste Substantiated . . . . .               | 15   |
| Disciplinary Action . . . . .                       | 15   |
| Recoveries and Impact. . . . .                      | 15   |
| Report Outcomes . . . . .                           | 16   |
| Report Examples - Introduction . . . . .            | 16   |
| Report Examples . . . . .                           | 17   |
| Other Report Examples . . . . .                     | 22   |
| Conclusion . . . . .                                | 23   |

---

## Summary and Commentary

---

This year's Fraud and Waste Annual Report reflects the second year of activity of the hotline since it was launched in July 2019. It provides a summary of the complaints received, the investigations launched, and the results and actions that took place related to allegations of fraud and government waste.

During the first year, July 2019 to June 2020, the volume of reports received by the Office of the City Auditor exceeded initial expectations, with 85 reports being received. For the second year, July 2020 to June 2021, the volume of activity continued to exceed expectations with 80 reports received. In fact, that trend has continued during the first three months of the third year of implementation, with 27 reported complaints, the highest ever quarterly volume. Clearly, the hotline continues to be well used.

With 80 reports received in the current reporting year, we have noted that 59% come from employees and 41% from the public. While most of the complaints we receive are dealt with through referral and report back, a significant number, 23%, involve investigation by our office. Overall, the substantiation rate of complaints received was 32%. We also continued to follow the approach of the previous year by making it a practice to initiate spontaneous system or process audits in response to issues that could have systemic repercussions. In that regard we launched audits of inventory management and the personal use by employees of City vehicles.

The purpose of the hotline and ensuing investigation of complaints is to ensure honesty, integrity and accountability in the operations of the City. One of the significant benefits is that it affords an opportunity to identify systemic problems, themes or emerging issues that can be considered by City management in their operations and Council in their governance.

One issue that OCA is bringing forward is the apparent difficulty that management experiences in properly dealing with conflict of interest situations that arise with employees of the City. Since the hotline was implemented OCA has investigated no fewer than 10 instances where either the disclosure process or the related mitigation of the conflict of interest has been an issue.

In our view, the current policy is not clear, and does not lend itself to consistent, accurate and unambiguous interpretation. In practice, potential conflicts are not being reported, and when they are the process is inadequate to ensure they are properly addressed. The form that is used for conflicts does not match the actual requirements in the policy, and it tends to be completed in a perfunctory manner. Nor does the process ensure that there is a third party, objective determination being made of the nature and severity of each case.

---

## Summary and Commentary

---

In general, we have found that they do not come under adequate scrutiny. Another difficulty is that there is no central repository of conflict declarations, where decisions can be tracked and evaluated for consistency or consulted for precedent. In comparing the City's process with other jurisdictions, we note that some organizations manage conflicts of interest through an annual reminder and disclosure letter from the senior leader, with disclosures being adjudicated by them with support from legal services. In our opinion, that approach provides more objective, third party scrutiny to the decisions that are made on whether a situation is a conflict and how it is to be mitigated.

Accordingly, we recommend that senior leadership undertake a review of its current process to rationalize and improve the effectiveness with which conflicts of interest are both disclosed and mitigated, and most importantly to elevate the importance of proper disclosure of **potential** conflicts.

## About the Fraud and Waste Hotline

The Fraud and Waste Hotline provides City of Hamilton employees, contractors, vendors, and members of the public a convenient, confidential, and anonymous way to report suspicion or proof of wrongdoing. Wrongdoing is defined as any activity that could be illegal, dishonest, wasteful, or violates a City of Hamilton policy.



**Fraud** encompasses any array of irregularities and illegal acts characterized by intentional deception.



**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.



**Whistleblower** By-law No. 19-181 is intended to help uncover serious wrongdoing at the City, by bringing it to the attention of management and the City Auditor or their designate, and to ensure it is addressed appropriately, including by means of an investigation where required.

The Fraud and Waste Hotline enables the City of Hamilton to operate with a high level of honesty and integrity. The Fraud and Waste Hotline is managed by the Office of the City Auditor (OCA), an independent and objective office accountable to Council.

The Office of the City Auditor reviews and assesses every Hotline report to ensure it was made in good faith and if necessary, launch an investigation. The Office of the City Auditor conducts an objective and impartial assessment of each report, regardless of the alleged wrongdoer's position, title, length of service, or relationship with the City.

## Alignment to the 2016-2025 Strategic Plan

### **Community Engagement and 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.

---

## Introduction

---

This is the Fraud and Waste Annual Report on fraud, waste and whistleblower matters at the City of Hamilton and includes information about the activities of the Fraud and Waste Hotline. It highlights the reports that have been communicated to the Office of the City Auditor July 2020 to June 2021. It does not represent an overall picture of fraud, waste, or other wrongdoing across the City of Hamilton.

---

## Fraud and Waste Hotline Program

---

**Pilot launched  
July 2019**

The Fraud and Waste Hotline was established to help protect City of Hamilton assets and reduce losses. Since the pilot launch in July 2019, the cumulative total of actual and potential losses investigated is approximately \$439,000, with \$26,000 recovered via repayments/restitution. Additionally, the Fraud and Waste Hotline provides the following benefits that cannot be quantified:

- Deterring fraud, waste, and wrongdoing,
- Strengthening internal controls and mitigation of risks,
- Improving policies and standard operating procedures,
- Building a culture of accountability,
- Better value in service delivery through increasing operational efficiencies,
- Using hotline report data to identify trends, manage risks, make results-oriented recommendations to management, and inform future audits for the Office of the City Auditor work plan.

**No dedicated Fraud and Waste team**

The Office of the City Auditor operates the Fraud and Waste program in addition to their other audit, risk assessment, and consulting project assignments. The Office of the City Auditor are a team of professionals who collectively possess the expertise to assess a broad range of reports and conduct investigative work into allegations ranging from simple to complex. When required, the Office of the City Auditor engages outside experts to assist on complex investigations or specialty work due to the small size of the team. Investigation costs are recovered from the home department, per the Fraud Policy and Protocol.

**Independent oversight**

The Office of the City Auditor also provides independent oversight of management-led investigations by reviewing the adequacy of work performed and evaluating mitigation plans to protect City of Hamilton assets, reduce the risk of future losses, and prevent and deter future fraud, waste, or wrongdoing.

---

## Anonymity of the Fraud and Waste Hotline

---

Fraud and Waste Hotline intake is independently operated by a third party, Whistleblower Security Inc. Whistleblower Security Inc. provides IntegrityCounts, a Certified Ethics Reporting System, which is a confidential way to report important information and ethical misconduct. Providing any personal information, such as your name, is optional. For any person willing to identify themselves, their information will remain confidential and will not be disclosed unless, the City Auditor is compelled to do so by law.

The Office of the City Auditor may have questions or require additional information about a reported incident and will communicate using the Fraud and Waste Hotline anonymous messaging system.

All participants in a fraud and waste investigation are required to keep the investigation details and results confidential.

---

## Role of the City Auditor

---

The City of Hamilton has appointed the City Auditor as an Auditor General under the Municipal Act. This position has 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 Fraud and Waste Hotline and conducting investigations as required.

---

## Report Sources

---

Reports in good faith are made in one of the following ways:



**Online** at [hamilton.ca/fraud](https://hamilton.ca/fraud)



**Email** to [cityofhamilton@integritycounts.ca](mailto:cityofhamilton@integritycounts.ca)



**Phone** 1-888-390-0393



**Mail** to PO Box 91880, West Vancouver, BC V7V 4S4



**Fax** to 1-844-785-0699

# Overview

## Number of Reports

80

## Number of Reports Since Hotline Launch

165

## Number of Reports by Source

23 Reports Directly Received by the Office of City Auditor (Proxy)

21 Proxy Reports Sent by Management, HR, Procurement, Finance, Councillor's Office, City Staff

32



Online

19



Email

28



Phone/  
In Person

1



Mail

0



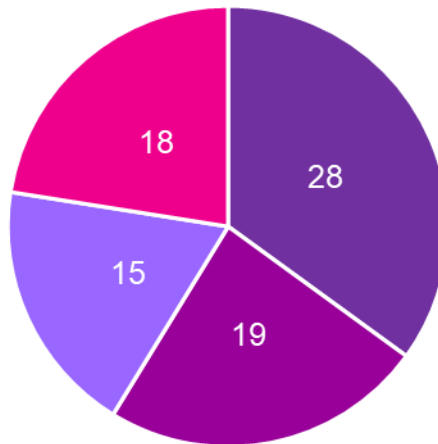
Fax

## Report Types

July 1, 2020 to June 30, 2021

59% of Reporters Self-Identified as an Employee

41% of Reporters were non-Employees



- Referral - Response Required - 28
- Referral - No Action Required - 19
- No Response Required/Out of Jurisdiction/Not Enough Information - 15
- Investigation Launched - Current Year 18

## Total Investigations Launched

Current Year Reports: 18

Carryforward Reports from Prior Reporting Period: 6

Total: 24

\$235,000

Loss or Waste Substantiated (\$439K since Hotline launch)

## Investigation Type

1



Fraud

13



Waste/  
Mismanagement

8



Combined Fraud and  
Waste/Mismanagement

2



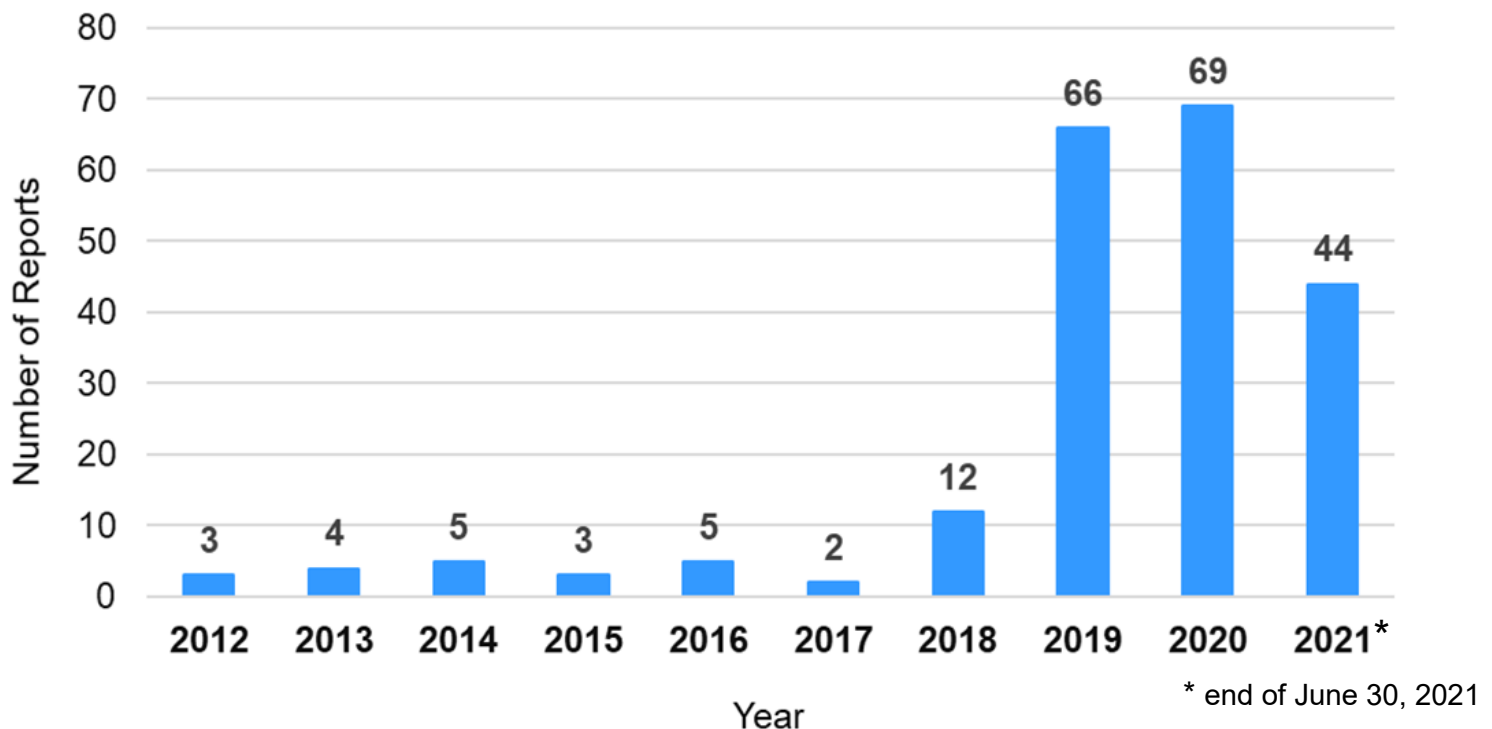
Whistleblower



## Historical Volume

This chart depicts the number of fraud, waste, and whistleblower reports from 2012 to June 2021. Between 2018 to 2020, the Office of the City Auditor saw a large increase in reports since the Fraud and Waste Hotline was announced in late 2018 and launched in July 2019. This trend continued into the first half of 2021.

### Fraud, Waste, and Whistleblower Report Volume January 1, 2012 to June 30, 2021



In the first half of 2019, 14 reports were received by the Office of the City Auditor. After the Fraud and Waste Hotline launched in July 2019, there were 52 reports submitted to the Office of the City Auditor using the Fraud and Waste Hotline, for a total of 66 reports in 2019 and 69 reports in 2020. In the first half of 2021, 44 reports were received. There was a total of 165 reports received in the 24 months of the Fraud and Waste Hotline being operational (July 2019-June 2021).

---

## Work Volume

---

A total of 80 reports were assessed by the Office of the City Auditor in the twelve-month period between July 1, 2020 to June 30, 2021.

There are no staff dedicated solely to the Fraud and Waste Hotline Pilot Program. Existing staff are used to complete assessments and investigations, with some limited usage of external specialty expertise for investigations that required additional support.

In total, about 2,837 hours were spent on Fraud and Waste Hotline administration, assessment, investigations and reporting during this 12-month period. This is approximately equivalent to 2.0 frontline audit FTEs annually (excluding management's time spent on hotline matters). Another way of looking at the resource requirements, the effort is similar to having completed 4 audits of significant scope and complexity. There are a total of 5 frontline employees in the OCA. It is estimated that management spends between 30-50% of their time on Fraud and Waste matters, depending on the active number of files at any given point in time. Compared to the prior year, an increased amount of time has been spent on Fraud and Waste Hotline matters.

---

## Reports

---

From July 2020 to June 2021, a total of 80 reports were received and assessed.

Of the 80 reports received, 57 reports were received via the third-party hotline operation. Another 23 reports were received directly by the Office of the City Auditor and were entered as a proxy into the case management system that is provided as part of the IntegrityCounts service contract. Of the 23 proxy reports received directly by the OCA, 10 were made by City Staff, and 10 were received from City Management. Two items were received directly from residents and one was received directly from a Councillor's Office.

For reports received regarding Ontario Works (OW) and Housing Services social services matters, these were referred to OW and Housing Services for assessment and investigation. The investigations were handled by OW/Housing Services, not the OCA. The substantiation status is reported to the OCA for tracking the aggregate statistics. The OCA reserves the right to investigate any matter which is not found to be satisfactorily investigated.

---

## Employee Reports

---

Forty-seven of these 80 reports were reported by City of Hamilton employees (59%). Twenty-three of the 47 employee reports were made anonymously (49%). The remaining 24 reports were employees that identified themselves. Many of these 24 reports where the employee identified themselves were employees working in HR, Finance, Procurement, and Management where they had an awareness of the Fraud Policy and Protocol and of their responsibility to report matters to the Office of the City Auditor as part of their job duties.

The Office of the City Auditor continues to encourage employees and management to submit reports and thanks all those that submitted reports for this reporting period, and for their cooperation during report assessments and investigations.

---

## Reports from the Public

---

All reports received from the public were assessed and investigated as appropriate. The Office of the City Auditor continues to encourage members of the public to submit reports and thanks all those that submitted reports for this reporting period and for providing additional information as requested.

---

## Anonymous Reports

---

When a report is made anonymously, it automatically does not qualify as a whistleblower disclosure per the Whistleblower By-law, although it may meet the definition of serious wrongdoing. The vast majority of the reports the Office of the City Auditor received do not qualify as a whistleblower matter due to the anonymity of the employee. Therefore, the majority of employee reports made would not be able to qualify as a whistleblower disclosure. Forty-five of the 80 (56%) reports received for the current 12-month reporting period were anonymous.

It should be noted that anonymous reports are able to be effectively assessed and investigated if the Reporter provides a sufficient level of information. The OCA is able to communicate with an anonymous reporter in the case management system if the Reporter has chosen to enable this feature. City of Hamilton employees continue to prefer making anonymous reports to the Hotline. While anonymity is not necessarily a constraint to the Office of the City Auditor investigations, the ability to dialogue with a Reporter through the IntegrityCounts online messaging system has proven effective in assisting with investigations.

---

## Whistleblower Disclosure

---



### Reports Involving Whistleblower

1

July to December 2020  
(Previously Reported)

2

January to June 2021

By-law 19-181 (Whistleblower By-law), Section 19 - Responsibility of the City Auditor requires reporting to Council semi-annually, in the aggregate, on the number, nature and outcome of disclosures of serious wrongdoing made under this By-law. Previously, there was a quarterly reporting requirement. Activity for July to December 2020 was reported to Council in February 2021.

There were three qualifying Whistleblower disclosures from July 2020 to June 2021.

One item was reported in the Fraud, Waste, and Whistleblower Semi-Annual Update (AUD21001) covering the period July 2020 to December 2020. This report was received during the previous reporting period and was reported with a status of "Investigation Launched" with a substantiation outcome of "Pending". Since the 2019-2020 Fraud and Waste Annual Report was issued, work on the investigation continued and the report was found to be a qualifying disclosure. The report category is Theft/Misappropriation and the outcome was unsubstantiated.

There were two reports received from January to June 2021. The first report related to a privacy matter and the outcome was unsubstantiated. The second report related to multiple categories, including vendor/contractor wrongdoing, workplace health and safety, and legal matters. The substantiation outcome is pending.

## Report Categories

A wide variety of reports were received by the Office of the City Auditor for the 12-months covered in this reporting period. The top most common report categories were the following:

### Top Report Categories (Current Year)

|  |           |
|--|-----------|
| Multiple Categories Applicable         | 17        |
| Employee Time Theft/Misconduct         | 11        |
| Social Services – Fraud/Wrongdoing     | 11        |
| Service Complaint/Concern              | 8         |
| Conflict of Interest                   | 5         |
| Improper Financial Reporting/Budgeting | 4         |
| Misuse of City Resources               | 4         |
| Out of Jurisdiction                    | 3         |
| Theft/Misappropriation                 | 3         |
| Fraud/Wrongdoing                       | 2         |
| Contractor/Vendor Wrongdoing           | 1         |
| Public Safety                          | 1         |
| Miscellaneous Categories               | 10        |
| <b>Total Reports</b>                   | <b>80</b> |

## Prior Year Reports

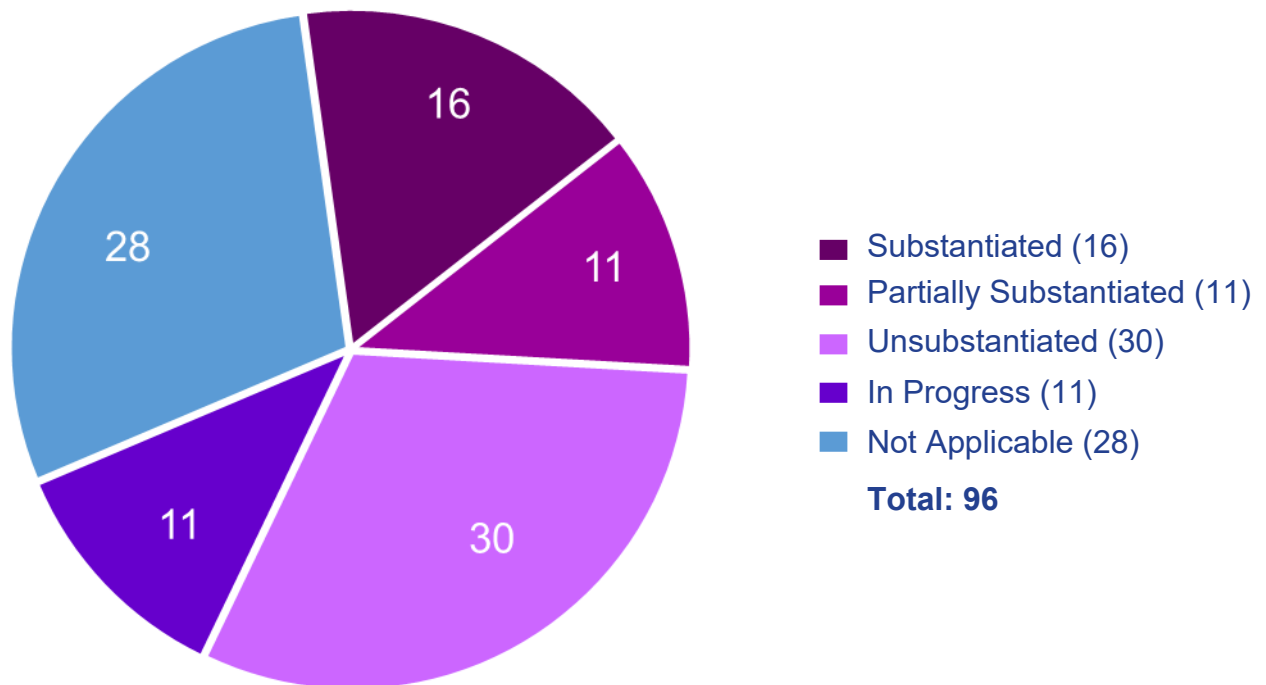
Fifteen open reports were reported at the time the 2019-2020 Fraud and Waste Annual Report was issued and one report was subsequently re-opened, for a total of 16 carryforward reports. The assessments and investigations were completed by the Office of the City Auditor with the following outcomes: 3 were substantiated, 5 were partially substantiated, 6 were unsubstantiated, 1 was not applicable, and 1 has an outcome pending. There is one prior year report open, the substantiation result and any losses and recoveries will be reported in the next Fraud and Waste Annual Report. Outcomes are included in the section above for reports that were closed during the current reporting period.

## Substantiation

One way of summarizing outcomes is to report on the volume of reports that were substantiated, that is the number of reports where the allegation(s) were found to have merit and were able to be proven by reviewing evidence or with findings from interviews.

Of the reports received from July 2020 to June 2021, the following is a summary of substantiated status. A substantiation result is not applicable (N/A) if a report was out of jurisdiction, the assessment result was that no action was to be taken, or if the report was to be referred elsewhere.

### Volume of Reports Substantiated



Typically, a result is "pending" if the report is still in process of being assessed and/or investigated. Overall the current substantiation rate including carryforward reports from the previous reporting period (both substantiated and partially substantiated) is 32%.

**Substantiation  
Rate  
32%**

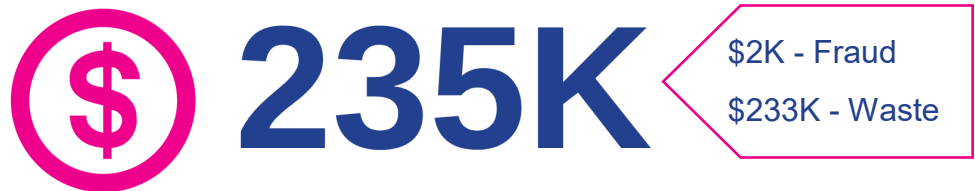
The City of Hamilton's substantiation rate for the prior reporting period was 21%. For comparative purposes, in the City of Toronto Auditor General's 2020 Annual Report on the Fraud and Waste Hotline, 9% of complaints were substantiated in whole or in part. In the City of Ottawa's 2020 Report on the Fraud and Waste Hotline, 33% of reports closed in 2020 were substantiated. The substantiation rate will vary annually, depending on the mix of reports received by the OCA and the number of reports in progress at the end of reporting period, which have their substantiation rate counted in the year that the work is completed.

## Loss or Waste Substantiated

**\$439K Loss or Waste  
Substantiated  
Since Hotline Launch**

It is difficult to measure or substantiate a precise cost of fraud and waste. Incidents sometimes remain undetected for long periods of time. It is also challenging at times to determine the time period that a fraud or waste was occurring, which makes it hard to quantify losses.

As at September 30, 2021, the amount of confirmed loss or waste substantiated by the Office of the City Auditor since the last Annual Report was issued was \$235,000. Of this this amount, \$2,000 was fraud and \$233,000 was waste. Since the launch of the Hotline cumulatively \$439,000 of loss or waste has been substantiated. Of this amount \$102,000 was fraud, \$278,000 was waste, and a category was unable to be determined for \$59,000.



## Disciplinary Action

The Office of the City Auditor is not responsible for disciplinary actions (including terminations). Investigation results are shared with Management and Human Resources. The Office of the City Auditor is informed of terminations and disciplinary actions, and this information is tracked and compiled for reporting purposes.

As at the date of report publication, the following disciplinary actions related to investigations had been confirmed by the Office of the City Auditor:

- 8 Terminations,
- 1 Disciplinary Action (corrective action taken),
- 5 Other Actions Taken (includes employee letter of counsel, letter of expectations, meeting held and outcome pending).

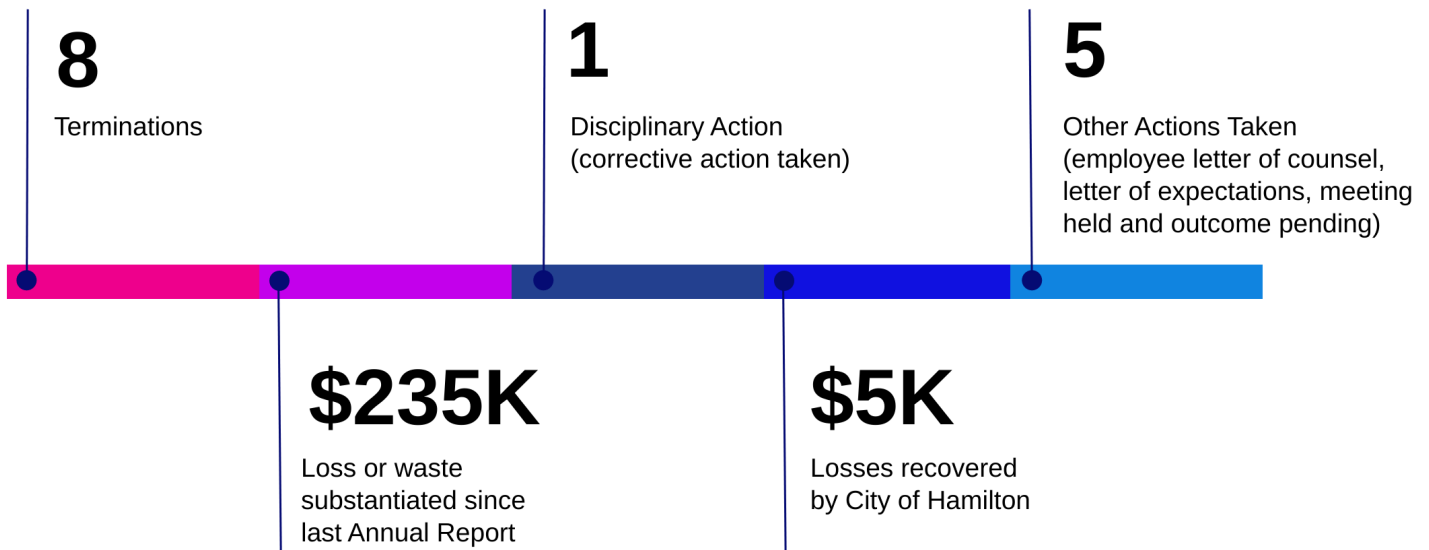
## Recoveries and Impact

As at September 30, 2021, the City of Hamilton recovered \$300 of losses and received \$4,700 in restitution since the last Annual Report was issued.

The impact of fraud and waste to an organization goes well beyond financial impact. There are also non-financial impacts such as impact to reputation, impact to other staff working in an affected area. The level of effort to investigate allegations of fraud and waste are quite high.

Sometimes there is a time lag for the completion of an investigation and calculating the losses. As there are 11 open reports at report issuance, there may be additional losses and recoveries that will be reported in the next Fraud and Waste Annual Report.

## Report Outcomes



## Report Examples - Introduction

To provide more information about the type of reports that the Office of the City Auditor receives and assesses, several report examples are provided in pages 17-23 of this annual report.

The reports included here provide examples of:

- fraud,
- waste/mismanagement; and,
- combined fraud and waste/mismanagement reports.

All items qualifying as a "Serious Matter" per the "City Auditor Reporting of Serious Matters to Council Policy" for the reporting period have been previously reported to Council. There were five items that qualified under this Policy, since it was approved by Council in 2020.

1. AUD20006 City Auditor Reporting of Serious Matters to Council (two serious matters reported)
2. AUD20010 City Auditor Reporting Serious Matters to Council (Case #26158)
3. AUD21005 City Auditor Reporting of Serious Matters to Council (Case #37265)
4. AUD21008 City Auditor Reporting of Serious Matters to Council (Case #39691)



---

## Report Examples

---

### **Project Costs Allocated to Incorrect Projects**

Vendor management is important to ensure that value for money is achieved in road construction contracts. While the Roads Value for Money Audit (AUD21006) was in progress, a Fraud and Waste report was received by the Office of the City Auditor related to vendor management and project management practices.

Several issues were noted including: budgeted funds from completed projects with unspent/surplus balances were used to pay for two unrelated contracts at different locations where there was no budget remaining. The appropriation to move funds between these projects was not approved, contravening the Capital Projects' Budget Appropriation and Work-in-Progress Transfer Policy. Progress payment supporting documentation did not always correctly identify the exact location of the work completed.

Furthermore, compliance issues with the Construction Act were also identified, it was found that Contractors were not submitting invoices for payment, instead City staff were generating progress payment certificates and using that information as the basis for making payments to contractors – without an invoice. This constitutes poor controllership and if an error is made in the calculation the City runs the risk that an undetected overpayment will be made in favour of the contractor. A recommendation was made to address this issue in Report AUD21006 - management agreed with the recommendation and action is in progress.

### **City Crews Working at Employee's Private Residence**

It was alleged that a City employee arranged to have work done at City expense and by City crews on the approach, curbs and sidewalk in front of their residence. The Reporter of the incident, also an employee of the City and part of the work crew, became concerned with the propriety of the situation when he showed up at the job site and questioned the necessity of the work. Upon learning that it was associated with another City employee who resided there he intervened and had the work stopped before any excavation and improvements took place.

The OCA was able to substantiate the Reporter's concerns regarding the work being unnecessary and having been arranged by the City employee who resided at the work site. The OCA's findings were shared with management for review and disciplinary action.

---

## Report Examples

---

### **Inappropriate Usage of Parking Passes**

Human Resources reported an allegation of fraudulent usage of parking passes at a City of Hamilton-owned facility by two employees to the OCA. The OCA requested that HR investigate and report its findings to the OCA. The allegations were found to be substantiated, and HR informed the OCA that the two employees were terminated.

### **Inappropriate Use of Database Resources**

Human Resources reported to the OCA that they received allegations of an employee improperly using a City-subscribed confidential database resource to further their outside business interest. OCA reviewed the evidence collected by HR on this matter and concurred with their findings that the allegation was substantiated. Improper use of the database account was confirmed. The employee no longer works for the City.

### **Inadequate Supervision of Procurement Card (P-card) Usage**

In the course of investigating a reported situation where a P-Card was not being properly administered, OCA substantiated that a Supervisor inappropriately delegated responsibilities for entry and approval of transactions. The issue was reported to management for their consideration and correction.

### **Conflict of Interest with Vendor #1**

A report was received that a City employee had an undisclosed conflict of interest where they were approving invoices and responsible for oversight of a vendor while their spouse was an employee.

The OCA completed a review of financial and other data, and the allegation was found to be substantiated. The OCA provided this information to Management and Human Resources for action.

---

## Report Examples

---

### Conflict of Interest with Vendor #2

A City Councillor received a report from a citizen that alleged that two City of Hamilton employees were out golfing, during business hours, with a City vendor who was in the process of submitting a proposal for a live, competitive City of Hamilton procurement (Request for Proposal, RFP) that was worth about \$2M in services over 3 years. The Reporter also alleged that there was additional and substantial socializing between various City of Hamilton staff and this vendor. They had concerns that this "coziness" could influence the City's procurement processes.

During the course of the investigation, the OCA found further evidence of more widespread socializing with a range of vendors. The golfing and many other occasions of fraternizing and acceptance of hospitality and gifts were found to be substantiated, along with instances of time theft by the employees due to the fact that some of this activity occurred during core business hours where no vacation time was utilized and they were presumed to be working. The OCA also found that a third employee was involved in the socializing and time theft, with a high level of golfing with vendors noted.

On top this, one of these three employees wrote a reference letter for the firm they were found to be golfing with, to support their RFP submission, and subsequently participated in the evaluation of that firm as part of their duties as a member of the RFP evaluation committee, the committee that chose the successful vendor.

A second employee was found to have gone on five international trips with vendors in recent years, including one where they were a representative of the City of Hamilton, while failing to obtain authorization to attend on City business, and did not inform any of their superiors because they took vacation time for the trip. That same employee unilaterally increased the rates paid to one of these vendors which ended up costing the City substantial additional fees and charges. The employee also hired and paid the executive of a vendor to provide advice on contract terms and specifications for the very RFP the vendor would be bidding on.

It was also found that some vendors were "sponsoring" the Christmas party for this team, by way of paying for the City employees' alcohol at this event.

The OCA made several recommendations to management to remedy this situation. Management took various actions in the short term, including bringing in an entirely new Evaluation team to re-assess the RFP submissions, and they committed to implementing improved processes and procedures for vendor management. The OCA

---

## Report Examples

---

estimated there was \$233,000 of Waste/Mismanagement at issue in this investigation in the form of increased expenses to the City and undisclosed hospitality benefiting the employees. HR informed the OCA that the three employees were terminated.

### Waterdown Gardens

On February 16, 2021, the City was notified of a Statement of Claim issued by Waterdown Garden Supplies Ltd. and others (“WGS”) seeking \$75M in damages based on allegations that thousands of loads of contaminated soil taken from City sites were illegally deposited on its lands and that this illegal dumping was facilitated by a criminal conspiracy involving two named City employees.

An investigation has been commenced through the Office of the City Auditor to ascertain if there is any credence to the claims against the named employees.

This investigation is in the final stages with results expected to be shared with Committee and Council in early December 2021.

### Alleged Equipment Theft and Related Inventory Issues

Management and Labour Relations alerted the Office of the City Auditor about an alleged misappropriation of small equipment and tool inventory at a City of Hamilton Yard. The investigation was coordinated by Labour Relations and carried out by the Hamilton Police Service. The investigation corroborated that inventory with value under \$1,500 was stolen and charges were laid against a City’s employee. The OCA supported certain aspects of the investigation as requested by Labour Relations.

As a result of the alleged theft, and at the request of management, the Office of the City Auditor initiated an audit of small tool and equipment inventory processes in Roadway Maintenance. The audit brought forward 21 recommendations which were reported to the Audit, Finance, and Administration Committee in a separate report.

---

## Report Examples

---

### Contractor Causes Damage to City Street

A resident brought a complaint to their Councillor about a contractor that had parked heavy equipment on the side of a local street while doing a job in the neighbourhood. The resident alleged the contractor had caused substantial damage to the local roadway. When confronted by the citizen about the damage, the contractor ignored the resident, claiming to have a relative at the City who works in the Roads department.

OCA investigated and found that the claim of contractor having a relative working for the City was false. However, the damage was confirmed to be significant and the contractor admitted to the OCA investigator that it was caused by his equipment. OCA sent a letter to management indicating there was evidence that significant damage was done by the contractor to the roadway in this neighbourhood, and recommended they take action to recover for the cost of repair. Management is currently acting on the recommendation.

### Personal Use of City Vehicle

A report was received alleging that a City employee was deriving substantial personal benefit from their non-business use of a City vehicle that was put at their disposal as part of their work duties. The allegation was that the proportion of business usage was low in the extreme, to the point that not only were they deriving benefits from the use of the vehicle, but also from the City absorbing the expense of maintaining, repairing and insuring that vehicle, and notwithstanding they may incur a taxable benefit, would enjoy a significant increase to their pensionable earnings. Our preliminary assessment of the situation substantiated extreme low business use, and inadequate justification for the assignment of a vehicle, prompting OCA to look for wider systemic issues. So, the decision was made to complete a corporate-wide audit on this issue. The audit report will be tabled at the Audit, Finance and Administration Committee in 2022.

## Other Report Examples

Although the Office of the City Auditor may find some reports not to be substantiated, there are reports that show significant control weaknesses. Some unsubstantiated examples are also provided for insight into the varying outcomes that can occur when cases are assessed and investigated.

.....

### Alleged Theft of Inventory

The OCA received a report regarding potential systematic and recurring thefts of equipment by an employee. All staff were required to have access to this equipment to fulfil their job duties.

The OCA investigated and found that there was no evidence that any equipment had been stolen by the employee. However, OCA found that equipment was being replaced on a regular basis due to recurring loss, damage and lifecycling; an issue which was consistent among different locations using this type of equipment.

In order to optimize inventory management and improve controls, management was in the process of upgrading and changing the Division's inventory system. The OCA recommended that management consider incorporating controls into the new inventory system that would enable better overall monitoring of equipment replacement; including required lifecycling.

.....

### Vexatious Report Made in Bad Faith

An anonymous report was made that alleged time theft and sick time abuse on the part of a City employee. The Reporter provided supporting documentation to the complaint, but it was assessed as being inadequate by the OCA. Working with Human Resources, it was determined that, in fact, the Reporter of the allegation was another City employee. The Reporter was found to have engaged in a wide range of inappropriate behaviours, including the filing of this vexatious complaint against the innocent employee for their own personal reasons. As a result, the Reporter/employee had their employment with the City of Hamilton terminated.

.....

### Alleged Nepotism in Hiring

A report was received by the Office of the City Auditor about nepotism in the hiring process. It was alleged that Management made the decision to hire an employee because the individual has a relative who works in the same Department. The OCA reviewed information and evidence relevant to this report and found this report to be unsubstantiated. However, the OCA did identify opportunities for continuous improvement and made three recommendations to Human Resources to strengthen the recruitment process.

---

## Conclusion

---

The Fraud and Waste Hotline has been operational since July 2019 as a 3-year pilot. Based on the experiences of other Canadian cities that operate similar fraud and waste hotlines, it was estimated that the City of Hamilton would receive 50-70 reports in a 12-month period. During the first year of the pilot period, July 2019 to June 2020, the volume of reports received by the Office of the City Auditor exceeded the initial expectations, with 85 reports received. For the second year of the pilot period, July 2020 to June 2021, the 80 reports received also exceeds the forecasted 50 to 70 reports that would likely be received. In the first three months of the third year of the pilot period, July 2021 to September 30 2021, 27 reports were received. This is the highest quarterly volume ever received. The trend is that the hotline continues to be well used.

Overall, the first twenty-four months of the Fraud and Waste Hotline operation have been successful, by and large, with a high volume of reports assessed and investigations launched as appropriate.

An evaluation of the Fraud and Waste Hotline and its accomplishments will be performed at the end of the pilot. The next Fraud and Waste Annual Report will provide an update on the reports received by the OCA between July 2021 and June 2022.

Without a Fraud and Waste Hotline in place, it is likely that many of these reports would not have been received by the Office of the City Auditor and wrongdoing involving City resources may have continued. Generally speaking, it indicates Hamiltonians and employees alike share the commitment in protecting the City of Hamilton’s revenue, property, information and other assets and resources from fraud, waste and other wrongdoing.

---

## Office of the City Auditor

---

**Charles Brown** CPA, CA  
City Auditor

**Brigitte Minard** CPA, CA, CIA, CGAP  
Deputy City Auditor

**Jane Schope** CPA, CMA  
Senior Auditor

**Lyn Guo** MBA, CMA (US), CIA  
Senior Auditor

**Aleksandra Stojanova** CPA, CA, CIA, CPA (Illinois)  
Senior Auditor

**Cindy Purnomo Stuive**  
Audit Coordinator

**Domenic Pellegrini** CPA, CMA, CIA  
Senior Auditor (Retired)

**Phone:** 905-546-2424 ext. 2257

**Email:** [cityauditor@hamilton.ca](mailto:cityauditor@hamilton.ca)

**Website:** [hamilton.ca/audit](http://hamilton.ca/audit)

### **SPEAK UP - Reporting Fraud and Waste**

**Online:** [hamilton.ca/fraud](http://hamilton.ca/fraud)

**Phone:** 1-888-390-0393

**Mail:** PO Box 91880, West Vancouver, BC V7V 4S4

**Email:** [cityofhamilton@integritycounts.ca](mailto:cityofhamilton@integritycounts.ca)

**Fax:** 1-844-785-0699

Copies of our audit reports are available at:  
[hamilton.ca/audit](http://hamilton.ca/audit)

Alternate report formats available upon request.