



Hamilton

Office of the City Auditor

FRAUD AND WASTE ANNUAL REPORT

July 1, 2021 to June 30, 2022

Charles Brown CPA, CA
City Auditor

What is a Fraud and Waste Hotline?

The general public, City staff, and those doing business with the City can report **suspected fraud, waste or wrongdoing involving City resources**.

Confidential and anonymous service

Independently operated by a third party

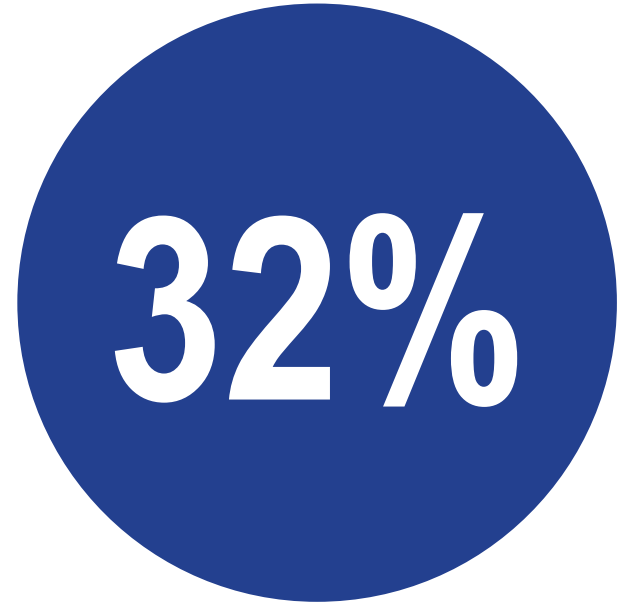
Accessible by phone or online

Available 24 hours a day 7 days a week



Reports

Received between
July 1, 2021 and June 30, 2022

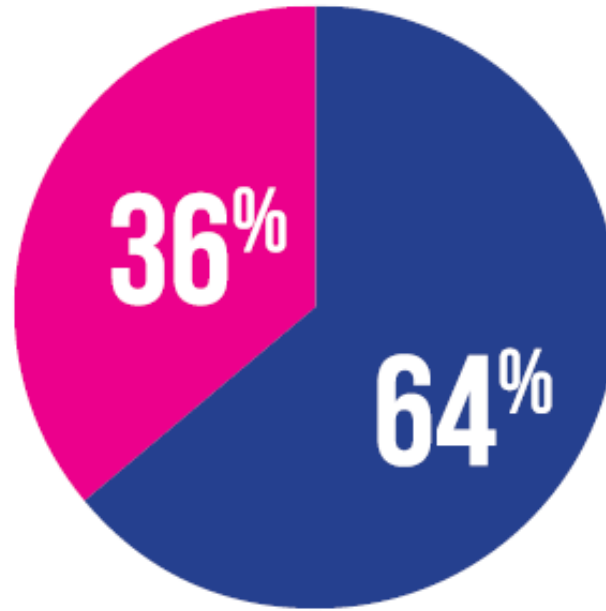


**Substantiation
Rate**

Top Report Categories

Multiple Categories Applicable	29
Social Services – Fraud/Wrongdoing	19
Time Theft and/or Misconduct	10
Out of Jurisdiction	9
Conflict of Interest	6
Fraud/Wrongdoing	4
Improper Financial Reporting/Budgeting	4
Waste	4
Contractor/Vendor Wrongdoing	3
Employee Benefits Fraud	3
Service Complaint/Concern	3
Phishing/Identity Theft	2
Misuse of City Resources	1
Public Safety	1
Reprisal	1
Other Various Categories	8
Total Reports	107

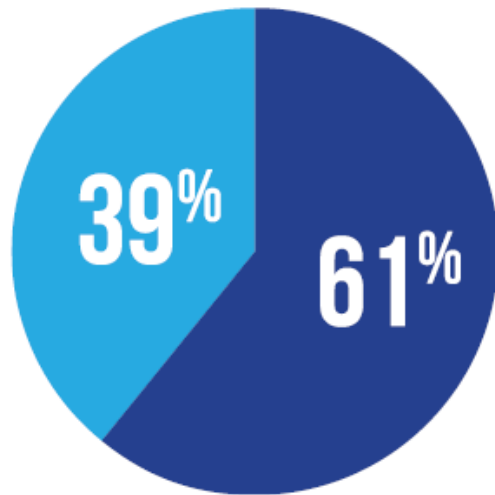
Statistics - Employee Reports



- Self-Identified **68 (64%)**
as an Employee
- Non-Employee **39 (36%)**

Statistics - Direct vs. Proxy Reports

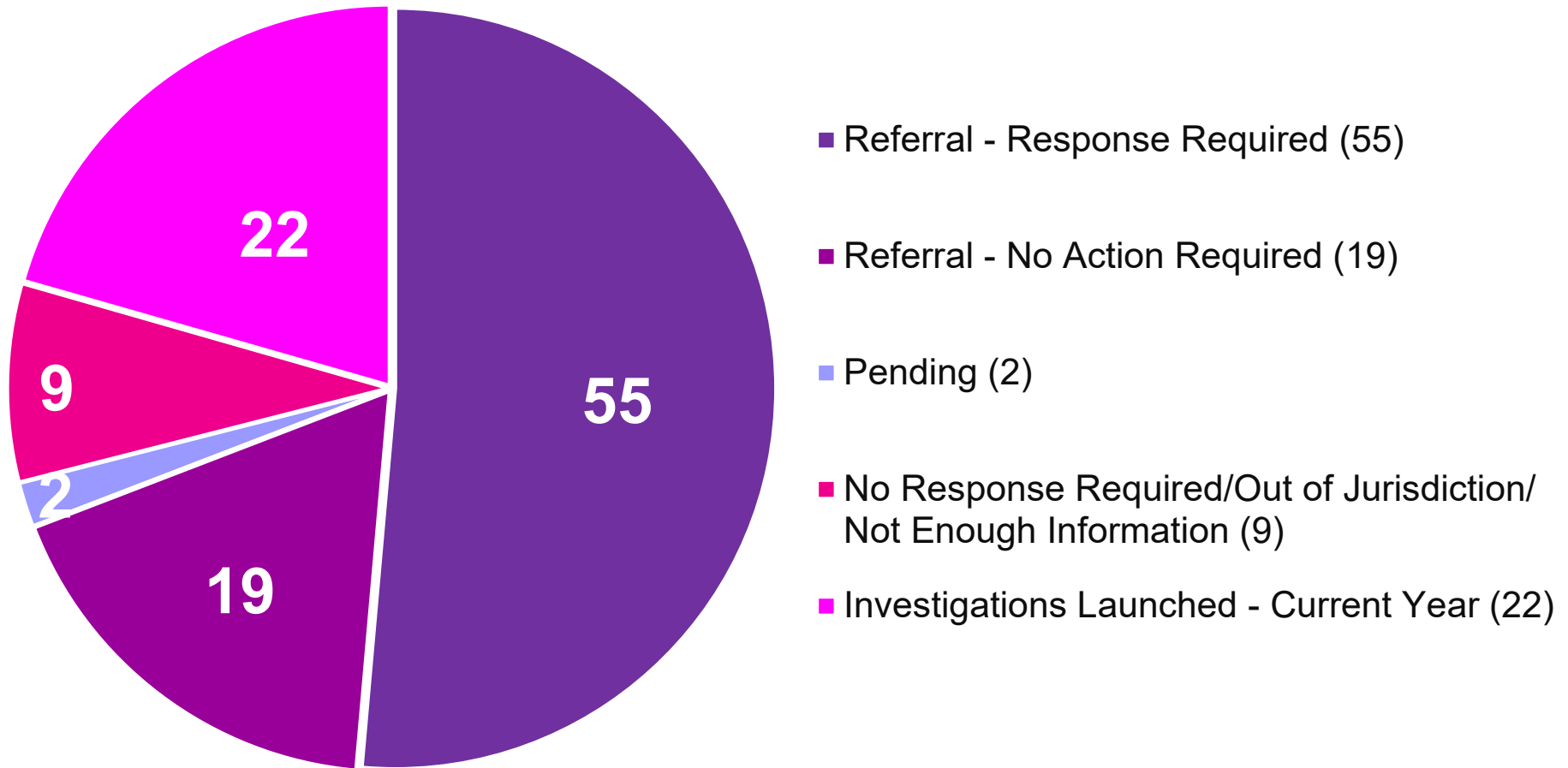
Of these 107 reports, 42 were made directly to the OCA, remainder were made using the Hotline service provider



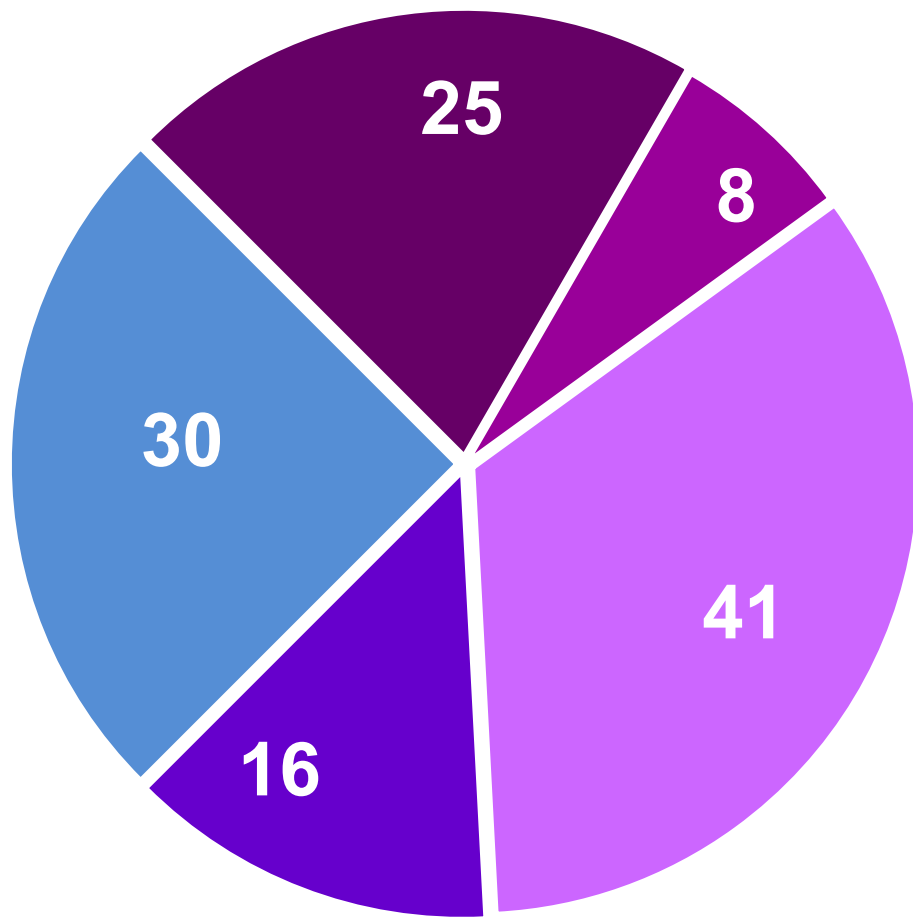
■ Hotline 65 (61%)
■ Proxy 42 (39%)

Proxy Reports from Management, Finance, Procurement, Human Resources – **31 of 42**

What We Did With The Reports

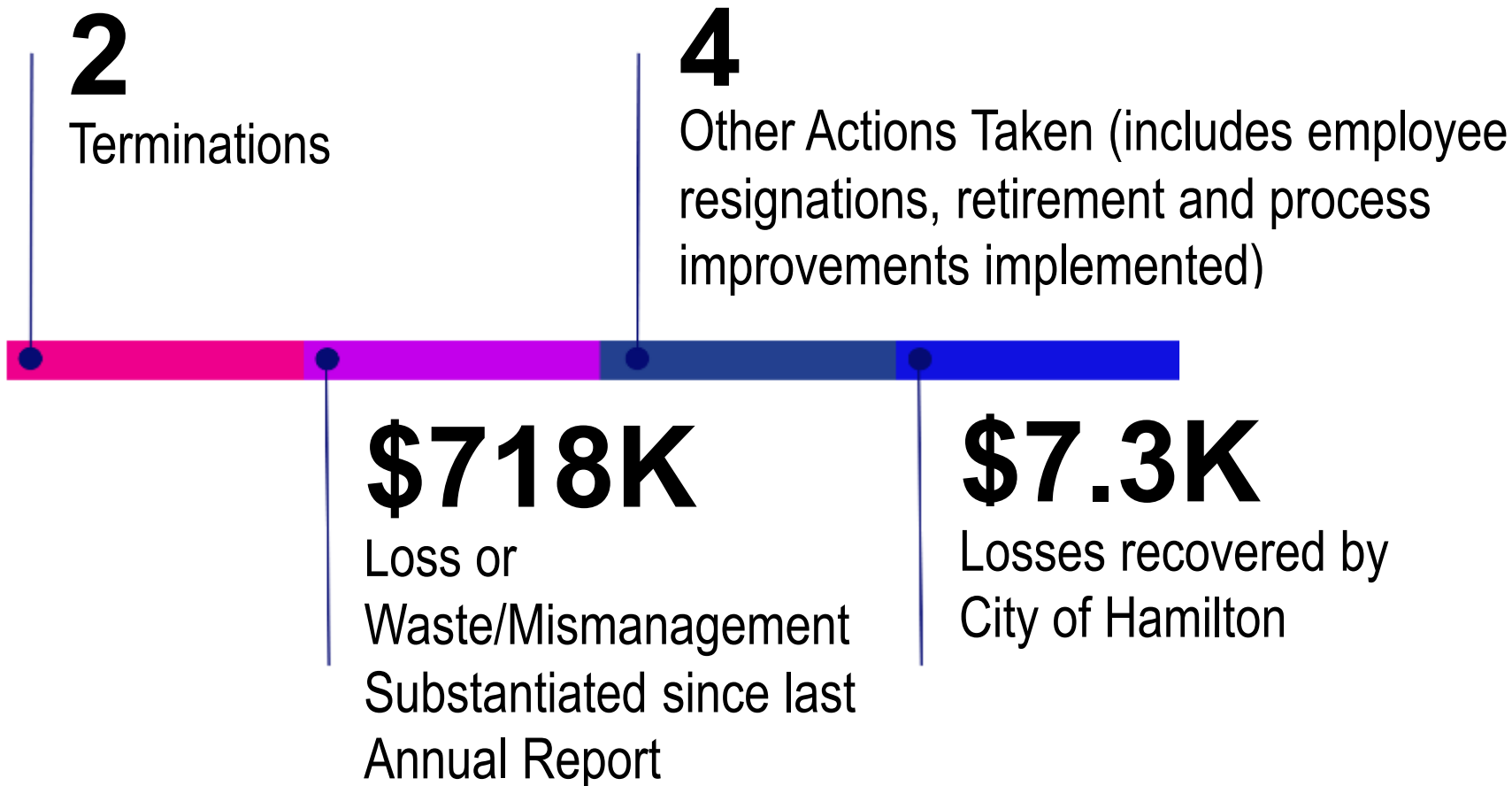


Outcomes



- Substantiated (25)
- Partially Substantiated (8)
- Unsubstantiated (41)
- In Progress (16)
- Not Applicable (30)

Total: 120



Conflict(s) of Interest #1

- Reports were received that a member of City management allegedly had a significant social relationship with two vendors that were favoured in how they were being selected for contract work with the City and in how the work was administered and overseen.
- OCA concluded the leader's relationships with these vendors constituted undisclosed conflicts of interest and led to the favourable treatment toward the contractors
- OCA also concluded the City should consider strengthening current policy with respect to the potential for conflicts of interest involving non-pecuniary interests and situations of extensive socializing with vendors.

City Recovers Costs Due to OCA Inquiries

- Two complaints were received where ultimately some costs were able to be recovered by the City.
- 1-A lessee was not compliant with lease terms. The OCA asked management to investigate. Ultimately about \$3,700 was found to be recoverable and was pursued through the Accounts Receivable process.
- 2-It was found that a contractor damaged City property. Ultimately about \$1,600 in damages were pursued by the City via the Risk Management process as a result of OCA fact finding.

Report Examples Continued

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.
- The investigation was completed, with Committee and Council notified of the results in December 2021. The investigation found no information that would indicate that contaminated soil from the Woodward and Governor’s Road public works projects was improperly disposed of at the named soil fill site (also known as the “Waterdown Gardens property”).
- The investigation determined that allegations that two City employees were involved in the haulage of contaminated soil to the property were also unsubstantiated.

Financial Reporting Error

- The OCA received a report regarding a building permit that had been issued in error by the City.
- Council had directed that all expenses were to have been drawn from a specific reserve fund.
- The OCA investigated and found that the costs were not charged to the reserve fund in error by Finance which substantiated the complaint.

Report Examples Continued

Commercial Business Being Run at a City Owned Property

- Report received of a commercial business operating at a City-owned property that was licensed from the City for a nominal fee.
- Ultimately the OCA found the report to be substantiated. It was also found that the license agreement had expired in 2013 and continued to operate on a month-to-month basis.
- OCA made five recommendations to minimize risk and liability to the City, and to strengthen the licensee agreement with the community organization and other licensee agreements with sport and community groups.
- In addition to the recommendations, the OCA decided to initiate an audit of leases and licenses.

Community Group Sub-letting City Facility to Others at a Profit

- It was alleged that a community group that leased a City facility for a nominal fee was sub-leasing portions of the facility to tenants at a profit. OCA conducted a preliminary assessment and the allegation was found to be substantiated.
- In addition, the lease expired in 2000 but has not been renewed, with the tenant continuing to occupy the building. In general, OCA found the risks associated with leasing and licensing to be significant, and as noted above, the OCA decided to initiate an audit of leases and licenses.

Report Examples Continued

Stolen iPads

- A City of Hamilton resident reported that they purchased a brand-new sealed 9th Gen iPad from Facebook Marketplace, and the first time they powered up the device the screen displayed City of Hamilton credentials. The resident identified the individual who sold them the iPad. Further review revealed 18 had gone missing.
- As a result of this incident, OCA completed a preliminary assessment and decided to complete a review of IT Asset Management with a focus on mobile devices which led to recommendations to improve security of assets

Year End Inventory Discrepancy: Significant Write-Off Required

- A report was received of a significant discrepancy within a Division's inventory records, where it was found that supplies worth approximately \$200,000 was missing during the year-end inventory count in 2021.
- The Division had experienced numerous challenges: implementing a new inventory system, hired new staff, ongoing COVID-19 pandemic response pressures. The entire amount was ultimately written off for the 2021 year-end.
- OCA staff attended the 2022 year-end inventory count (unannounced to the Division) to gauge the effectiveness of current internal controls relating to inventory management and found minimal issues.

Report Examples Continued

DARTS Vehicle Maintenance

- A fraud and waste complaint was received alleging inadequacies in the maintenance of DARTS vehicles. An investigative audit confirmed poor maintenance and systemic issues resulting in 73 recommendations

Ontario Works Fraud

- A report was received alleging that an individual was receiving income support from Ontario Works (OW) while living a lavish lifestyle (e.g. plastic surgery, overseas vacations, property purchases in other countries, etc.) and was allegedly leading a double life in Canada and another country. The allegations were found to be substantiated

Conflict of Interest with Vendor #2

- A manager responsible for oversight of capital projects was found to have family members who were working for frequent contractors. The relationships were not disclosed until OCA began investigating and the proposed mitigations were found to be inadequate. The conflicts of interest and other Code of Conduct issues led management to terminate the leader.

Roads Value for Money Audit – Additional Issues Identified

- OCA received information that certain weaknesses existed in the oversight of road quality management that were a detriment to value for money. With the assistance of external experts, an investigative audit was launched which confirmed weaknesses in the processes for weight/quantities validation and for ensuring the quality of friction course aggregates met specifications. Five recommendations for improvement were made.

Closing Remarks: City Auditor Reflections

Conflict of Interest (COI)

- For the second year in a row we note the apparent difficulty that management experiences in properly dealing with conflict of interest situations that arise with City employees.
- No fewer than 14 instances with issues identified since hotline launch.
- Current policy is not clear.
- Potential conflicts not being reported, if reported, existing processes are inadequate to ensure COIs are properly addressed.
- Objective adjudication of disclosures is needed.
- Central depository is needed.
- Need to elevate the importance of proper disclosure of potential conflict situations

Closing Remarks: City Auditor Reflections

Gifts and Hospitality

- The current Policy on Gifts and Hospitality is silent about the appropriateness of high levels of socializing with contractors or vendors.
- Employees need to be mindful of the perception that such conduct creates with members of the public, and the impact it can have on staff.
- We recommend:
 - 1) Consider defining and prohibiting “non-pecuniary interests” as part of the Code of Conduct and Procurement By-Law
 - 2) Amend conflict of interest policies to ensure avoidance, explicitly, of situations of high socialization with vendors and to give notice to employees that these types of conflict situations will require employees to demonstrate compliance with the Gifts and Hospitality policy.

Closing Remarks: City Auditor Reflections

The Fraud and Waste Hotline provides benefits that cannot always be quantified:

- Deters fraud, waste, and wrongdoing
- Strengthens internal controls and mitigation of risks
- Improves policies and standard operating procedures
- Building a culture of accountability
- Better value in service delivery
- Hotline report data can be used to identify trends and inform future audits for the Office of the City Auditor work plan

confidential
anonymous

SPEAK UP

Report any wrongdoing



Hamilton
Office of the City Auditor

Use the Fraud and Waste Hotline

www.hamilton.ca/Fraud

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

How to Report



Online
hamilton.ca/fraud



Email
cityofhamilton@integritycounts.ca



Phone
1-888-390-0393



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



Fax
1-844-785-0699

Thank you

For submitting reports and
cooperating during report
assessments and
investigations