



Hamilton

Office of the City Auditor

FRAUD AND WASTE

HOTLINE EVALUATION REPORT

July 1, 2019 to June 30, 2022

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City Auditor
March 23, 2023

Background: Before the Hotline

- No tool to administer case management and operate intake.
- Complaints made directly to our Office (email, phone call, “brown envelope”).
- Very low volume of reports (2-5 per year).
- Campaign was undertaken to publicize the Whistleblower Policy however very little change.
- Anecdotal information and City employee survey suggested employees not comfortable sharing concerns.
- No channel for complaints by members of the public.

Timeline: Fraud and Waste Hotline Pilot Program

- In 2018 Hamilton City Council approved a 3-year pilot program for a 3rd party hotline service - total budget \$94,500.
- Competitive RFP process was held in early 2019 for Fraud and Waste Hotline Intake Services (including live inbound call centre), Case Management Software, and Support.
- Vendor contract began in May 2019 to enable hotline setup and customization.
- Hotline went “live” to City staff, residents and vendors in July 2019.
- In 2022 Council granted extensions to pilot program to July 2023.

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

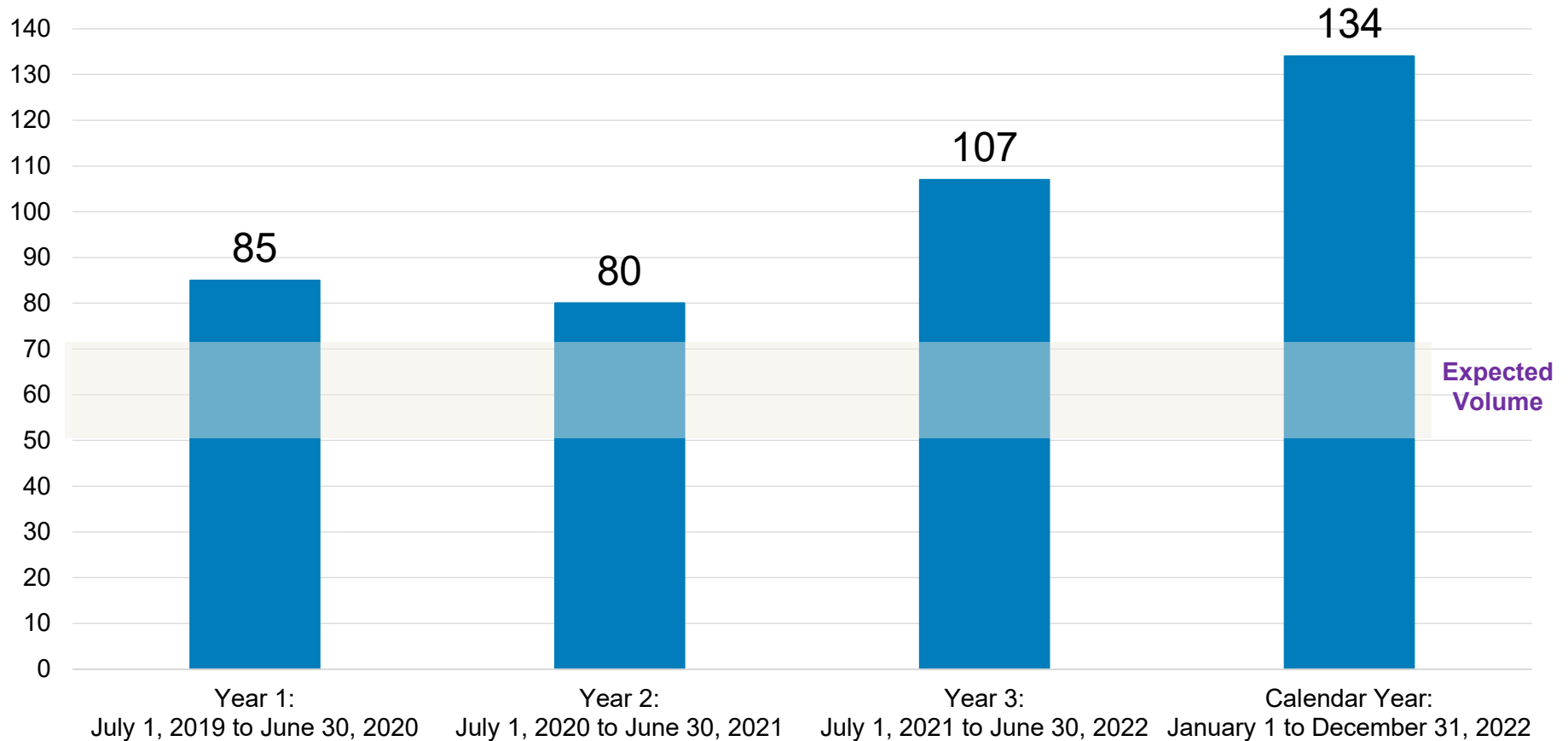
Available 24 hours a day 7 days a week

Hotline Goals and Accomplishments

- Our goals for the hotline: provide convenience and confidentiality to employees to report concerns; build trust so that more cases would be reported; introduce a mechanism for public engagement that was accessible, at reasonable cost; deliver relevant investigations of important issues that would result in positive change.
- These expectations have all been met or surpassed.
- The volume of reports has been consistently high, and continues to grow, exceeding original expectations every year.
- Many positive results have been achieved with the hotline including investigations of important concerns and identification of systemic issues.
- Three Fraud and Waste Annual Reports have been issued by the Office of the City Auditor summarizing the annual achievements of this service area.

Number of Reports by Period

July 1, 2019 to December 31, 2022

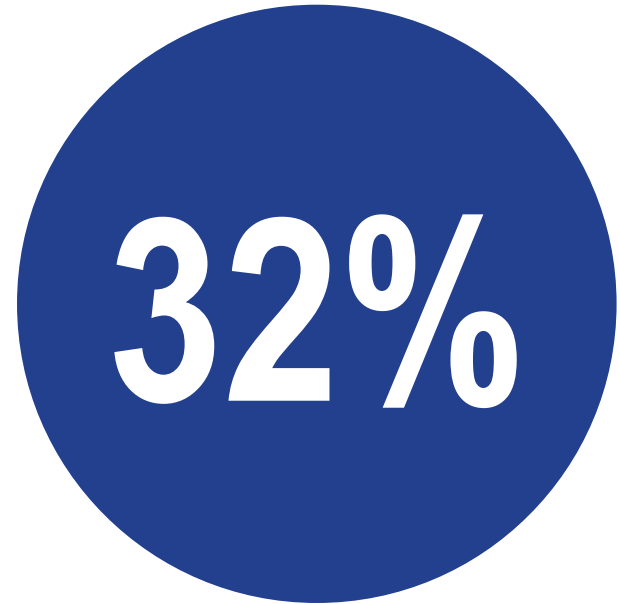


Pilot Program Statistics



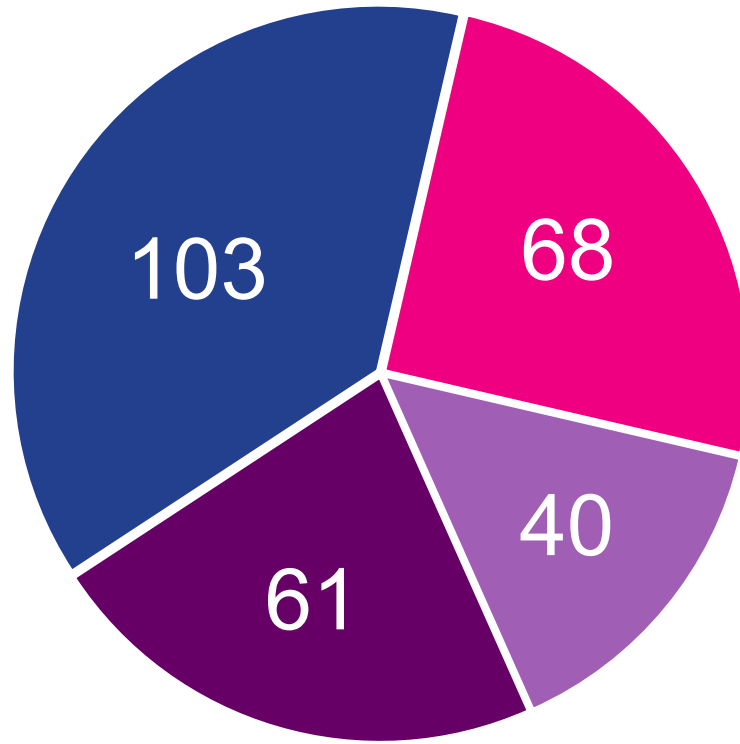
Reports

Received between
July 1, 2019 and June 30, 2022



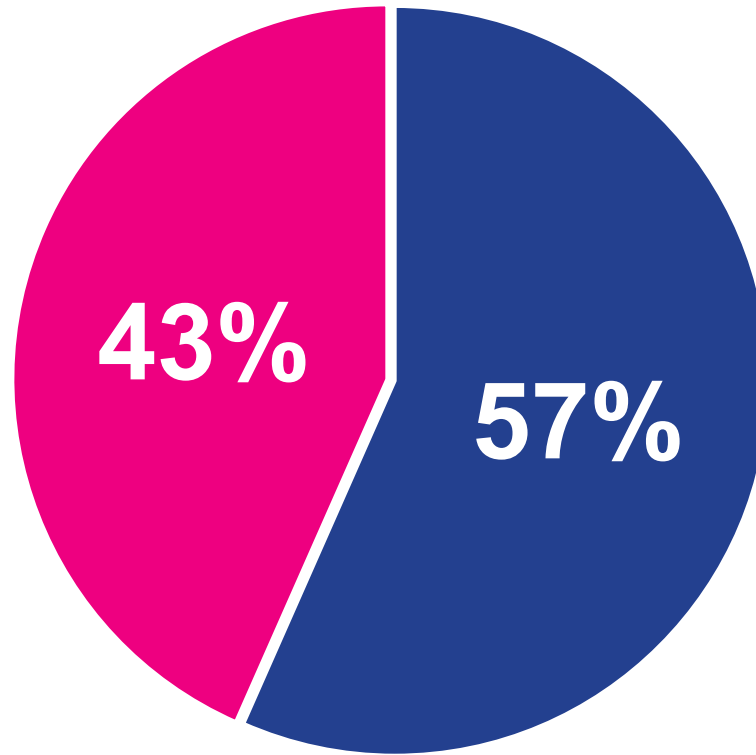
Most Recent Substantiation Rate

What We Did With The Reports



- Referral – Response Required (103)
- Investigations Launched (68)
- Referral – No Action Required (61)
- No Response Required, Not Enough Information, and/or Out of Jurisdiction (40) 8

Statistics - Employee Reports



- Non-Employee (Public) 118 (43%)
- Self-Identified as an Employee 154 (57%)

Hotline Cases Driving Audits/Leading to Systemic Insights and Improvement

- Control Weaknesses Respecting Case 2019-26707 (Report AUD20004)
- Special Audit Respecting Case 2019-013 (Report AUD20005)
- Audit Report 2020-04 – Transportation Operations Inventory Audit, Fraud & Waste Investigation, and Follow Up to Audit Report 2013-17 – Public Works – Traffic Inventory (Report AUD20008)
- Road Maintenance Small Tools and Equipment Inventory Audit and Follow up to Audit Report AUD11006 (Report AUD21010)
- IT Asset Management Review (AUD22006)
- Roads Value for Money Audit - Roads Quality Assurance Supplementary Audit Report (Report AUD21006(a))
- Accessible Transit Service: DARTS Fleet Management and Vehicle Safety Audit (Report #50695) (Report AUD22007)
- Hamilton Municipal Cemeteries Trust Funds (Report AUD23001)

Outcomes from Audits Initiated from the Hotline



Recommendations Made

OCA audits initiated by the hotline have resulted in 176 recommendations



Acceptance Rate of Recommendations

Outcomes Identified

14

Terminations

15

Other Actions Taken (includes discipline, employee resignations, retirements, process improvements implemented, letters of counsel issued, etc.)

\$1.16M

Loss or
Waste/Mismanagement
Substantiated
July 2019-June 2022

\$33.3K

Losses recovered by
City of Hamilton

Contribution of the Hotline to Corporate Ethics

- One of the City of Hamilton's corporate values is "Steadfast Integrity".
- Making the Fraud and Waste Hotline permanent enables Council to demonstrate commitment to this corporate value and signal its importance to staff.
- Between the 2017 and 2021 OPS employees are 2.4% more comfortable speaking up. During this period the Fraud and Waste Hotline was launched.
- This was one positive change noted in the survey's ethics results. However there is still work to do.
- Of the five survey index scores calculated, "Overall Ethics and Integrity" had the lowest score in the 2021 Our People Survey (OPS).
- There was a 5.3 percentage point decrease in the driver "Uphold Code of Conduct". (Fewer employees agreed with the statement "I have not felt pressure to compromise ethics and values").

What the Research Says

- Frauds are more likely to be detected when a hotline is in place.
- Tips are by far the most useful method of fraud discovery (3 times more often than the next closest method).
- Fraud losses were 2x higher at organizations without hotlines.
- Reporters' preferred methods of reporting are diverse and evolving.
- Multiple channels for reporting (e.g. online, email, telephone, mail) should be maintained.
- Overall, having both a hotline and a strong audit function (Office of the City Auditor) are critical to the City's mitigation of fraud-related risks.

Source: ACFE, *Occupational Fraud 2022: A Report to the Nations*

- Pilot has run significantly under budget due to very competitive pricing.
- Funds will remain even after an extra year of pilot has been completed (4 years instead of 3 completed).
- With the extra year of the pilot, still projected to be under budget by about \$30K (31%) as at July 31, 2023.
- Current annual cost is reasonable at \$12,500 per year (service includes 24/7/365 live intake as well as case management software and support).

Staffing Impacts of Hotline

- With a total of 272 reports being assessed this has created a significant amount of unanticipated workload.
- For the most recent reporting period, this is approximately equivalent to 2.3 frontline audit FTEs annually.
- There are no staff dedicated solely to the Fraud and Waste Hotline Pilot Program.
- Audit Management spends between 30-50% of their time on Fraud and Waste matters.
- This effort is similar to having completed 10 to 12 audits of significant scope and complexity during the three-year pilot.

Procurement of Future Services

- OCA is requesting the ability to negotiate a single sourcing for continuation of the hotline service with the current provider.
- If within the range of the current pricing (allowing for appropriate inflation) it would still be reasonable and competitive.
- In 2019 we received only 2 compliant bids and the winning proponent had a cost per point that was less than half the other proponent. The current market remains a niche market.
- Maintains continuity and avoids potentially 2 months of configuration, setup, training and associated cost of 5-10K with a different vendor.

Recommendation to Re-Name Office as Auditor General

- The position of City Auditor has been designated as an Auditor General under the *Municipal Act* since 2012 when the model adopted was a “hybrid” of internal audit and auditor general.
- In practice, the Office has been operating the last few years as an auditor general only.
- Acknowledges the reality that the Office has shifted entirely to auditor general work.
- Based on feedback received by our Office, now would be an ideal time to re-name as Office of the Auditor General so that it is easier for the public to understand our independence and our role.
- There is minimal cost associated with this, our logo can be updated in-house along with our webpages (www.hamilton.ca/audit and www.hamilton.ca/fraud) and the next printing).

Impact of Proposed Change to Auditor General

- The change of name to Auditor General will require revision to the Whistleblower By-Law No.19-181, Auditor General By-Law No.19-180, and Procedural By-Law 21-021
- It will also necessitate changes to the Council-approved Audit Charter to amend the name and references from City Auditor to Auditor General, and to remove services that are applicable to the internal audit function no longer being performed (risk assessment and consulting services)
- In addition to revising the Whistleblower By-Law 19-181 for the name change, OCA proposes an enhancement toward making the By-Law more effective in offering whistleblower protection to employees
- Currently, the Whistleblower By-Law covers employees that bring forward complaints of serious wrongdoing. Our considerable experience with investigations since the hotline was introduced has demonstrated a need for having the same provisions for employees that are cooperating witnesses to our investigations, so that they may be similarly protected from reprisal for providing evidence to investigators.

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

Summary of Recommendations

- Make the Fraud and Waste Hotline Permanent and fund through operating levy
- Approval for the OCA to single source and negotiate with existing vendor for a five-year contract.
- Approve re-naming to Office of the Auditor General and have all corporate systems reflect this change.
- Approve updating of Audit Charter and audit-related By-Laws to reflect re-branding, the current service offering as an Auditor General, and the proposed enhancement to the Whistleblower By-Law to include cooperating witnesses.

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



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QUESTIONS?