



Hamilton

**CITY OF HAMILTON
OFFICE OF THE CITY AUDITOR**

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	March 23, 2023
SUBJECT/REPORT NO:	Fraud and Waste Hotline Pilot Program: Evaluation (AUD23005) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Brigitte Minard CPA, CA, CIA, CGAP (905) 546-2424 Ext. 3107 Charles Brown CPA, CA (905) 546-2424 Ext. 4469 Cindy Purnomo Stuive (905) 546-2424 Ext. 2257
SUBMITTED BY:	Charles Brown, CPA, CA City Auditor Office of the City Auditor
SIGNATURE:	

RECOMMENDATION

- (a) That the Fraud and Waste Hotline Pilot Program be made permanent.
- (b) That effective July 1, 2023, the Fraud and Waste Hotline be funded via the operating levy through the Office of the City Auditor's operating budget, first by exhausting any remaining funding that was previously approved by Council.
- (c) That Council approve the single source procurement, pursuant to Procurement Policy #11 – Non-competitive Procurements, for the Fraud and Waste Hotline Intake Services, Case Management Software, and Support until July 31, 2028 and that the City Manager be authorized to negotiate, enter into and execute a Contract and any ancillary documents required to give effect thereto with Whistleblower Security Inc., in a form satisfactory to the City Solicitor.

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.

- (d) That the name of the Office of the City Auditor be amended to the Office of the Auditor General in all corporate systems, on the City's website, and within any City Policy that references that Office, including but not limited to the Fraud Policy and Protocol, the Code of Conduct for Employees and Schedule F of the Code of Conduct for Employees "Interacting with the Office of the City Auditor" so that the independent and objective nature of the work being performed is recognized, acknowledged, and more easily understood by the public and staff.
- (e) That the position City Auditor be known as the Auditor General and this be updated in all corporate systems, on the City's website, and within any City Policy that references that Office, including but not limited to the Fraud Policy and Protocol, the Code of Conduct for Employees and Schedule F of the Code of Conduct for Employees "Interacting with the Office of the City Auditor".
- (f) That the revised Audit Charter (Appendix "A" to Report AUD23005) be approved.
- (g) That Legal Services be directed to prepare a by-law to amend the City's Procedural By-law 21-021, as amended, to replace Schedule F1, with the revised Audit Charter, attached as Appendix "A" to Report AUD23005 and to update references made to the City Auditor and the Office of the City Auditor within the Procedural By-law 21-021 to Auditor General and the Office of the Auditor General and that notice of the proposed amendment be given pursuant to the City's Public Notice Policy By-law 07-351.
- (h) That a by-law to amend the City Auditor By-law 19-180, to reflect the change from Office of the City Auditor to Office of the Auditor General and City Auditor to Auditor General attached as Appendix "B" to Report AUD23005, be enacted by Council.
- (i) That a by-law to amend the Whistleblower By-law 19-181, to reflect the change from Office of the City Auditor to Office of the Auditor General and City Auditor to Auditor General and to extend protections from reprisals to include employees who are witnesses in whistleblower investigations attached as Appendix "C" to Report AUD23005, be enacted by Council.

EXECUTIVE SUMMARY

About the Fraud and Waste Hotline

The City of Hamilton currently provides a convenient, confidential and anonymous way for members of the public, its employees and contractors/vendors to report suspicions or proof of wrongdoing, defined as any kind of activity that could be deemed illegal,

dishonest, wasteful or a deliberate violation of a City of Hamilton policy as part of the Fraud and Waste Hotline Pilot Program.

The Fraud and Waste Hotline is managed by the Office of the City Auditor, an independent and objective office that is accountable to Council via the Audit, Finance, and Administration Committee. The Office will review and assess each report and, if necessary, launch an investigation. An appropriate, objective and impartial assessment is conducted, regardless of the alleged wrongdoer's position, title, and length of service or the relationship with the City of any party who might be involved in such an assessment and investigation.

The Hotline empowers all members of the public and City of Hamilton employees to report concerns and thereby enable the City of Hamilton to operate with a high level of honesty and integrity. It is important to remember that reports of fraud, waste/misconduct and wrongdoing to the Hotline should be made in good faith.

In its 2022 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. Having a Fraud and Waste Hotline enables the City of Hamilton to augment fraud detection and improve the chance of early discovery of wrongdoing and mitigation of impact.

This report requests that the hotline be made permanent, and further recommends that the OCA be known as the Office of the Auditor General to make it easier to understand the independent and objective nature of the office and the work, and also in recognition and acknowledgement of the practical reality that the Office no longer functions as a hybrid model (internal audit and auditor general). This will necessitate changes to the Audit Charter to amend the name and references of the Office to Auditor General, and to remove services applicable to the internal audit function. It will also require similar revision to the Whistleblower By-Law No.19-181, Auditor General By-Law No.19-180, and Procedural By-Law 21-021.

In addition to revising the Whistleblower By-Law No.19-181 for the change in name to Auditor General, it is proposed that the Whistleblower protections in the By-Law be enhanced. Currently, it includes 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.

This report also requests the ability to negotiate a single source contract for intake and case management services with our current service provider.

Alternatives for Consideration – See Page 26

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: Costs of ongoing long-term operation of the Fraud and Waste Hotline are expected to be similar to the costs during the pilot program (\$12,500 annually for 2019-2022), however inflationary increases are a possibility due to the fact that the original contract was signed in 2019.

Staffing: None.

Legal: Legal was consulted and provided assistance on the required revisions to By-Laws and will assist with the contract for hotline services

HISTORICAL BACKGROUND

On June 27, 2018, Council approved the City Auditor’s recommendation 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 went live in July 2019. Since then Council has granted two extensions: one through to May 9, 2023, and the second through to July 31, 2023 using existing funding so that this annual report and a hotline evaluation report could be presented to Council and to allow time to either complete a negotiation with the existing vendor or undertake a new competitive procurement if the hotline is made permanent, or wind up operations if the pilot concludes and the hotline is not made permanent. This time extension was able to be accommodated within the original hotline budget that was approved by Council. The contract with the third-party vendor (Whistleblower Security Inc.) that provides intake services and case management software and support began in early May 2019, as some setup, preparation and training time was required in advance of the July 2019 hotline launch, and currently expires on July 31, 2023. Whistleblower Security Inc. was the successful proponent from a competitive Request for Proposal (RFP) process that was held in early 2019.

This report summarizes and evaluates the accomplishments of the Fraud and Waste Pilot Program from July 2019 to June 2022, and OCA is requesting that the Fraud and Waste Hotline be made a permanent component of the Office of the City Auditor’s service offering and approval to enter negotiations to single source with the existing service provider is being requested.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

Whistleblower By-law No. 19-181

To Appoint the City Auditor as an Auditor General under Section 223.19 of the *Municipal Act, 2001* By-law No. 19-180

Procurement Policy By-law No. 20-205 as amended, Policy #11 Non-competitive Procurements, Section 4.11:

(2) Council must approve any requests for negotiations for:

- (a) a single source as set out in subsection (1)(b) of this Policy #11, where the cumulative value of the Policy 11 exceeds a multi-year value of the proposed procurement is \$250,000 or greater. For greater clarity, the total cumulative value of a Policy 11 shall not exceed \$250,000 in any given year or multiple consecutive years; or
- (b) an extension as set out in subsection (1)(c) of this Policy #11, where the extension exceeds 18 months from the expiry of the Contract with a vendor.

It is expected that a longer-term contract for hotline services would be under \$250,000 but would be an extension that exceeds 18 months from the expiry of the contract with the vendor, thus Council approval to negotiate is being requested in this report.

Procedural By-law 21-021, as amended

Public Notice Policy By-law 07-351

RELEVANT CONSULTATION

The OCA consulted with the following areas while writing this report:

Financial Services Division: Procurement Section, with respect to adherence to the Procurement Policy.

Financial Planning, Administration and Policy Division: Finance and Administration Section

Legal Services Division with respect to By-Law amendments

ANALYSIS AND RATIONALE FOR RECOMMENDATION

The Fraud and Waste Pilot Program has completed three complete years of operation as at June 30, 2022. The most recent Fraud and Waste Annual Report was presented in February 2023.

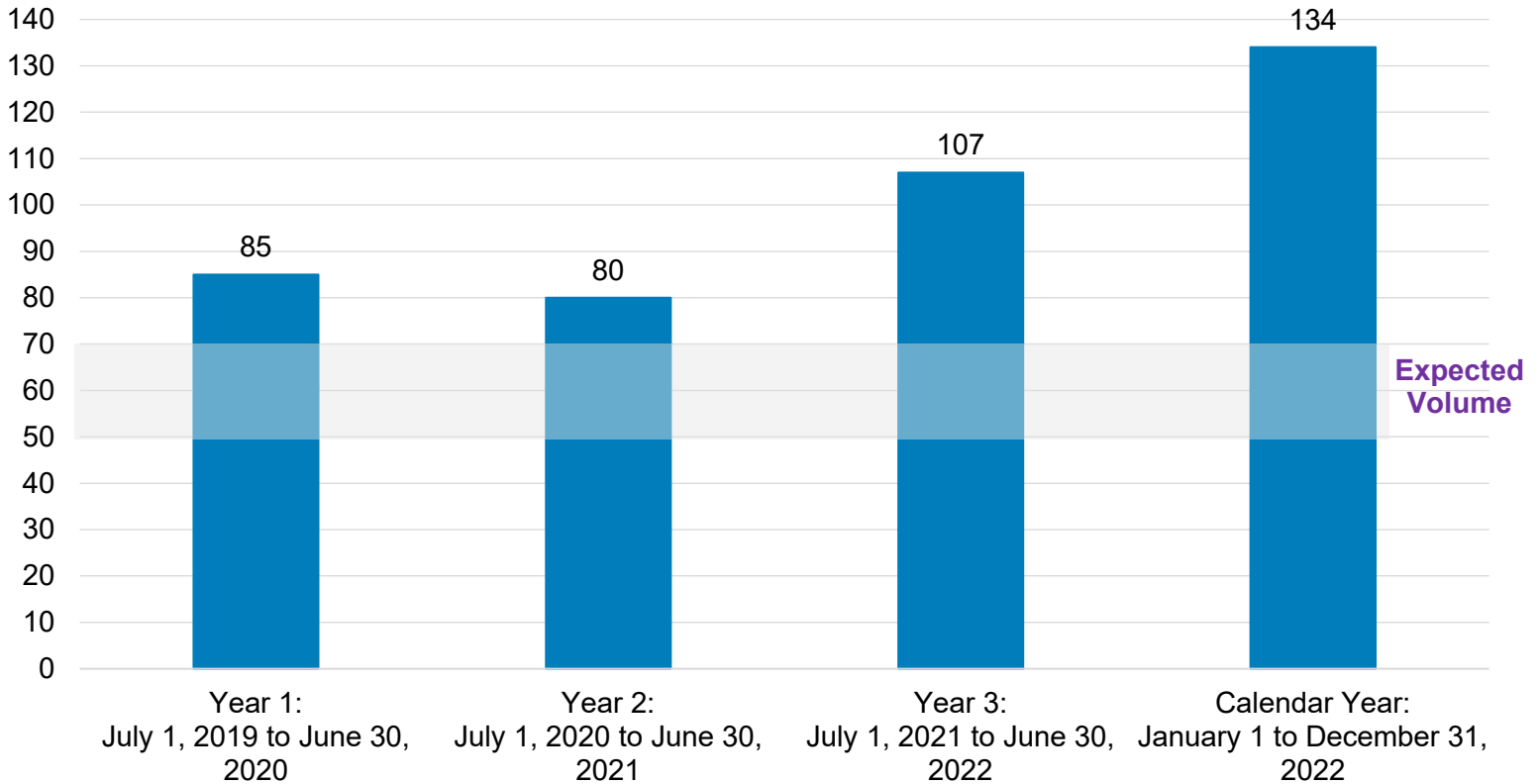
Overall, many positive results have been achieved with the hotline, and all of its intended goals and expected outcomes have been surpassed. Three Fraud and Waste Annual Reports have been issued by the Office of the City Auditor summarizing the annual achievements of this service area.

Hotline Report Volume

The volume of reports has been consistently high, exceeding original expectations in every year. When Council directed the implementation of the Fraud and Waste Hotline Pilot Program, the OCA researched other jurisdictions and expected that the annual report volume would likely be in the 50-70 report range if the hotline launch was successful.

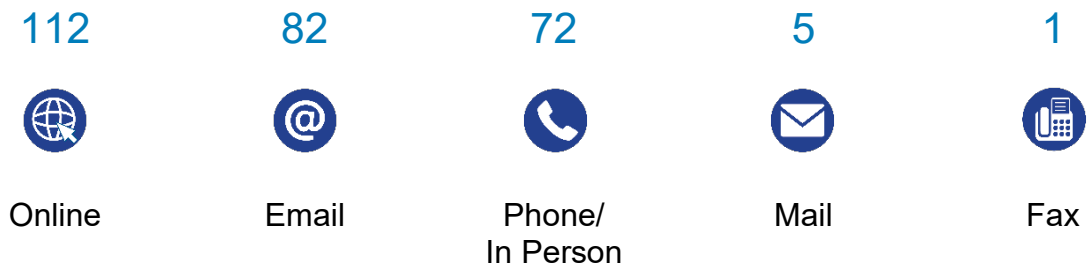
The volume of hotline reports received for each reporting period have surpassed these expectations, and have continued to grow as noted in the graph below.

Number of Reports by Period July 1, 2019 to December 31, 2022

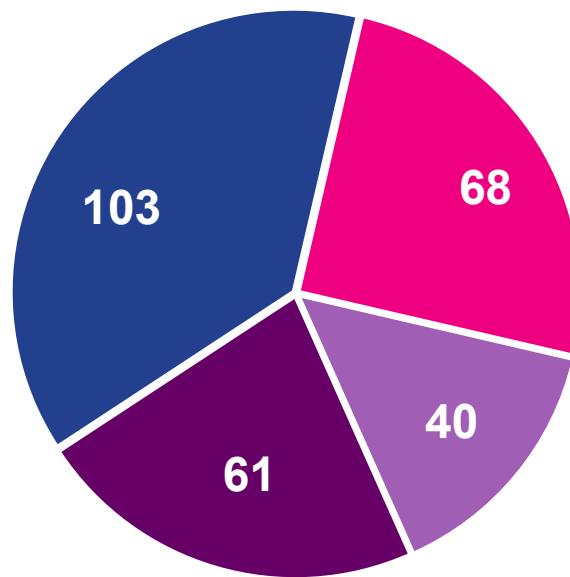


The total number of reports received in the first 36 months of the Fraud and Waste Hotline being operational (July 2019-June 2022) was 272. The method of communication most often used (see below) was online reporting which had 112 reports. This is the most convenient method for most reporters, and it allows for ongoing communication with the reporter, regardless of whether the reporter wishes to remain anonymous.

Number of Reports by Source July 1, 2019 to June 30, 2022



Report Types July 1, 2019 to June 30, 2022



- Referral – Response Required - 103
 - Investigations Launched - 68
 - Referral – No Action Required - 61
 - No Response Required, Not Enough Information, and/or Out of Jurisdiction - 40
- Total Reports - 272**

Investigation Type July 1, 2019 to June 30, 2022

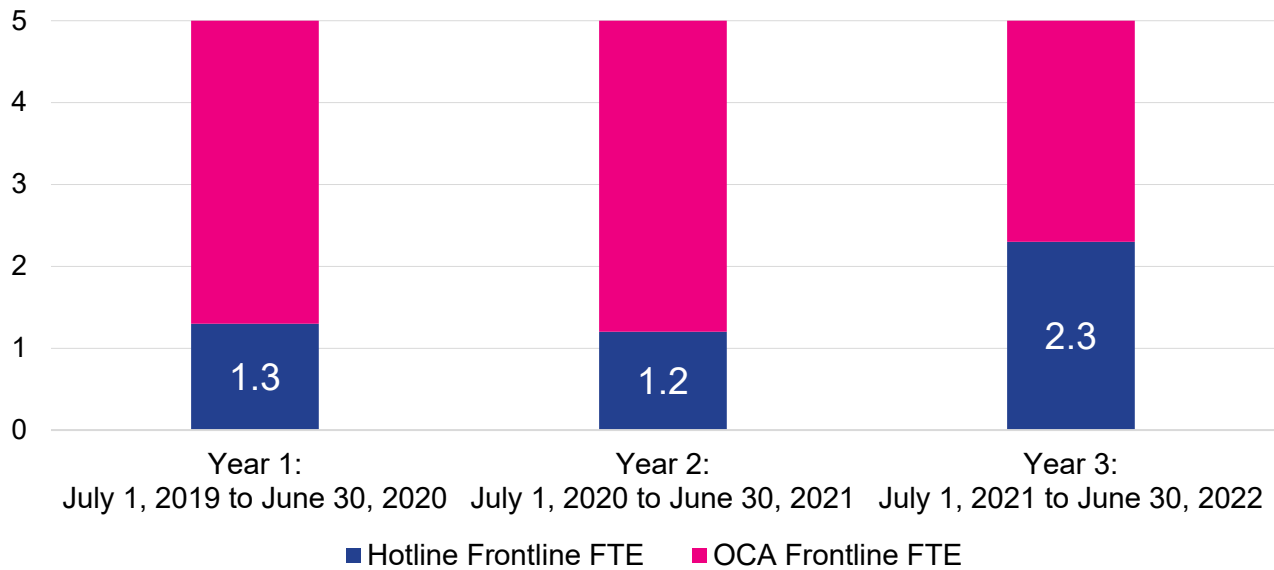


Staffing Impacts

With a total of 272 reports being assessed by the Office of the City Auditor in the 3-year period between July 1, 2019 to June 30, 2022, this has created a significant amount of unanticipated workload. There are currently no staff dedicated solely to the Fraud and Waste Hotline Pilot Program. Rather existing staff are used to complete assessments and investigations, with some usage of external specialty expertise for investigations that require additional support, expertise or urgent attention.

In total, over 8,700 hours were spent on Fraud and Waste Hotline administration, assessment, investigations and reporting during this 3-year period. For the most recent reporting period, this is approximately equivalent to 2.3 frontline audit FTEs annually (excluding management's time spent on hotline matters). There are five frontline employees in the OCA. Another way of looking at the resource requirements, the effort is similar to having completed 10 to 12 audits of significant scope and complexity during the three-year pilot. In addition, 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. Also, the time spent continues to grow. For example, compared to the prior year, the most recent year shows time spent by OCA staff has risen by more than 90%. Please see the graph below.

Work Volume July 1, 2019 to June 30, 2022



Breakdown of Reports (Complaints Received)

From July 2019 to June 2022, a total of 272 reports were received and assessed.

Of the 272 reports received, 187 reports were received via the third-party hotline operation. Another 85 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 85 proxy reports received directly by the OCA, 38 were made by City Staff, and 24 were received from City Management. Nineteen items were received directly from residents, three were received directly from a Councillor’s Office and one was received directly from the media.

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 of aggregate statistics. The OCA reserves the right to investigate any matter which is not found to be satisfactorily investigated.

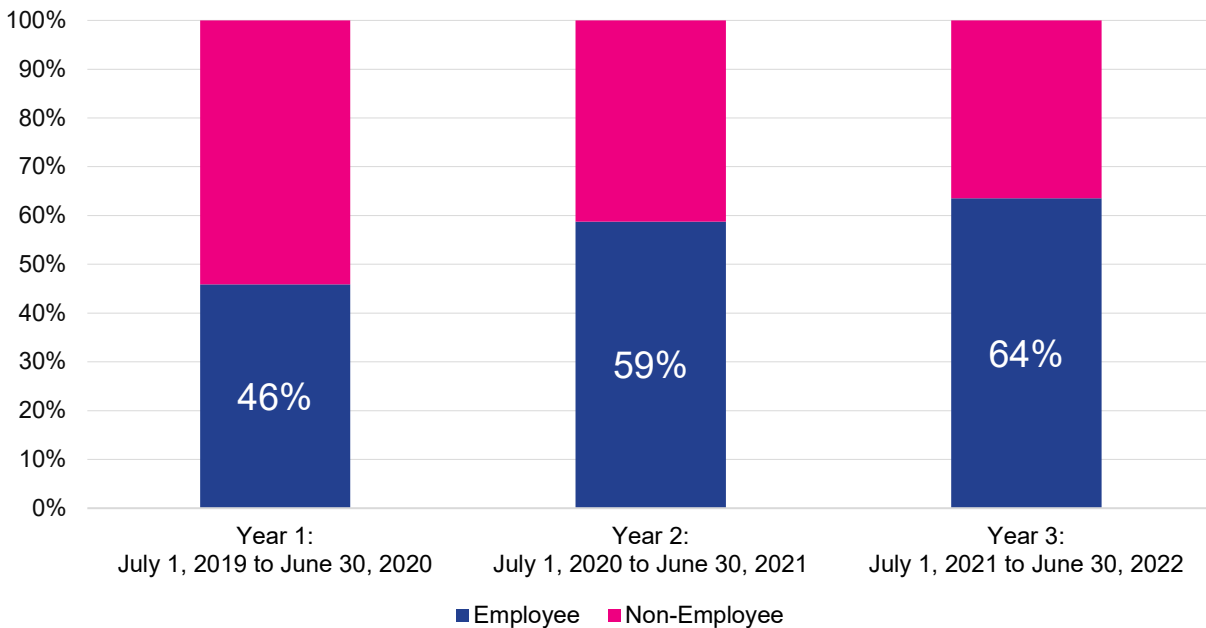
Employee Reports

Overall, 57% of these 272 reports were reported by City of Hamilton employees (154) and 43% were made by citizens. The percentage of reports received from employees has been increasing each year since the launch of the Hotline (see graph below).

Eighty-six of the 154 employee reports were made anonymously (56%). The remaining 68 reports (44%) were employees that identified themselves. Many of these 68 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.

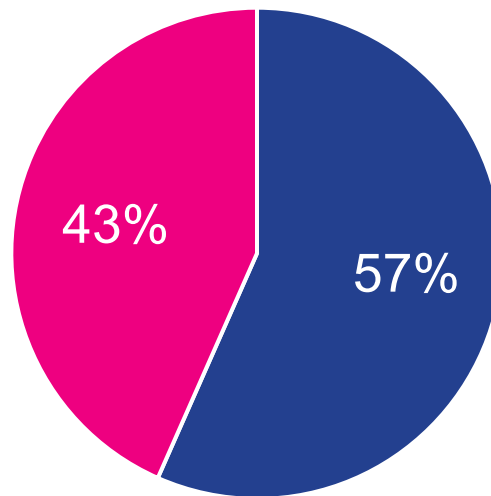
Employee Reports July 1, 2019 to June 30, 2022



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.

Employee Reports July 1, 2019 to June 30, 2022



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

Anonymous Reports

When a report is made anonymously, it cannot qualify as a whistleblower disclosure per the Whistleblower By-law, although it may meet the definition of serious wrongdoing. The majority of the employee reports (56%) received by the Office of the City Auditor are anonymous and therefore do not qualify as a whistleblower matter. Overall, fifty-six percent (56%) of the 272 reports received for the three-year 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.

Without the Fraud and Waste Hotline, receiving these anonymous reports via email, online, telephone and fax would not be possible.

Whistleblower Disclosures



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.

For the three-year period between July 2019 to July 2022 there were nine qualifying Whistleblower disclosures.

Report Categories

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

Top Report Categories Period Summary: July 1, 2019 to June 30, 2022

Multiple Categories Applicable	52
Social Services - Fraud/Wrongdoing	40
Time Theft and/or Misconduct	33
Out of Jurisdiction	22
Service Complaint/Concern	21
Conflict of Interest	14
Improper Financial Reporting/Budgeting	14
Theft/Misappropriation	12
Misuse of City Resources	10
Waste/Mismanagement	10
Fraud/Wrongdoing	6
Employee Benefits Fraud	5
Contractor/Vendor Wrongdoing	4
Phishing/Identity Theft	2
Public Safety	2
Reprisal	1
Other Various Categories	24
Total Reports	272

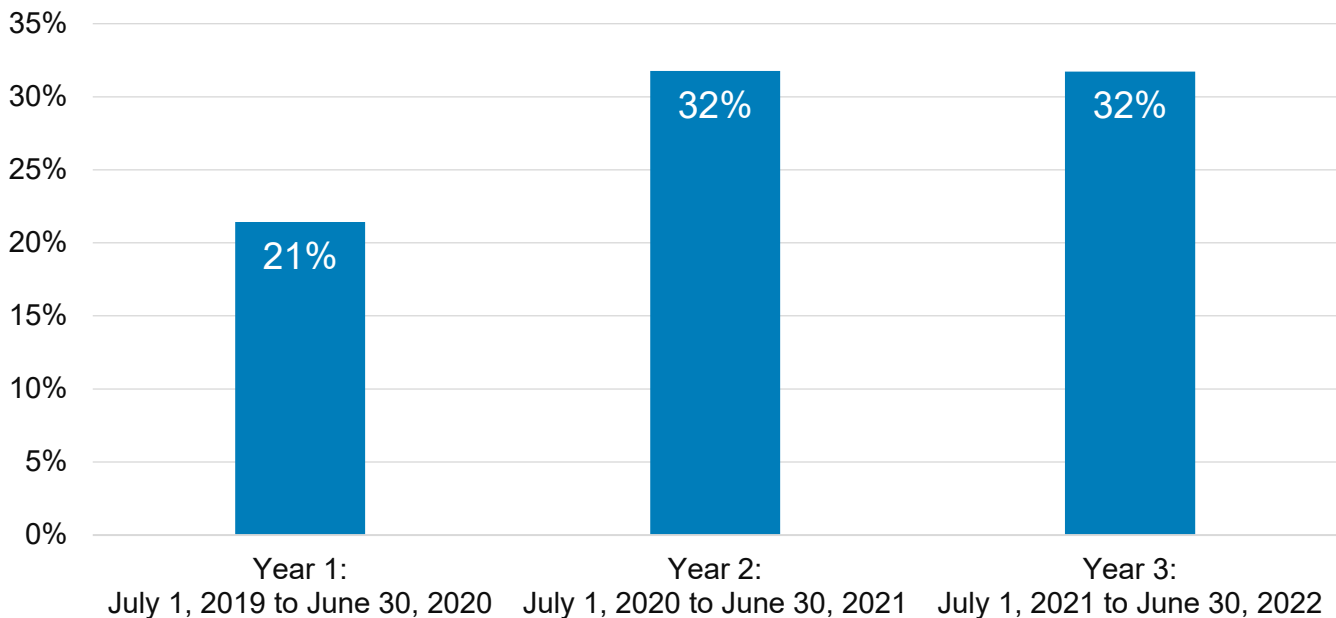
Having the top report category be “Multiple Categories Applicable” is indicative of the growth in complexity of the reports we receive, many of which contain multiple allegations that need to be assessed and investigated (if applicable).

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 a preponderance of evidence.

Of the reports received from July 2019 to June 2022 (plus any carryforward reports from prior years) the following is a summary of substantiation 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 without report back.

Substantiation Rate by Period July 1, 2019 to June 30, 2022



The City of Hamilton’s substantiation rate was 21% for the first year and remained consistent at 32% thereafter. For comparison, the City of Toronto’s Auditor General and City of Ottawa’s Auditor General for the three most recently published reporting periods are shown below.

City	Reporting Period		
City of Hamilton: Office of the City Auditor	32% (2021-22)	32% (2020-21)	21% (2019-20)
City of Toronto: Auditor General	10% (2022)	17% (2021)	9% (2020)
Ottawa: Office of the Auditor General	26% (2021)	33% (2020)	46% (2019)

Note: All three cities listed above are designated as Auditor General's per the Municipal Act, branding varies across the municipalities.

As can be seen, the substantiation rate can vary annually for any City that operates a Fraud and Waste Hotline. It can also be seen that Hamilton has achieved a reasonable level of substantiation.

Loss or Waste/ Mismanagement Substantiated

It is often challenging to measure or quantify a precise cost of fraud and waste in all cases. However, where possible, the OCA will estimate losses due to fraud or waste.

Below is a summary of confirmed loss or waste substantiated by the Office of the City Auditor during the three years of the Fraud and Waste Pilot Program.

Reporting Period	Fraud	Waste/ Mismanagement	Unable to Determine Category	Total
2021-22	\$8,600	\$709,400	\$0	\$718,000
2020-21	\$2,000	\$233,000	\$0	\$235,000
2019-20	\$100,000	\$45,000	\$57,000	\$202,000
Total	\$110,600	\$987,400	\$57,000*	\$1,155,000

*Note: In Report AUD23003, this amount was incorrectly reported as \$59,000 due to a typographical error in a prior year report. The cumulative total was also slightly impacted by this. The correct totals are noted above. Both totals round to \$1.16M, overall impact is minimal.

Recoveries and Impact

Reporting Period	Recoveries
2021-22	\$7,300
2020-21	\$5,000
2019-20	\$21,000
Total	\$33,300

In some cases, an investigation resulted in the recovery of losses due to fraud. Of the \$110,600 in fraud losses that were quantified, recoveries amounted to \$33,300. The OCA notes that recoveries will vary from year to year, are not predictable and would typically be a small percentage of total fraud and waste that is quantified each year.

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. The number of disciplinary and other actions will vary from year to year. While the number is not controlled by the OCA, it is reported for information purposes in our annual reports. The following shows the disciplinary actions taken as a result of cases pursued.

Reporting Period	Terminations	Discipline & Other Actions
2021-22	2	4
2020-21	7	6
2019-20	5	5
Total	14	15

Note: Numbers from previously annual reports may not total due to ongoing data cleaning and continuous quality work that is performed by the OCA.

Benefits of the Hotline

In order to understand the benefits of the hotline, it is important to understand the environment in the years prior to launch. Previously the City had no formal mechanism to intake allegations, or even manage and administer the cases that were received. Reports were being made directly to our Office, however the volume of complaints was very low (from 2-5 annually depending on the year). At one point, a campaign was conducted to publicize the City's Whistleblower Policy to employees, to increase reporting but it resulted in no change to the level of intake. Anecdotal information and the City's first employee survey suggested employees were not comfortable bringing forward complaints. In addition, there was no mechanism for members of the public to engage with the Auditor's Office and submit complaints.

The objective of the hotline was to provide convenience and confidentiality to employees, and build trust so that more cases would be brought forward. Our expectation, based on research, was that volume would increase to approximately 50-70 cases per year. In addition, we wanted to provide a mechanism for public engagement regarding citizen concerns, using a tool that would be accessible, and at reasonable cost to the City. We also wanted the complaints to lead to relevant investigations of important issues that would result in corrective actions and positive change.

The hotline has exceeded all our expectations including the fact that we have had a substantial volume of use by both employees and citizens. The first year saw a level of cases that was above the estimated benchmark of 50-70 at 85 reports. From there it has grown even more, and far in excess of the original benchmark by reaching an annual rate of 134 cases. Employees are clearly more comfortable reporting concerns, and the public has been successfully engaged with 118 reports coming from citizens over the three-year period. The hotline tool offers convenience (24/7/365) and accessibility through a number of channels. Through our current vendor, Whistleblower Security Inc., trained Canadian agents are available to take calls in English and French, and can further service another 150 languages in addition to supporting hearing or speech accessibility needs. The intake website provided by the vendor also accommodates over 25 languages, and provides multi-lingual and accessible report intake services to those with hearing or speech accessibility needs.

The cost of the hotline has been modest at \$12,500 per year, and the resulting investigations have had a very respectable substantiation rate of 32%. Complaints investigated have led to important improvements in the oversight of vehicle safety at DARTS, the security of cash handling, and in processes for managing City inventories. Overall, original funding of \$94,500 (\$30,000 for three years, plus \$4,500 in set up costs) was approved by Council for a three-year pilot program. Council has approved

the extension for a fourth year, and even with the extension, about \$30,000 in funding remains, as the hotline has been consistently under budget. Even with the fourth year added, the hotline remains about 31% under the original Council-approved amount.

In addition to meeting its intended goals, the hotline has provided valuable insights that have helped in deciding where and when to deploy or undertake a full audit, and in identifying systemic issues or patterns of activity that need to be addressed. For example, through repeated investigations we concluded there was a need for the City to address potential conflicts of interest with greater effectiveness through a more robust process.

Hotline Cases Driving Audits/Leading to Systemic Insights and Improvement

Throughout the pilot program, we made it a practice to initiate spontaneous system or process audits in response to issues that could have systemic repercussions. In that regard OCA launched audits and/or reviews and ultimately issued the following reports:

- 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)

OCA audits initiated by the hotline have resulted in 176 recommendations with an acceptance rate of 99%. We also note that during the pilot program, as the pilot program wraps up, we are now seeing fewer cases of fraud relating to the City-Wide Cash Handling Policy. This is indicative of the hotline being an effective fraud deterrent.

Other Important Benefits

Other important contributions stemming from the use of a hotline is in how it influences and improves the ethical climate of the organization.

Global Research Study Findings

In its 2022 biennial global study on occupational fraud (*Occupational Fraud 2022: A Report to the Nations*), 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. Per the ACFE report, 42% of frauds were detected by tips, which is 3x as many cases as the next more common method. The report also noted that organizations with hotlines detect fraud more quickly and have lower losses than organizations without hotline. Having a Fraud and Waste Hotline therefore enables the City of Hamilton to augment fraud detection processes and improves the chance of early discovery of wrongdoing.

The ACFE report also notes that the most common occupational fraud schemes in government and public administration are cases involving corruption, and that overall the percentage of cases involving corruption is on the rise. Corruption is defined as a scheme in which an employee misuses their influence in a business transaction in a way that violates their duty to the employer in order to gain a direct or indirect benefit. Corruption includes: conflicts of interest, bribery, illegal gratuities, and economic extortion.

Some of the major findings of this report are as follows:

- The most common method of detection is by tip (42%) of cases were uncovered by tips in the ACFE Report.
- The percent of tips has consistently been increasing in the past 10 years, with 58% of tips made through hotlines.
- More than half of all tips came from employees, but close to a third came from outside parties.
- The report concludes that designated reporting mechanisms (e.g. hotlines) should target both staff and external (e.g. the public and vendors for the City of Hamilton).
- Tips were 3x more likely to be utilized (42%) than the next closest method, internal audit (16%). 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. *“Maintaining a hotline or reporting mechanism increases the chances of earlier fraud detection and reduces losses.”*

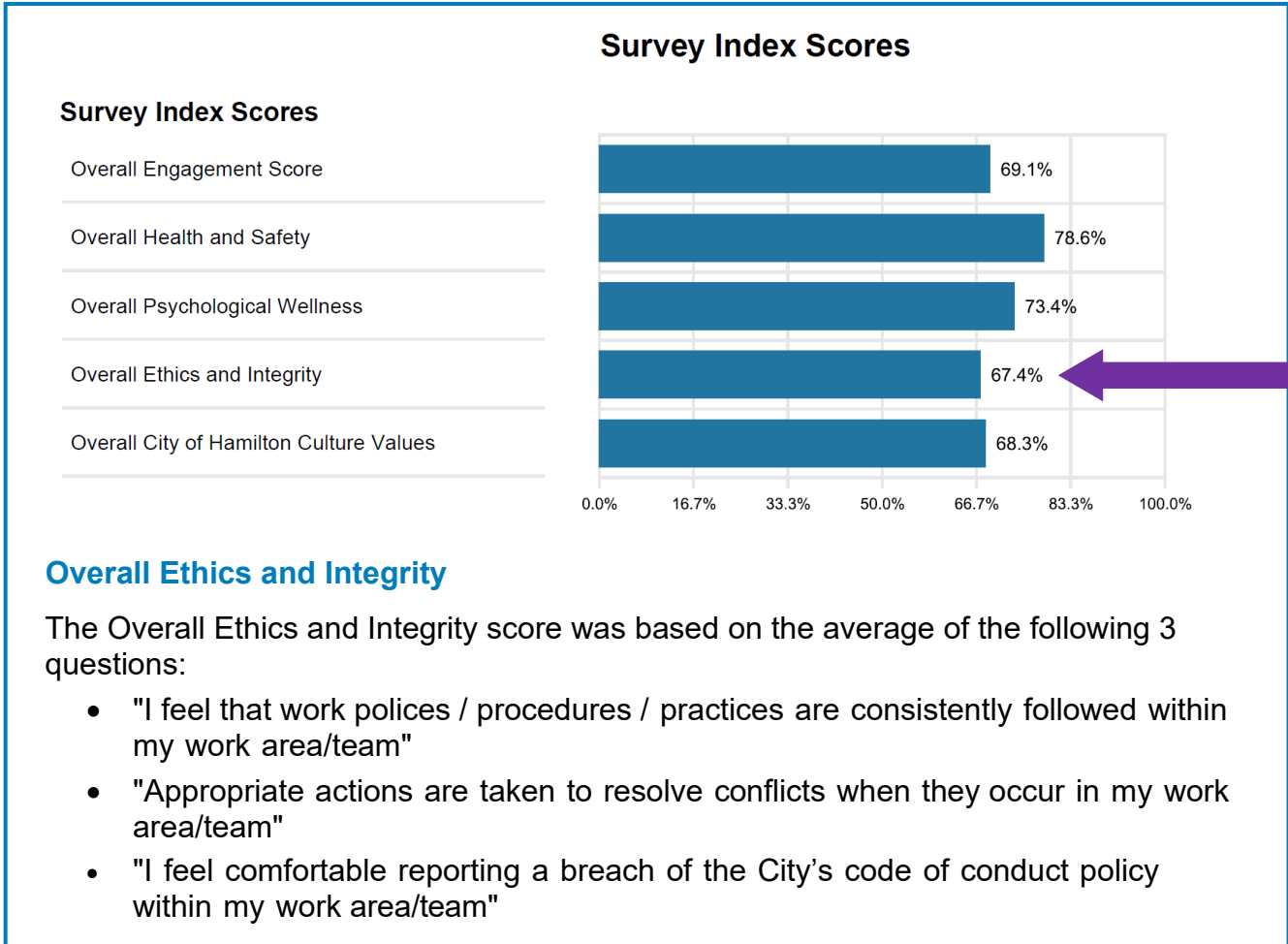
- Per the Report, Fraud losses were 2x higher at organizations without hotlines.
- Reporters’ preferred methods of reporting are diverse and evolving – so multiple channels for reporting (e.g. online, email, telephone, mail) should be maintained.
- Local governments suffered higher median losses (\$125,000 USD, more than twice as much) than state/provincial-level entities.
- Corruption is the most common type of occupational fraud schemes in government, more than double the next most common (billing schemes).
- Background checks (e.g. employment history, criminal checks, reference checks, education verification, credit checks) are an important internal control as they can prevent organizations from hiring individuals with known histories of misconduct.

Reinforcing Ethics at the City of Hamilton

One of the City of Hamilton’s corporate values is “Steadfast Integrity”. Therefore, making the Fraud and Waste Hotline permanent would enable Council to demonstrate their commitment to this corporate value and signal its importance to staff.

Based on provisional 2022 numbers provided by Human Resources to the OCA, the Code of Conduct sign-off rate has been stagnated between 2019 to 2022 and is estimated to have ranged between 70.6% and 73.3%. It should be noted, that per HR, the data is an estimate and it does not take into account staff that may be on leaves of absence (illness, parental leave, etc.) or that some of the employees hold two or more positions, which may also have an impact on the data. However, the OCA does note that there is room for improvement and an overall ongoing need to continually focus on ethics, including Code of Conduct awareness in the organization. By making the hotline permanent, it would enable this focus to continue on in the organization.

The OCA also reviewed results of the City of Hamilton’s employee survey, the Our People Survey (OPS) that was first conducted in 2017 and repeated in 2021. The OPS contained questions relating to ethics, that were rolled up to provide an overall index score for the organization. Of the five survey index scores listed below, “Overall Ethics and Integrity” had the lowest score in the 2021 OPS.

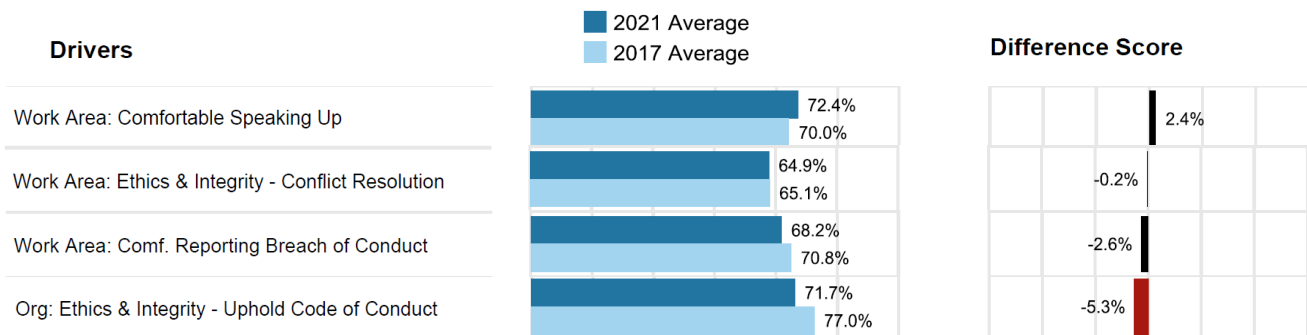


Source: Appendix A to Report CM22001, Page 12 of 42

Year-Over-Year Analyses (2021 to 2017)

While only a portion of the results from the 2017 OPS can be compared to the 2021 OPS due to changes in the number of questions and overall length of the survey. HR was able to provide the OCA with the following year over year analysis.

Year-Over-Year Analyses (2021 to 2017)



How to Interpret Year-Over-Year Difference Scores (as provided by HR to the OCA)

These scores are calculated by subtracting the adjusted averages obtained from your organization's previous survey from your current driver averages. A positive difference indicates that your current average is higher than that obtained from the previous survey. Conversely, a negative difference indicates that your current average is lower. Colour coding is used throughout the benchmarking section. Green indicates that your difference score is more than 5% higher than the benchmark comparison being used. Black indicates that your difference score is within a +/-5% boundary of the benchmark. Finally, red indicates that your difference score is more than 5% lower than the benchmark comparison.

Source: Appendix A to Report CM22001, Page 18 of 42

The OCA notes that **between 2017 and 2021 employees are 2.4% more comfortable speaking up**. During this period the Fraud and Waste Hotline was launched. This was the one positive change noted in the survey's ethics results.

The remaining three drivers all decreased between 2017 and 2021, with a 5.3% decrease in "Uphold Code of Conduct". This is concerning to the OCA and therefore it is important that employees and residents continue to be provided with a confidential and/or anonymous method to report fraud, waste and misconduct given the decreasing survey results relating to upholding the Code of Conduct for Employees.

Conclusion

In conclusion, OCA believes the hotline has exceeded all the goals set for it and has provided conspicuous benefit to the management of fraud and waste risks in the City. It has proven to be a valuable tool in support of ethical decision making, has resulted in actionable improvements to City processes, and has reached a level of engagement with employees and the public that will help build trust and confidence in the future.

OCA recommends that the hotline move out of its current pilot phase and be made permanent.

Procurement of Hotline Services for the Future

The OCA is requesting the ability to negotiate a single source contract for intake and case management services with our current service provider (Whistleblower Security Inc.), as this is both an IT software package for case management, in addition to the live in-bound call centre service, online/mail/fax intake and support services that are provided. It took a significant amount of OCA staff time (2 months of OCA team effort) to set up the Fraud and Waste Hotline provider to be operational, and it would be inefficient to have to go through this process again, particularly given the current vacancies in the OCA and the high volume of fraud and waste reports that the OCA continues to receive. Approval to negotiate a five-year contract term is being requested, as this would provide stability and certainty for hotline operations for the near future.

When the RFP was completed in 2019 to procure this service, the market for Canadian-based ethics reporting hotline and case management systems (with support) was quite small. Only three proposals were received in response to the RFP, one of which was disqualified for being non-compliant with the City's RFP requirements. The unsuccessful, compliant proposal that was not awarded the contract had a cost-per-point that was more than double that of Whistleblower Security Inc.

The OCA completed an environmental scan in Q1 2023 for ethics reporting hotline and case management systems (with support). The current marketplace for Canadian-based ethics reporting hotline and case management systems remains a niche market that is quite small.

Re-branding As Office of the Auditor General and Amendments to By-Laws

While the OCA was completing its evaluation of the Fraud and Waste hotline, careful consideration was given to how the Office is perceived. The position of City Auditor (previously known as Director, Audit Services until mid-2019) has been designated as an Auditor General under the Municipal Act since 2012.

The OCA provides independent and objective advice to Council, reporting functionally to the A,F&A Committee and administratively to the City Manager. Originally, the model adopted and approved by Council was a “hybrid” model. This meant the Office of the City Auditor would be constituted as a combined internal auditor function and auditor general function. In doing so, the Office, in theory, would be able to undertake consulting and risk assessment assignments in its role as internal audit, in addition to value for money audits and investigations it conducts as an auditor general. For the last few years the demands placed on the Office as a result of investigative work, and the need to carefully avoid conflicts of interest associated with performing a consulting role have meant that, in practice, it has only been able to function as an auditor general. Based on feedback received by our Office, we also believe that now would be an ideal time to acknowledge the true nature of the work, and to re-brand. We therefore recommend that the OCA be re-named as the Office of the Auditor General so that it is easier for the public to understand our independence and our role. We also recommend that the position of City Auditor be known as Auditor General, and this be applied to the rest of the office and corporate systems as applicable.

There is no cost associated with this recommended re-branding, our logo can be updated in-house by Creative Design Services along with our webpages by Digital Communications (www.hamilton.ca/audit and www.hamilton.ca/fraud) and the next time we print Fraud and Waste promotional materials, this new name and logo would be utilized.

Renaming of the Office will necessitate changes to the Council-approved Audit Charter in order to amend references regarding the Office of the City Auditor to Auditor General, and to remove services applicable to the internal audit function. It will also require similar revision to the Whistleblower By-Law No.19-181, Auditor General By-Law No.19-180, and Procedural By-Law 21-021.

In addition to revising the Whistleblower By-Law No.19-181 for the change in name to Auditor General, it is proposed that the Whistleblower protections in the By-Law be enhanced. Currently, it includes 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.

ALTERNATIVES FOR CONSIDERATION

1) Cease Operations of Fraud and Waste Hotline on June 30, 2023

One option is to end the Fraud and Waste Pilot Program on June 30, 2023. This would mean that there would no longer be a confidential and/or anonymous with 24/7 availability option for residents, City of Hamilton employees and business owners to report matters of Fraud and Waste to the Office of the City Auditor. This is less than ideal from a customer service and community engagement perspective.

Reports could still be made directly to the Office of the City Auditor via email, telephone, or online webform from the City's website. However, telephone calls would not be able to be received outside of standard business hours for the City of Hamilton (8:30 a.m. to 4:30 p.m., Monday to Friday, and excluding statutory holidays).

It is expected that with this option, the volume of reports would decrease.

With this option, more audits could be completed within the existing OCA staffing complement of 7.0 FTEs.

The overall impact of this option is that serious issues would no longer be reported, and it is expected that significant amounts of Fraud and/or Waste would remain undetected. Furthermore, areas that need to be audited would remain undetected and unknown due to the significantly lower volume of reports that would be received.

The anticipated cost savings to the organization would be approximately \$12,500 annually. The resourcing issue in the OCA would remain unknown as report would still be directly received by the OCA and volume could potentially be significant (42 reports were directly received by the OCA in the most recently issued Fraud and Waste Report).

This option is not recommended.

2) Make the Pilot Program Permanent with additional FTE resources

A second option is to make the Fraud and Waste Pilot Program a permanent service offering for the Office of the City Auditor, and to add additional FTE resources.

Reports would still be able to be made confidentially and anonymously with 24/7 availability option by residents, City of Hamilton employees and business owners to report matters of Fraud and Waste to the Office of the City Auditor.

The annual, ongoing costs associated with each additional FTE at the Senior Auditor level is estimated to currently be \$156,000 annually for salary, benefits, equipment, software, training and professional membership/dues.

The overall impact is that reports received would continue to be assessed and investigated by the OCA, and the backlog of audits due to the anticipated ongoing high volume of reports would be reduced.

This option is not recommended, as the OCA currently has two vacancies and a request for an additional FTE is anticipated to be submitted at a later date with a request to refer it to the 2024 Operating Budget process.

3) Extend the Pilot Program and Fund from Reserves

A third option is to extend the pilot program to be 6 years in length (through to June 30, 2025) and for Council to then make a decision regarding the future of the program. Additional funding from reserves would be required and would likely be in the \$15,000-\$25,000 range annually.

Reports would still be able to be made confidentially and anonymously with 24/7 availability option by residents, City of Hamilton employees and business owners to report matters of Fraud and Waste to the Office of the City Auditor.

The overall impact is that reports received would continue to be assessed and investigated by the OCA, but there would continue to be a backlog of audits due to the anticipated ongoing high volume of reports.

There would be no anticipated cost savings or cost pressures to the organization on an annual basis for this option. Annual funding would continue to be from reserves (currently funded by the Tax Stabilization Reserve) through to 2025, which is not sustainable in the longer term. The resourcing issue in the OCA would remain unaddressed.

This option is not recommended.

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.

APPENDICES AND SCHEDULES ATTACHED

Appendix “A” to Report AUD23005– Audit Charter: Office of the Auditor General

Appendix “B” to Report AUD23005 – By-law to amend the City Auditor By-law

Appendix “C” to Report AUD23005 – By-law to amending the Whistleblower By-law

[Fraud and Waste Annual Report 2019-2020 \(Appendix A to Report AUD20007\)](#)

[Fraud and Waste Annual Report 2020-2021 \(Appendix A to Report AUD21011\)](#)

[Fraud and Waste Annual Report 2021-2022 \(Appendix A to Report AUD23003\)](#)