




CITY OF HAMILTON
OFFICE OF THE AUDITOR GENERAL

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	July 13, 2023
SUBJECT/REPORT NO:	Fraud, Waste, and Whistleblower Semi-Annual Update (AUD23009) (City Wide)
WARD(S) AFFECTED:	City Wide
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SUBMITTED BY:	Charles Brown, CPA, CA Auditor General Office of the Auditor General
SIGNATURE:	

RECOMMENDATION

- (a) That the Fraud, Waste and Whistleblower Semi-Annual Update be received.
- (b) That the creation of one Full Time Equivalent (FTE) employee for a Senior Auditor be referred to the 2024 Operating Budget.

EXECUTIVE SUMMARY

This Report contains information about the number, nature and outcome of Whistleblower disclosures relating to By-law 19-181, along with information about Fraud and Waste reports received from July 2022 to December 2022, along with historical information.

The volume of hotline reports received continues to exceed the OAG's projected volumes and continues to grow. The highest reported volume was received in the six months between July and December 2022, with 74 reports received. Analysis of those reports is contained in this report. Preliminary numbers from January to June 2023 were even higher at 83 reports received.

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.

Alternatives for Consideration – See Page 10

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: The 2024 salary costs for a Senior Auditor are projected to be \$99,173 to \$123,967 (assuming a 2.5% cost of living increase, as per Finance). Once benefits are considered, the overall compensation costs are estimated to range from \$124,921 to \$153,237.

Staffing: One additional FTE for the Office of the Auditor General is being requested and this request is recommended for referral to 2024 Operating Budget Deliberations.

Legal: None.

HISTORICAL BACKGROUND

By-law 19-181 (Whistleblower By-law), Section 19 – Responsibility of the Auditor General 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.

On June 27, 2018, Council directed the Auditor General to implement a Fraud and Waste Hotline with intake performed by an independent third party as part of a three-year pilot project. The City's Fraud and Waste Hotline launched in July 2019 and was made permanent in March 2023.

The third Fraud and Waste Annual Report (AUD23003) was presented to the Audit, Finance and Administration Committee on February 16, 2023. Report AUD23003 fulfilled the semi-annual reporting requirement for January to June 2022, as it contained the information required by the Whistleblower By-law.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

Whistleblower By-law No. 19-181

RELEVANT CONSULTATION

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

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

ANALYSIS AND RATIONALE FOR RECOMMENDATION

The Fraud and Waste Pilot Program has completed four complete years of operations as at June 30, 2023. The most recent Fraud and Waste Annual Report was tabled in February 2023 and the Hotline was made permanent in March 2023.

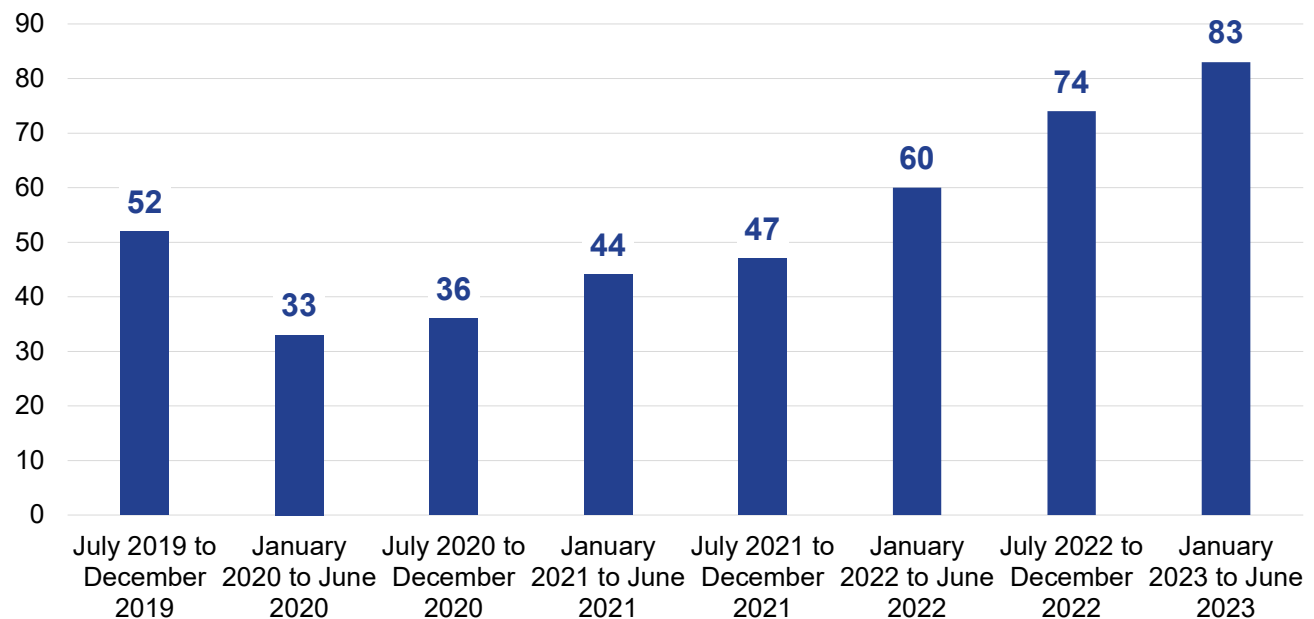
Overall, many positive results have been achieved with the hotline, and all of our intended goals and expected outcomes have been surpassed. Three Fraud and Waste Annual Reports have been issued by the Office of the Auditor General summarizing the annual achievements of this service area.

The volume of reports has been consistently high, surpassing the 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 our annual report volume would likely be in the 50-70 report range if the hotline launch was successful.

FRAUD AND WASTE REPORT VOLUME SINCE HOTLINE LAUNCH

The volume of hotline reports received for each contract year have exceeded expectations. The volume of reports received has been on upward trend since the beginning of 2020, as noted in the graph below:

Fraud and Waste Report Volume



SEMI-ANNUAL SUMMARY (July 2022 to December 2022)

Report Type

The following table shows Fraud and Waste reporting activity for the second half of 2022 and the disposition of each report, including the number that resulted in an investigation by the Auditor General being undertaken. It should also be noted that there are several other investigations in progress from prior reporting periods.

Report Type	Volume
Referral – Responses Required	27
Referral - No Action Required	20
No Response Required/Not Enough Information/Out of Jurisdiction	23
Auditor General Investigations Launched	4
Total Reports (July to December 2022)	74

Report Category

A wide variety of reports were received by the Office of the Auditor General for the six-months July 2022 to December 2022. The most common report categories were the following:

Report Category	Volume
Out of Jurisdiction	15
Multiple Categories Applicable	14
Social Services – Fraud/Wrongdoing	14
Service Complaint/Concern	12
Time Theft and/or Misconduct	4
Conflict of Interest	3
Improper Financial Reporting/Budgeting	3
Theft/Misappropriation	2
Contractor/Vendor Wrongdoing	1
Employee Benefits Fraud	1
Other	5
Total Reports (July to December 2022)	74

Investigations Launched – Types

The following table shows a breakdown of the subject matter of the investigation for those launched for reports received from July 2022 to December 2022.

Types of Investigations Launched	Volume
 Fraud	1
 Waste/Mismanagement	1
 Combined Fraud and Waste/Mismanagement	1
 Whistleblower	1
Total Investigations Launched (July to December 2022)	4

Each investigation is unique and has a customized approach. The length of time to complete an investigation varies depending on the number of allegations, the scope of the investigation, and the complexity of the matter being investigated.

In the second half of 2022, there was a variety of investigation types. It should be noted that the definition of fraud is narrower than waste or mismanagement and there will generally be a lower volume of fraud investigations compared to the other possible categories. Fraud encompasses any array of irregularities and illegal acts characterized by intentional deception (forgery, alteration of documents, misrepresentation of information, misappropriation, unauthorized use, disappearance, destruction of assets, authorizing payment for goods/services not received, improper handling of money, false claims, violations of Code of Conduct).

Waste relates primarily to poor management, inefficient processes, imprudent expenditure, inadequate oversight or abuse of policy and includes incurring unnecessary costs or risks due to ineffective practices, systems or controls. It can often involve taxpayers not receiving reasonable value for money in connection with any government funded activities due to mismanagement or through an inappropriate or careless act or omission by those with control over or access to government resources. Importantly, it doesn't necessarily involve a violation of law.

In addition to the four investigations launched in this reporting period by the Auditor General, there are several other investigations in progress for reports received in prior reporting periods. Besides investigations launched by the Auditor General, referrals are also made to other parties based on analysis of the issues in a complaint. The parties then conduct their own internal reviews or investigations and report back the results to the Auditor General. For the semi-annual period ending December 2022 there were 27 referrals.

Whistleblower By-law Disclosures

The following table lists the number of Hotline reports that involved reporting by a qualifying Whistleblower. The comparative data is for each semi-annual time period since the Fraud and Waste Hotline launched in July 2019.

 Qualifying Disclosures						
July 2022 to December 2022	January 2022 to June 2022	July 2021 to December 2022	January 2021 to June 2021	July 2020 to December 2020	January 2020 to June 2020	July 2019 to December 2019
3	2	1	2	1	0	2

Under By-law 19-181 (Whistleblower By-law), Section 6 – Requirements with Respect to a Qualifying Disclosure, the employee must meet the following criteria: the employee making the disclosure of serious wrongdoing identified themselves and their position with the City; the employee making the disclosure of serious wrongdoing has reasonable grounds to believe there has been serious wrongdoing by one or more employees; the employee making the disclosure of serious wrongdoing does so in good faith; the employee’s disclosure of serious wrongdoing was made to the Auditor General (via one of the prescribed reporting mechanisms). Under the Whistleblower By-Law “serious wrongdoing” also includes threats to safety, fraud and dishonesty, and employee witnesses that cooperate with an investigation of the Auditor General are also protected as whistleblowers.

In the six-month period from July 2022 to December 2022, three reports were determined to be a qualifying disclosure per the Whistleblower By-law, as assessed by the Office of the Auditor General.

For the first item, the report category is Multiple Categories Applicable (Vendor/Contractor Wrongdoing, Theft/Misuse of Assets and Other-Safety Concerns). The outcome is that the report was partially substantiated.

For the second item, the report category is Conflict of Interest. The outcome is that the report was substantiated, and the (former) employee resigned.

For the third item, the report category is Conflict of Interest. The outcome is that the report was unsubstantiated.

Employees

Reports Self-Identified as Employee						
July 2022 to December 2022	January 2022 to June 2022	July 2021 to December 2022	January 2021 to June 2021	July 2020 to December 2020	January 2020 to June 2020	July 2019 to December 2019
45%	70%	55%	57%	61%	33%	54%

The Office of the Auditor General 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. Additional information about anonymous reports and reports submitted by management will be included in the annual report.

Serious Matters Reporting

All items qualifying as a “Serious Matter” per the “Auditor General Reporting of Serious Matters to Council Policy” for the reporting period have been previously reported to Council. As at June 30, 2023, there were 11 items that qualified under this Policy since it was approved by Council in July 2020.

Serious Matters Reported to Council					
January 2023 to June 2023	July 2022 to December 2022	January 2022 to June 2022	July 2021 to December 2021	January 2021 to June 2021	July 2020 to December 2020
3	1	2	1	1	3

Annual Report

A more detailed annual report containing additional analysis, case samples and outcomes will be issued for the twelve-month period of July 2022 to June 2023 once the analysis has been completed by the OAG. The Fraud and Waste Annual Report is expected to be submitted to the Audit, Finance, and Administration Committee in Q4 2023.

Sustained High Volumes and Staffing Requirements

Provisionally, based on the OAG's preliminary review, Fraud and Waste Hotline report volumes continued to rise through the end of June 2023, with 83 reports received in the six-month period between January to June 2023, for a total of 157 in the 12-month reporting period from July 2022 to June 2023. These are the highest volumes ever received.

From hotline inception (July 2019) to December 2022 the Auditor General launched 72 investigations and made 130 referrals for other parties such as Human Resources or Program Areas to conduct an internal review and report back to the OAG. The 72 investigations were completed by Auditor staff with a variety of approaches such as internal resources only, internal resources with support from external consultants or external consultants with support from Auditor General staff. External consultants cost 2 to 3 times or more than internal resources in terms of hourly rates. When external resources are used to support staff in the OAG who are conducting the investigation, the external consulting costs can be minimized and they have ranged historically from approximately \$10K to \$30K per investigation. When OAG has played a supporting role to external consultants, investigation costs can be substantially higher – as much as \$300K in the case of one investigation.

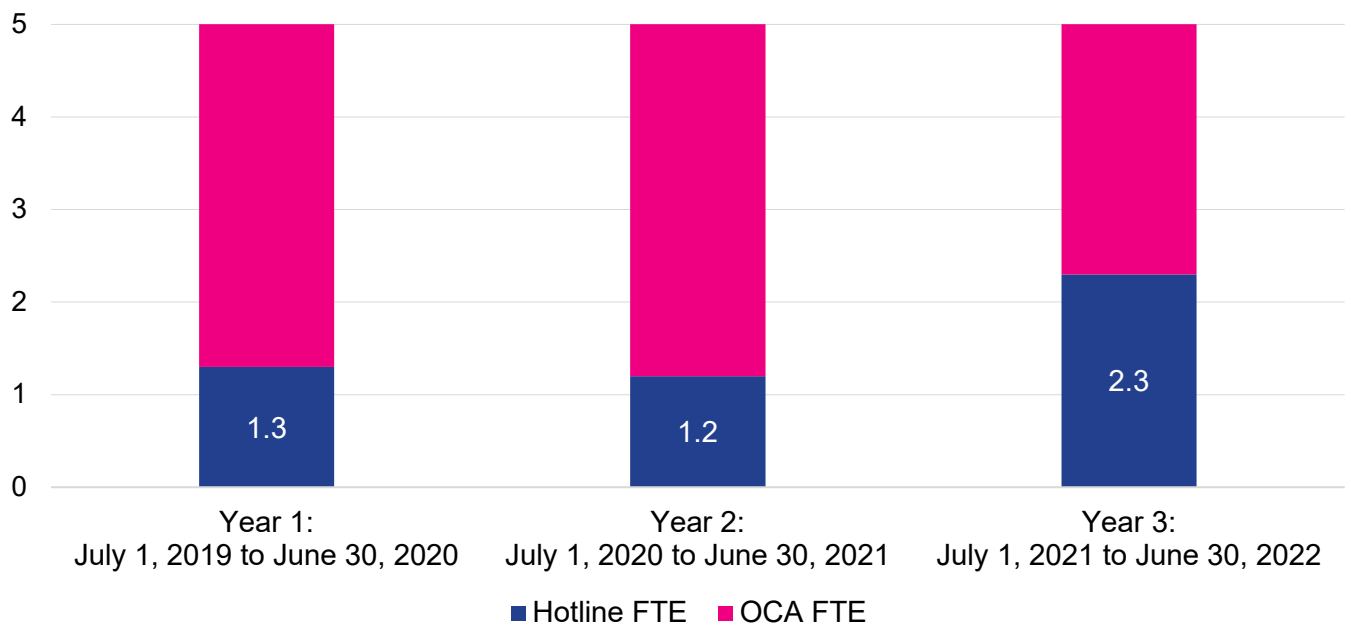
One way the OAG has mitigated the high cost of using external parties is by hiring one FTE under a temporary staff position that was created for this purpose. However, the position is necessarily limited to conducting fraud and waste complaints as it is receiving funding through charge back to the departments where the investigation takes place. This position has been operating on a full-time basis which demonstrates the ongoing need for such a resource to be approved permanently.

When the Fraud and Waste Hotline was launched, it was launched using existing OAG staff resources. As noted in Appendix A to Report AUD23005, over 8,700 hours were spent on Fraud and Waste Hotline administration, investigations and reporting during the initial three years of hotline operations. 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 5 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 hotline spent by OCA staff has risen by more than 90%.

Please see the graph below.

**Work Volume
July 1, 2019 to June 30, 2022**



Given that the volume of reports received have continued to grow substantially since inception of the hotline, including since the issuance of the most recent report in February 2023 (AUD23005), the OAG is requesting the addition of one (1.0) additional FTE, for referral to the 2024 Operating Budget for Council's consideration. The request is to ensure that the OAG has the capacity to continue to complete audits while maintaining the operation of the Fraud and Waste Hotline. The position being requested is a Senior Auditor, which is a position that leads and completes both audits (value for money and compliance), and fraud/waste/whistleblower investigations.

HOW TO SUBMIT A REPORT

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



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

- **Online:** www.hamilton.ca/fraud A “Submit Report” button links to the third-party vendor page
- **Email:** cityofhamilton@integritycounts.ca
- **Phone:** 1-888-390-0393
- **Mail:** PO Box 91880, West Vancouver, BC V7V 4S4
- **Fax:** 1-844-785-0699

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

ALTERNATIVES FOR CONSIDERATION

- 1) That no additional FTE’s be referred to the 2024 Operating Budget process for the OAG. The impact of this will be that the OAG will continue to not have enough staff to deal with a sustained high volume of fraud and waste reports. The result will be that fewer audits are completed, and the OAG team will need to

supplement resources with external consultants more often than if there was an additional FTE for work to be assigned to.

When the OAG last compared (during the 2020 budget preparations) the costs of consultants to OAG staff, OAG Senior Auditors cost about 60% less than consultants engaged with the most favourable rates via the Province of Ontario's Vendor of Record hourly rate listing for Internal Audit Services. Consultants will continue to be needed by the OAG for speciality expertise and related technology tools, but overall it is much more cost effective to utilize in-house OAG auditors to complete work than to utilize external consultants.

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

None.