

FRAUD AND WASTE ANNUAL REPORT

July 1, 2023 to June 30, 2024



November 21, 2024

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Auditor General

Office of the Auditor General
City of Hamilton



Hamilton

OFFICE OF THE
AUDITOR GENERAL

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Summary and Commentary

This year’s Fraud and Waste Annual Report reflects the fifth 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 Auditor General (OAG) 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. For the third year, the volume increased significantly with 107 reports received, and in the fourth year, 159 reports were received.

In this fifth year, volume remained high, with 127 reports being received, a decrease from the previous year, but still the second highest volume ever. During the first three months of the sixth year of implementation there were 44 complaints reported. Clearly, the hotline continues to be well used.

With 127 complaints received in the most recent reporting year we have noted that 46% come from self-identified employees and 54% from the public. While most of the complaints we receive are dealt with through referral and report back, a significant number (13), involved investigation by our Office. Overall the substantiation rate of complaints received was 33%. 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 performed audits of Corporate Real Estate – Leases and Licensing Audit (AUD24005), and we are in the final stages of report writing for an audit of DARTS Payments Administration Audit that is expected to be reported to the Audit, Finance, and Administration Committee in the coming months. Three Payment Process Reviews have been completed in response to some of the larger fraudulent incidents and a report is to be issued in early 2024. And finally, an audit of Freedom of Information processes is also in the audit fieldwork stage, as some hotline reports were received regarding this topic.

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.

An item to note is that for losses substantiated, there were more losses due to fraud rather than waste for the second time since the launch for the Fraud and Waste Hotline. This is due, primarily, to a new, and significant issue that came to prominence during this reporting period - cyberfraud, specifically, business email compromise fraud. This occurs when a fraudster infiltrates and impersonates a vendor for the purpose of diverting payments made by the City to their illicit bank accounts. There was one such matter in the previous reporting period with losses

of about \$52,000 where the Police have laid charges since our last Annual Report, and there have since been two new cases of fraud that the City and its Agencies have fallen victim to and where large losses have been substantiated. These two incidents combined for losses of over \$826,000. The total of these three incidents is about \$878,000. These types of investigation are time-consuming and involve complex legal procedures where time is of the essence. One of the instances involved a fraud of \$552,000. As part of the investigation response, OAG enlisted the assistance of the City's Legal Services Division in tracing the funds and through court orders \$417,000 of the \$552,000 was successfully frozen.

In addition to the above examples of cyberfraud, there were multiple other attempts of payroll phishing schemes and attempts to breach the City's payment systems. This is all in addition to the ongoing recovery efforts by the City of Hamilton after being hit by a major ransomware attack in February of 2024. In 2021, the Office of the Auditor General completed an extensive Cyber Security Audit (AUD21004) and made 29 recommendations to management. Our Office was planning a follow-up to ascertain the progress made on those recommendations when the cyber incident took place. In light of the incident, our plan is to initiate a series of reviews to check in on management's progress in implementing the OAG's recommendations, as well as any recommendations provided by the cybersecurity consultants who have been assisting the City in its recovery efforts, and as necessary make additional recommendations as the circumstances of the incident become more clear.

Employee Benefits Fraud continues to be an ongoing issue, although the number of reports has declined. There was a total of three reports made involving current or former City employees, and their dependents. Due to findings of prior investigations, the Office of the Auditor General (OAG) considers this to be a continuing area of high-risk for the organization, and the OAG has serious concerns about the organization's current profile of fraud risk pertaining to benefits claims.

One issue that OAG is bringing forward for the fourth year in a row is the apparent difficulty that management experiences in properly dealing with conflict of interest (COI) situations that arise with employees of the City. Since the hotline was implemented, the OAG has investigated no fewer than 25 instances (more if reports where conflict of interest is one of several topics being looked into are considered) where either the disclosure process or the related mitigation of the conflict of interest has been an issue. Conflicts of interests continue to be one of the most persistent, serious, and time-consuming types of complaints received and investigated by the OAG. The OAG does note that a new version of the Code of Conduct for Employees was approved by Council in 2023, and the reporting process for COI's was revamped, but these issues persist. Accordingly, we recommend that senior leadership continue its 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 increase awareness amongst employees of the importance of proper disclosure of potential conflicts. In this year's report our Office makes specific mention of enhancing guidance surrounding potential conflicts of interest of vendors.

In addition to the recurring theme of conflict of interest policies and processes, we again cite recurring issues with the veracity of the City's contract management processes. In a previous audit of the Grigmire Arena project (AUD22004) we noted needed improvements, and some of those same issues in the lack of vigorous contract oversight have been evident in some of the cases, both in contracted services, and in transfer payments made to third parties.

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 Auditor General or their designate, and to ensure it is addressed appropriately, including by means of an investigation where required. The City of Hamilton has had a Whistleblower By-law in force since 2010 (previously By-law No. 09-227).

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 Auditor General (OAG), an independent and objective office accountable to Council.

The Office of the Auditor General reviews and assesses every Hotline report to ensure it was made in good faith and if necessary, launch an investigation. The Office of the Auditor General 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

The Fraud and Waste Report supports the following City strategic objectives:

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.

Alignment to 2023-2026 Council Priorities

The Fraud and Waste Report supports the following Council priorities:

Responsiveness & Transparency

Government plays an important role in people’s lives through the provision of vital services, programs and support systems. To fulfill those responsibilities, City Hall must continue to develop its approach to public engagement, respond effectively and efficiently to public need and feedback, and communicate its approach in an accessible and transparent manner.

Outcome 3: Build a high performing public service

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 Auditor General from July 2023 to June 2024. It does not represent an overall picture of fraud, waste, or other wrongdoing across the City of Hamilton.

Fraud and Waste Hotline Program

Hotline made permanent in March 2023

The Fraud and Waste Hotline was established to help protect City of Hamilton assets and reduce losses. Since its launch in July 2019, the cumulative total of actual and potential losses investigated is approximately \$3,635,000, with about \$47,400 recovered via repayments/restitution/asset recovery. Effective March 2023, City Council made the Fraud and Waste Hotline a permanent program. 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,

Hotline report data can also be used to identify trends, manage risks, make results-oriented recommendations to management, and inform future audits for the Office of the Auditor General work plan, along with spontaneous audits for high-risk areas.

No dedicated Fraud and Waste team

The Office of the Auditor General operates the Fraud and Waste program in addition to their other audit assignments. The Office of the Auditor General 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 Auditor General 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 Auditor General 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. (a Case IQ company). 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 Auditor General is compelled to do so by law.

The Office of the Auditor General 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 Auditor General

The City of Hamilton has appointed the Auditor General as an Auditor General under the Municipal Act (via By-law No. 19-180, and previously No. 12-073) since 2012. 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
-  **Email** to cityofhamilton@integritycounts.ca
-  **Phone** 1-888-390-0393
-  **Mail** to PO Box 91880, West Vancouver, BC, V7V 4S4
-  **Fax** to 1-844-785-069

Overview

44 Reports
Directly Received by the
Office of the Auditor
General (Proxy)

27 Proxy Reports Sent by
City Staff, Management,
HR, Finance, Council
Members

46% of Reporters
Self-Identified as an
Employee

54% of Reporters were
non-Employees

Investigations Launched
13
(12 Current Year Reports,
1 Carryforward Report from
Prior Reporting Year)

\$2.35M Loss or
Waste/Mismanagement
Substantiated

(\$3.64M since
Hotline launch)

Number of Reports

127

Number of Reports Since Hotline Launch

558

Number of Reports by Source

54



Online

37



Email

36



Phone/
In Person

0



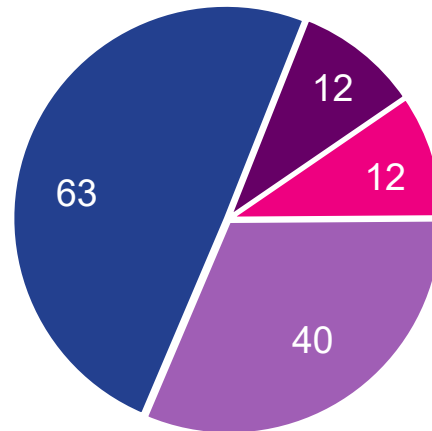
Mail

0



Fax

Report Types July 1, 2023 to June 30, 2024



- Referral – Response Required – 63
- Referral – No Response Required – 12
- Investigations Launched (Current Year) - 12
- No Response Required/ Out of Jurisdiction/ Not Enough Information – 40

Investigation Type

2



Fraud

6



Waste

1



Combined Fraud and
Waste/Mismanagement

4

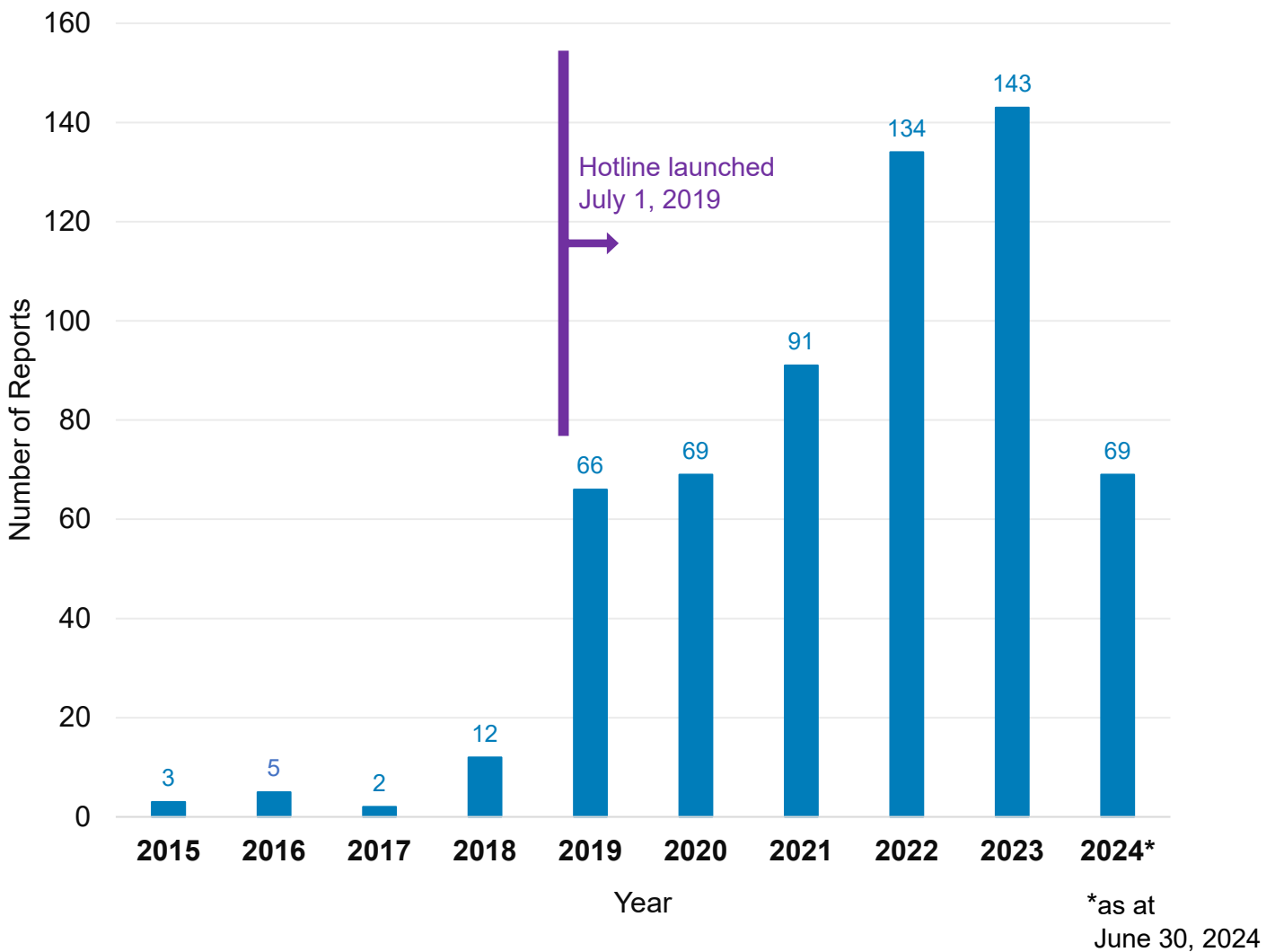


Whistleblower

Historical Volume

This chart depicts the number of fraud, waste, and whistleblower reports from 2015 to June 2024. Between 2018 to 2023, the Office of the Auditor General 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 2024.

City of Hamilton Fraud, Waste, and Whistleblower Report Volume January 1, 2015 to June 30, 2024



Work Volume

A total of 127 reports were assessed by the Office of the Auditor General in the twelve-month period between July 1, 2023 to June 30, 2024.

There are no staff dedicated solely to the Fraud and Waste Hotline. Existing Office of the Auditor General staff complete assessments and investigations, with some limited usage of external specialty expertise for investigations that require additional support.

In total, about 3,940 hours were spent on Fraud and Waste Hotline administration, assessment, investigations and reporting during this 12-month period. This is approximately equivalent to 2.2 frontline Office of the Auditor General FTEs annually (excluding management’s time spent on hotline matters). Another way of looking at this, is that the effort is similar to having completed four to five audits of modest scope and complexity. When the Office of the Auditor General is fully staffed, there are a total of five frontline OAG employees. There have been significant vacancy and recruiting challenges experienced during this reporting period. 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, a slightly increased amount of time was spent on Fraud and Waste Hotline matters (prior reporting period was 2.0 FTEs), however this nevertheless had a serious impact as the Office of the Auditor General had at least one of five frontline FTE positions vacant during this reporting period. The amount of time spent on Hotline matters has been significant in each 12-month reporting period since Hotline’s launch.

Reports

From July 2023 to June 2024, a total of 127 reports were received and assessed.

Of the 127 reports received, 83 (65%) reports were received via the third-party hotline operation. Another 44 (35%) reports were received directly by the Office of the Auditor General and were entered as a proxy into the case management system that is provided as part of the IntegrityCounts service contract. Of the 44 proxy reports received directly by the OAG, 27 were made by City staff and management, and 17 items were received directly from residents.

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 Office of the Auditor General. The substantiation status is reported to the OAG for the tracking of aggregate statistics. The OAG reserves the right to investigate any matter which is not found to be satisfactorily investigated. In this reporting period, there was an uptick in the volume of

hotlines cases received by the OAG team relating to OW that were substantiated and actioned by the OW team.

Employee Reports

Fifty-nine (59) of these 127 reports were reported by City of Hamilton employees (46% vs 48% in the prior year). Thirty (30) of the 59 employee reports were made anonymously (51% vs 44% prior year). The remaining 29 reports were employees that identified themselves. Many of these 29 reports where the employee identified themselves were employees working in HR, Finance, 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 Auditor General as part of their job duties.

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.

Reports from the Public

All reports received from the public were assessed and investigated as appropriate. The Office of the Auditor General 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 Auditor General received do not qualify as a whistleblower matter due to the fact that they come from residents or employees that wish to remain anonymous. In fact, a sizeable proportion of employee reports (30 of 59) do not qualify as a whistleblower disclosure because of anonymity. Overall, 65 of the 127 (51%) reports received for the current 12-month reporting period were anonymous.

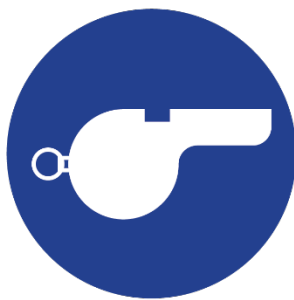
It should be noted that anonymous reports are able to be effectively assessed and investigated if the Reporter provides a sufficient level of information. The OAG is able to communicate with an anonymous reporter in the case management system, as long as the Reporter chooses to enable this feature and periodically returns to the online system for exchange of messages. 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 Auditor General investigations, the ability to dialogue with a Reporter through the IntegrityCounts online messaging system has proven effective in assisting with investigations.

Whistleblower Disclosure

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.

There was no activity for the first half of the reporting period, July to December 2023. A semi-annual report was not prepared due to impacts from the cyber security incident.

There were four qualifying Whistleblower disclosures in the second half of the reporting period from January 2024 to June 2024.



Reports Involving Whistleblower

0

July to December 2023

4

January to June 2024

For the first item, the report category is Multiple Categories Applicable (Conflict of Interest and Employee Misconduct). The outcome is pending as the investigation is ongoing.

For the second item, the report category is Multiple Categories Applicable (Conflict of Interest and Employee Time Theft and/or Misconduct). The outcome is substantiated, and the employee resigned prior to the conclusion of the investigation.

For the third item, the report category is Multiple Categories Applicable (Conflict of Interest and Employee Time Theft and/or Misconduct). The outcome is pending as the investigation is ongoing.

For the fourth item, the report category is Multiple Categories Applicable (Conflict of Interest and Waste/Mismanagement). The outcome is pending as the investigation is ongoing.

Report Categories

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

Top Report Categories July 1, 2023 to June 30, 2024

Social Services – Fraud/Wrongdoing	21
Service Complaint/Concern	20
Multiple Categories Applicable	18
Conflict of Interest	9
Phishing/Identity Theft	9
Time Theft and/or Misconduct	5
Improper Financial Reporting/Budgeting	5
Employee Benefits Fraud	3
Fraud	3
Contractor/Vendor Wrongdoing	2
Theft/Misappropriation	2
Waste/Mismanagement	2
Other Various Categories	8
Out of Jurisdiction	20
Total Reports	127

Having the top report category be “Social Services – Fraud/Wrongdoing” is indicative there are concerns that eligible individuals are in receipt of the available support and services. The second most common report category is service complaint/concern, the OAG ensures appropriate referrals are made back to City departments, or the resident is provided with contact details for the Ontario Ombudsman.

Prior Year Reports

Thirty-five open reports were reported at the time the 2022-2023 Fraud and Waste Annual Report was issued. The assessments and investigations were completed by the Office of the Auditor General with the following outcomes: 3 were substantiated, 3 were partially substantiated, 6 were unsubstantiated, 9 had a status "Not Applicable", and 14 are in progress or have an outcome pending.

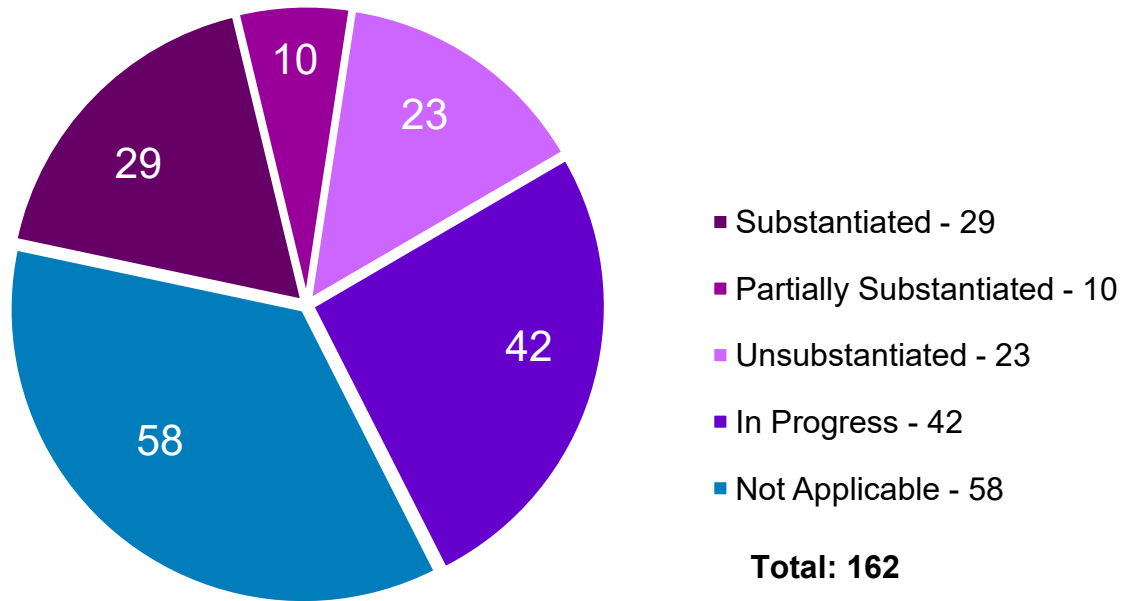
The most common reason for the 14 reports being in progress or having an outcome pending are that an audit is in progress, with results expected to be reported in 2025, employees being on leave so the outcome remains as pending, or the OAG is waiting on management to provide information. Outcomes are included in the section above for reports that were closed during the current reporting period. The City of Hamilton's ransomware attack in February 2024 also delayed the investigation and closure of many reports as files were inaccessible for several months and some still remain inaccessible and/or unrecoverable.

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 2023 to June 2024 (plus any carryforward reports from prior years) 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 with no response required.

Volume of Reports Substantiated



**Substantiation
Rate
33%**

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 33%.

The City of Hamilton's substantiation rate for the prior reporting period was 31%. For comparative purposes, in the City of Toronto Auditor General's 2023 Annual Report on the Fraud and Waste Hotline, 21% of complaints from 2023 that were investigated were substantiated in whole or in part. In the City of Ottawa's 2022 Report on the Fraud and Waste Hotline, 46% of reports closed in 2023 were substantiated. The substantiation rate will vary annually, depending on the mix of reports received by the OAG and the number of reports in progress at the end of reporting period, which have their substantiation rate counted in the reporting period that the work is completed and the report is closed.

Loss or Waste/ Mismanagement Substantiated

\$3.64M

**Loss or Waste/
Mismanagement
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 entire time period that a fraud or waste was occurring, which makes it hard to quantify losses.

As at October 31, 2024, the amount of confirmed loss or waste substantiated by the Office of the Auditor General since the last Annual Report was issued was \$2,348,000. Of this amount, \$863,000 was fraud and \$1,485,000 was waste. Since the launch of the Hotline cumulatively \$3,635,000 of loss or waste has been substantiated. Of this amount \$1,083,600 was fraud, \$2,494,400 was waste, and for \$57,000 a category could not be determined.



Disciplinary Action

The Office of the Auditor General is not responsible for disciplinary actions (including terminations). Investigation results are shared with Management and Human Resources. The Office of the Auditor General 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. This number is not controlled by the OAG and is reported for information purposes only.

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

- 5 Terminations,
- 10 Other Actions Taken (includes 2 employee resignations, 3 discipline issued, 1 retirement, 1 non-disciplinary letter, 2 verbal warnings, and 1 repayment letter).

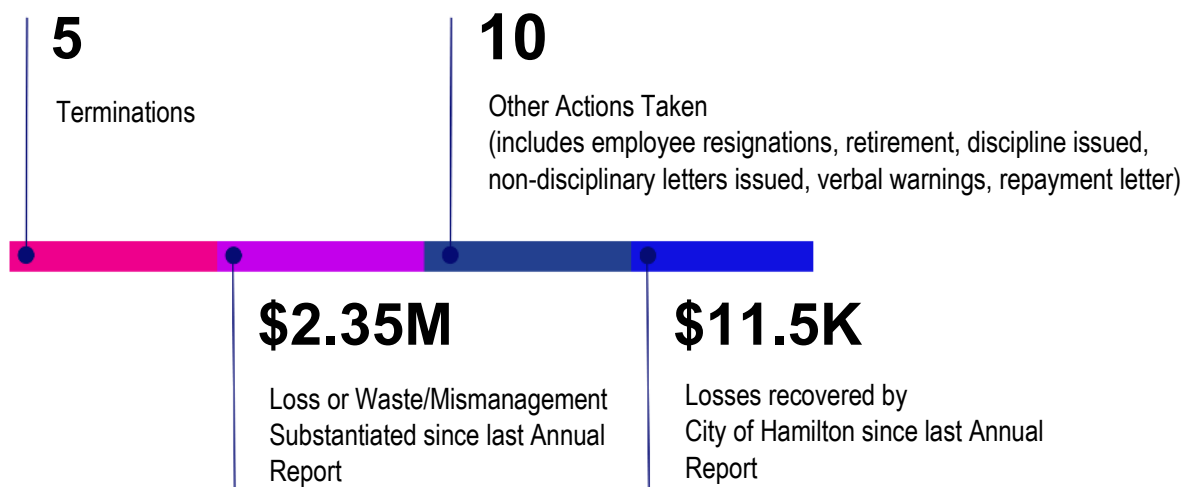
Recoveries and Impact

As at October 31, 2024, the City of Hamilton recovered about \$11,500 of losses since the last Annual Report was issued. Cumulative recoveries since the hotline's launch are \$47,400.

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 44 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 Auditor General receives and assesses, several report examples are provided in pages 20 - 29 of this annual report.

The reports included here provide examples of:

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

Auditor General Reporting Serious Matters to Council

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. There were four items that qualified under this Policy in the 2023-2024 Fraud and Waste Report time period and they were all presented to Council.

1. AUD23014 Auditor General Reporting of Serious Matters to Council (Case #56207 Employee Benefits Fraud).
2. AUD24002 Auditor General Reporting of Serious Matters to Council (Case #71958 Business Email Compromise Fraud #2).
3. AUD24003 Auditor General Reporting of Serious Matters to Council (Case #73367 Business Email Compromise Fraud #3).
4. AUD24004 Auditor General Reporting of Serious Matters to Council (Case #74254 Vehicle Theft).

Report Examples

Manager Working Another Job ("Moonlighting") When Scheduled to Work at City of Hamilton

It was alleged that a City of Hamilton manager was working at another job and there were concerns about how the manager could complete their City of Hamilton duties along with the duties of this additional position.

The OAG investigated and confirmed via publicly available sources that the employee did hold an appointment with another government organization and found a high volume of work activity at this additional government organization for select periods of time.

Some of the work activity at the other government organization, when compared to the manager's City of Hamilton schedule, provided evidence that the manager was working for the other government organization during City business hours.

The OAG made two requests to interview the manager for this investigation. The employee ultimately never responded to the OAG's requests and instead submitted their resignation from the City.

Based on available evidence that the former manager was working another job when scheduled to work at the City of Hamilton, the OAG concluded that the allegations were ultimately substantiated.

Hotline Tip Led to Real Estate Audit Findings - \$1.2M of Revenue Unlikely to be Fully Collected

Following the submission of two separate reports to the Fraud and Waste Hotline regarding the administration of leases and licensing in the Corporate Real Estate Office, the Office of the Auditor General (OAG) performed an audit of Corporate Real Estate: Leases and Licences (AUD24005).

The audit focused on standard lease-out arrangements where the City is the landlord. The OAG concluded that there is significant room for improvement in governance and administration of leases and licences.

Administration

- Inefficient and error-prone,
- Opportunities being missed,
- Responsibilities are dispersed between multiple parties and multiple tools,
- Procedures, roles, and criteria are not adequate.

Governance

- Delegations of authority not addressed.

Systems and Data

- Current system is vulnerable to changes being made to information without any trace of the source or timing of the change,
- Information is not complete or current,
- Information is inconsistent across systems,
- None of the lease and licence systems integrate with corporate financial systems,
- Lack of proactive reporting procedures / practices / tools.

Below Market Rental Rates

- Transparency and accountability are lacking in processes,
- Lack of rent increases.

Collections

- Inadequate process to ensure full collection and restoration of arrears in a timely manner,
- Accumulated arrears, rental losses, and revenues that are unlikely to be fully collected estimated to be about \$1.2 million.

The Office of the Auditor General's Report AUD24005 made 35 recommendations to address the key audit findings, with a focus on data collection and financial reporting, maximizing and collecting revenues, and related process improvements in the administration of leases and licences. Management agreed with all 35 recommendations and provided responses for each recommendation.

Employee Breach of Trust Allegations - Update

In the 2022-23 Fraud and Waste Report we reported that the OAG received information about a (now former) City employee who was a Plans Examiner that had been charged with two counts of breach of trust. The charges followed a Police investigation.

Per our review of court documents, two charges were laid against a City employee. Both charges were: "being an official with the City of Hamilton, a Plans Examiner did commit Fraud in connection with the duties of his office by entering false information on City of Hamilton documentation and depriving the City of Hamilton fees owed to it contrary to Section 122 of the Criminal Code".

These charges were stayed in Fall of 2024. The former employee was terminated earlier in 2024 due to their conviction on a drug-related charge as part of the Project Skyfall investigation.

A full investigation by the OAG has begun, as ultimately the OAG is looking to understand the full extent of what happened, how it happened, and what lessons, if any, can be learned. OAG work is resuming now that the criminal trial has concluded.

Employee Time Theft

Human Resources notified the OAG of allegations that a City employee was committing time theft and that they were found handling personal matters during work time. The OAG requested that HR investigate the matter.

The HR investigation found that work records did not match what was observed by management. Ultimately 12 instances of time theft by falsifying work service records as substantiated. HR informed the OAG that employee was issued discipline.

False Benefit Claims

HR informed the OAG that they investigated three employees for false benefit claims and informed the OAG of the result as follows:

- An employee was found to have filed false claim submissions (93 in all) totalling over \$14,300. Based on available information, it is the OAG's understanding that over 70% of this amount was received back from the employee. The employee resigned before the investigation could be concluded by HR.
- An employee was found to have filed false claim submissions. The total of the false claims was about \$990. HR informed the OAG that the employee was terminated and that the full amount was recovered from the former employee.
- An employee was found to have filed false claim submissions totalling about \$6,600. HR informed the OAG that the employee was terminated. It is unknown to the OAG if any funds have been recovered.

As a result of these issues OAG included an audit of Employee Benefits Administration on its 2023-2026 Term of Council Audit Workplan, it is planned to be an audit of the processes used to administer benefits claims and protect against fraud.

City Targeted by Imposter Vendor Scam - Again

OAG received notification from City Finance staff of a situation whereby someone posed as an existing vendor to the City – a vendor that was owed substantial monies. The imposter vendor contacted the City to change the banking details of the legitimate vendor. As a result of a misstep in applying the City's existing procedures for such requests, the banking information was changed, and over \$274,000 was paid into a new bank account as directed by

the imposter. The legitimate vendor subsequently contacted the City wondering where their payments were, which led to further enquiries that revealed the diverted funds.

The OAG engaged a forensic investigative firm to assist in looking into the matter, and to report the exact circumstances of the diverting of funds. The OAG also reported the incident to the police and will be making recommendations for process improvement in its final report to management. This particular incident occurred prior to the City's ransomware attack in late February 2024.

This is similar to a situation that the OAG reported in last year's Fraud and Waste Annual Report and Report AUD24001.

The OAG is currently finalizing the investigative report for this matter.

City Agency Targeted by Imposter Vendor Scam

OAG received notification from a City Agency's Finance staff of a situation whereby someone posed as an existing vendor to the City Agency – a vendor that was owed substantial monies. The imposter vendor contacted the City Agency to change the banking details of the legitimate vendor. The banking information was changed, and over \$552,000 was paid into a new bank account as directed by the imposter. The legitimate vendor subsequently contacted the City wondering where their payment was, which led to further enquiries that revealed the diverted payment.

This particular incident occurred after the City's ransomware attack in late February 2024, and this matter was made even worse because the invoice to be paid was for about \$137,000, but due to human error and manual workaround processes in place due to ransomware attack, the amount paid to the imposter vendor was the incorrect, higher amount of \$552,000, and a different, legitimate vendor was underpaid by about \$415,000.

Further complicating things, the legitimate vendor had emailed the City Agency over a week prior to the fraud warning the Agency that they had experienced a security breach and were notifying the Agency that their banking information has not changed and to urgently contact them if there are any suspicious requests for fund transfers to difference banks. Notwithstanding the warning, the funds were electronically transferred to the imposter vendor's bank account.

The OAG engaged a forensic investigative firm to assist in looking into the matter, and to report the exact circumstances of the diverting of funds. The OAG also reported the incident to the police and will be making recommendations for process improvement in its final report to management. As part of its investigation response OAG enlisted the assistance of the City's Legal Services in tracing the funds and through a court order \$417,000 of the \$552,000 was successfully frozen.

The OAG is currently finalizing the investigative report to management for this matter.

Non-Compliance with Contract Costs City \$22K

A vendor reported to the OAG with allegations that they were treated unfairly in the assignment of work with respect to a contract relating roadway maintenance, essentially that the City was not adhering to the terms of the contract.

The vendor claimed that for two weeks their equipment sat idle while another vendor was being assigned work. The vendor's understanding through the Tender award process was that there was a defined work assignment process for all of the multiple, successful bidders. It was the vendor's opinion that the City was not adhering to the contract terms.

A preliminary assessment by the OAG substantiated the allegation of unfairness in how the contract was administered, shown by discovering that the work was assigned using an inaccurate assignment list. The OAG referred the issue to management for resolution and recommended that they work with Legal Services and the contractor to determine the appropriate actions. The result was almost \$22,000 was paid to the vendor that reported the matter to the OAG.

Protective Plumbing Program – Several Duplicate Payments Made

The OAG is preparing the final report for a Transfer Payments and Grants Value for Money Audit (to be released in the near future). During audit testing in the Protective Plumbing Program (3P), the OAG identified 10 duplicate payments made to various grant recipients in 2022.

Our investigation into the matter found the duplicate payments were made due to human error in the manual payment process and also due to a lack of review. In addition, the financial system was found be lacking the needed built-in controls to identify and reject transactions that have all the same attributes except for one. The total amount of the duplicated payments is over \$18,400.

The OAG issued an urgent memo to management requesting immediate action be taken to recover the duplicate payments and to further review transactions processed in this manual process. Management reported back to the OAG that no further duplicate payments were found. Collection efforts were being led by Finance and Legal Services.

Alleged Waste in City Trail Capital Works

The OAG received a complaint about a City Trail Capital Project, on behalf of a group of residents. The complaint was that the contractor did not finish, nor cleanup from, their work, leaving residents without a path for walking, running, and other healthy activities.

The report alleged that two months following the scheduled completion of work, the trail was still closed, and the worksite was left untidy, and that the contractor was not fulfilling their contractual requirements of being onsite.

The OAG found that the project would take about four months to complete; by the time the OAG received the complaint, it was six months from when the contractor started the work. Further investigation substantiated other aspects of the complaint; indeed, the project was delayed, and the contractor was not attending the site daily. Trees and stones had not been removed from the site.

Procurement documents and project documentation revealed certain aspects, such as change orders, documented quantity and monetary changes, but did not document schedule changes. The substantial completion date was more than three months past the date specified in the contract without a formal written amendment to extend or change the contract terms.

The OAG found there were several opportunities to improve processes. The OAG made four recommendations to management that focused on improvements to contract management processes and practices. Management replied with an action plan to implement all four recommendations.

DARTS Billing Issues

In November 2023, the Accessible Transit Service (ATS) section that manages the City's agreement with DARTS, noticed that DARTS was incorrectly including group booking trips as special events, which are subsidized trips, and were therefore overpaid. ATS believed that this may have been occurring as far back as the beginning of the contract in 2012.

A preliminary assessment by the Office of the Auditor General (OAG) prompted an audit of overpayments made to DARTS for support persons, orientation interviews, and special events.

OAG concluded that payments made to DARTS from 2018-2023 for this type of ride were more than \$115,000 higher than they should have been and that the estimated 12-year total of overpayments ranged between \$232,000 and \$310,000.

The full Audit Report will be released by the OAG in December 2024, and it includes seven recommendations to management.

Stolen City Van

Corporate Security reported to the OAG that a van was stolen from a City Facility, with suspected employee involvement. The matter was reported to the Police by Corporate Security. The OAG also notified HR. The OAG requested that Corporate Security and HR investigate, however there is no new information to report on this file. Estimated value of the stolen van is over \$13,000.

Insufficient/No Business Case to Justify the Addition of 7 FTEs to City Budget

The OAG received a report alleging seven temporary staff positions were converted to permanent positions without proper a proper business case and analysis. The seven positions at issue are currently funded by a different level of government. The Reporter alleged the information provided to Council requesting their approval was misleading as there is allegedly insufficient funding to support the positions.

The OAG's investigation concluded that there was no business case prepared that analyzed the long-term impact converting the temporary positions to permanent in the request for Council approval. The OAG also found that the existing corporate policy does not provide guidelines or expectations for the level of sophistication and analysis required to support changes in staff complement.

However, we did conclude that the seven positions are currently fully funded and will continue to be fully funded provided that the Province continues the funding at the current level and continues with at least the same percentage allocation for program administration costs.

The OAG finds the allegation to be partially substantiated due to the policy gap and lack of a robust business case.

Other Report Examples

Although the Office of the Auditor General 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.

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Alleged Vendor (Consultant) Conflict of Interest

The OAG received a report from a citizen concerned about the potential conflict of interest of a consulting firm. The firm was working on an important project for the City, while at the same time representing a developer that was taking a position on a different matter that was adversarial to that of the City. Ultimately, OAG concluded that the 2 matters were unrelated, with each having little bearing on the other.

However, our research did lead us to the conclusion that the City has very little substantive guidance on what constitutes conflict of interest on the part of a vendor, including the situations and criteria for identifying those that would require disclosure and/or involve unacceptably high risk.

In discussions with Procurement Division we learned that they are working on a Vendor Code of Conduct. Accordingly, we made a recommendation that they consider more detailed definition and guidance on vendor conflict of interest as part of that exercise.

Handoff of Package

We received an anonymous report alleging possible fraud and embezzlement. In the parking lot of a local retailer, the Reporter saw a City-branded vehicle and a person wearing an orange safety shirt transferring a white box to a person who pulled up in a truck and placed it in the back of the truck. The allegation was that City property was being released to a private citizen without permission.

The OAG referred the allegation to management for investigation. Management was able to verify that the Reporter saw one employee providing another employee with supplies needed for the next day's work. The employee in the City vehicle picked up a box of supplies and met with the employee on route to their project to save staff time for the other City. The report was found to be unsubstantiated.

Unproductive Road Work Allegations

The OAG received a report alleging that some road repair work performed by the City staff was unproductive and more staff and machinery resources were being used than was necessary and was a waste.

We reviewed the matter and concluded that the allegation was unsubstantiated, however we made recommendations for improvement to management. We found that the repair methodology used was based on the concept of economies of scale, which enabled a higher volume of work to be completed each day.

Various Intrusion Attempts to City Payment Systems

In today's digital economy, online payment systems have become essential for City services. However, cybercriminals target online payment portals hoping to test stolen credit card numbers, make unauthorized purchases, or gain access to payment systems for larger-scale fraud operations.

These fraudulent activities typically involve criminals using automated tools to attempt multiple transactions in rapid succession, often using stolen or generated credit card numbers. Their goal is to identify valid card numbers that can then be used for larger unauthorized purchases or sold on illegal marketplaces.

In the past year, more than 1,240 attempts to make suspicious payments through the City's payment pages were reported to OAG. The attempts were usually part of multiple transactions in rapid succession, for low dollar amounts.

The City's protective measures helped safeguard public resources and maintain trust and confidence in our digital services by successfully blocking 99.5% of the attempts. Collaboration and support from Information Technology and Finance contributed to the Customer Service Division's successful blocking of these attempts.

Multiple Payroll Phishing Attempts

"Payroll Phishing" is a form of fraud where criminals attempt to redirect employee paychecks by manipulating payroll and human resources systems. These attacks target an organization's Human Resources department, attempting to exploit their access to employee payment information and payroll systems.

In a typical payroll phishing attempt, fraudsters impersonate employees through fake or compromised email accounts, requesting changes to direct deposit information. These attacks use carefully crafted emails to appear legitimate. The criminals' goal is to redirect salary payments to fraudulent bank accounts before their deception can be detected.

The OAG was informed of three payroll phishing attempts in the current reporting period; all three attempts sent directly to the email address of the Executive Director of Human Resources (HR), claiming to be an employee and requesting a change in direct deposit banking information.

HR reported the emails to the OAG and successfully verified that each attempt was a 'phish' through direct confirmation with the three City employees.

Unsubstantiated Allegation of Recruitment Irregularity

The OAG received an anonymous report alleging that a senior level position was awarded without due process. Working with Human Resources to obtain more information about this particular recruitment competition and following a review of the City's "Request to Post and Fill a Vacancy Policy", the OAG was able to conclude that there was no policy violation and therefore considered the allegation unsubstantiated.

Allegation of International Travel While Receiving Ontario Works

Concerns were reported to the Office of the Auditor General about an individual in receipt of Ontario Works income support and who was also allegedly travelling internationally. The OAG referred this report to the Ontario Works Division who provided the OAG with the Ontario Works Policy 9.2 Absence from Ontario, which outlines the directives for travelling out of Ontario for a period of time.

“A person who is absent from Ontario for a period greater than seven days is not eligible for assistance unless the absence is approved by the Administrator as necessary for reasons of health or exceptional circumstances.”

Ultimately the allegations were found to be unsubstantiated.

Allegation of Social Housing Subletting

The OAG received concerns about potential subletting of a social housing unit. The matter was referred to Housing Services who reported back to the Office of the Auditor General the concerns were unsubstantiated.

Allegation of Wrongful Eviction at a Social Housing Property

Allegations that a tenant was wrongfully evicted from a social housing property was reported to the Office of the Auditor General. The OAG referred the matter to Housing Services who informed the OAG the tenant was over \$20,000 in rental arrears and that the proper process for terminating a tenancy was applied. The report was found to be unsubstantiated.

Conclusion

The Fraud and Waste Hotline was launched in July 2019 as a pilot program and was made permanent by Council in March 2023. Overall, the first five years of the Fraud and Waste Hotline operation have seen a high volume reports assessed and investigations launched as appropriate. Over 550 reports have been assessed and investigated.

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 Auditor General and wrongdoing involving City resources may have continued and the scale of fraud and waste would have remained undisclosed and not publicly reported. 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.



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