



Office of the
Auditor General
City of Hamilton

Report AUD25004

Accounts Payable Special Investigation:

CityHousing Hamilton Investigation Summary (Fraud and Waste Report #73367)

Charles Brown, Auditor General
Ken Froese, Delta Consulting Group



CityHousing Hamilton Corporation Board of Directors - April 22, 2025
Audit, Finance and Administration Committee - May 1, 2025

- Gained an understanding of the incident, an alleged fraudulent payment of over \$552,000.
- Gained an understanding of operational processes regarding Accounts Payable.
- Procured Delta Consulting Group Canada Ltd. to complete the investigation on our behalf, while providing investigation support and maintaining oversight of the investigation process to ensure quality and value were received.



- A legitimate vendor contacted CHH to warn of a security issue at their company and be on the lookout for any requests for changes to banking information.
- Two weeks later an imposter posing as this same vendor (who was owed \$137,000) emailed CHH to change the vendor's bank account details used for electronic funds transfer. The banking changes were processed diverting any future payments to the fraudster's account .
- In error, the vendor was set up to be paid \$552,000 - an amount owed to a different vendor.
- The \$552,000 was sent to the imposter's account which was discovered when the real vendor that was owed \$552,000 received payment for only \$137,000



- The incident was reported to the Auditor General who informed Council in a confidential “Serious Matters Report”. CHH informed Hamilton Police.
- With the assistance of Delta Group and the City’s Legal Services, funds were traced to multiple bank accounts through Norwich Orders – a court order that compels a third party to produce relevant documents – in this case bank account information
- Some \$417,000 of funds were located and frozen by court order
- Through the issuance of summons to appear by the OAG, multiple witnesses were interviewed. Cooperation was secured with one key individual to return the funds. To date \$417,000 has been returned.
- The OAG has provided its information and reports to Hamilton Police to further their investigation



Ken Froese, Senior Managing Director Delta Consulting Group Canada Ltd.



Delta Consulting - Investigation Summary

- Delta Consulting Background
- Investigation Mandate from OAG: investigate alleged fraudulent payment of over \$552,000.
 - Review of documentation, interviews with relevant staff and vendors, obtaining Norwich Orders, Mareva Injunction.
 - What happened, what was recovered.
 - Investigation findings and recommendations.
 - What internal control issues may have contributed to the issue.
 - What the current risk environment is for these type of issues.

- 1) We recommend that CityHousing implement a senior level (non-union) supervisor position that requires the supervisor to possess suitable accounting credentials and experience, to assist in the supervision of the finance staff's work.
- 2) We recommend that CityHousing Finance document a set of procedures to mitigate the risks of fraud and error as it pertains to vendor Capital payments made by EFT.
- 3) We recommend that vendor banking information be stored securely and locked for editing and that adequate segregation of duties be implemented for this process.
- 4) We recommend that the key banking file be reviewed for accuracy and that all vendor Capital EFT payments be authorized/endorsed by the appropriate signing officers prior to their release.



- 5) We recommend that bank agreements be reviewed and updated whenever employee responsibilities change and whenever changes in employment impact employees who are added or removed from positions with signing authority. We also recommend that CityHousing consider requiring the CFO or CEO to be one of the signing officers for payments over a predetermined threshold.
- 6) We recommend that the City consider centralizing Accounts Payable or key functions performed by Accounts Payable such that resources can be used most efficiently and processes can be harmonized. We recommend that, at a minimum, the processes associated with new vendor additions and vendor banking changes that are not already centralized be considered for centralization.
- 7) We recommend that all Accounts Payable staff dealing with vendor information change and payments processing receive additional training on risks related to business email compromise and the need to independently verify vendor information changes in order to avoid further losses to the City.



- Seven recommendations were made to the CityHousing Hamilton.
 - Management agreed with six of seven recommendations and are implementing an alternative action for the seventh recommendation.
- Management is currently working on implementing their management responses.
- OAG is recommending that the Board of Directors directs the CEO to report back with a status update by November 2025.





THANK YOU