



**Office of the Auditor General: Report on the
Fraud and Waste Hotline, Tabled at Audit
Committee – June 22, 2017**



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2016 Fraud and Waste Hotline report highlights

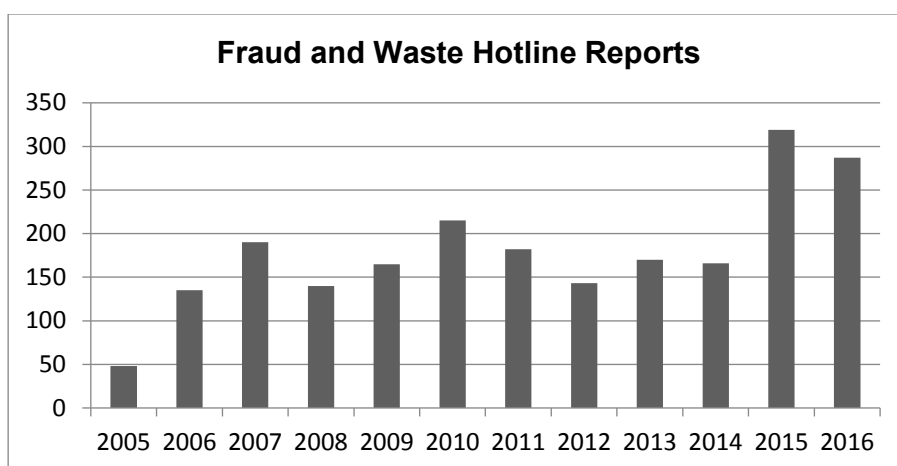


Figure 1: Number of reports received by year

Main points

- 287 reports made to the Hotline in 2016
- 10% decrease in activity over the previous year
- 62% of reports came from public
- 38% of reports came from employees

Top five report categories

Table 1: Quantity of reports for top five categories

Category	Quantity of reports
Unauthorized use or misuse of City property, information or time	82
Violation of laws, regulations, policies, procedures	26
Unethical conduct or conflict of interest	20
Suggestions for improvement	19
Theft, embezzlement, fraud	18

Results

- 7 employees terminated
- 7 employees resigned
- Other disciplinary action ranging from discussions to suspensions

Description of the Hotline

The City's Fraud and Waste Hotline (FWH) was launched on November 1, 2005, first to facilitate the reporting of suspected fraud or waste by employees. Council later made the Hotline available to the public in May 2009. The Hotline is a confidential and anonymous service that allows any employee or member of the public to report incidents 24 hours a day, 7 days a week. The Hotline is operated independently by a third party and is accessible either by phone or the Internet.

Based on research of leading ethical practices, including the Institute of Internal Auditors (IIA), the Association of Certified Fraud Examiners (ACFE) and practices employed in other municipalities, an anonymous reporting mechanism is a good component of a mature ethics management framework. As such, the Fraud and Waste Hotline demonstrates sound management practice, and reports have led to audits and investigative reviews, as well as disciplinary actions. We have also found that employees and the public are well aware of the Hotline and its purpose. They view it as an important component in maintaining a strong ethical culture at the City. The Hotline may also mitigate ethical risks by discouraging potential wrongdoers and identifying ethical violations when they occur. Although not necessarily the main objective of the Hotline, it also results in savings by preventing potential fraud and abuse. However, it is not always possible to quantify the impact of savings realized through the Hotline. A significant value of the Hotline continues to be improving the ethical culture at the City and changing attitudes to deter fraud and waste.

Hotline statistics

In 2016, 287 reports were made to the Hotline. This represented a 10% decrease in the number of reports from 2015. There were 179 reports submitted by members of the public, and 108 reports were submitted by employees of the City of Ottawa.

The reports submitted by employees also include any cases reported by management as required by the policy. In 2016, 15 cases were reported by management.

Table 2: Reports by reporter type

Reporter type	Number of reports	Percentage
Public	179	62%
Employee	108	38%
Total	287	100%

Reporters can submit their reports by Internet, phone, email and traditional mail. Table 3 below breaks out the reports received by method of submission. In 2016, almost 2/3 (65%) of reports were received through the Fraud and Waste Internet site. This is a slight increase from 2015 when 58% were received through the Internet.

Table 3: Reports by method of submission

Method of submission	Number of reports	Percentage
Internet	187	65%
Phone	100	35%
Total	287	100%

The Fraud and Waste Hotline has the functionality to facilitate anonymous two-way communication that allows reporters to access their report after submitting the original report. This feature allows the reporter to submit additional information, track the progress of the case, respond to any follow-up questions and receive the outcome of their report. In 2016, 132 reporters, representing 46% of all reports, accessed their report after submission of the original report. This is consistent with 2015 when 47% of reporters accessed their reports, indicating that reporters continue to be interested in submitting additional information, tracking the progress and/or reviewing the outcome of their reports.

Table 4: Reporters who subsequently accessed their report

Reviewed report	Number of reports	Percentage
Yes	132	46%
No	155	54%
Total	287	100%

On average, investigations related to Fraud and Waste Hotline reports are expected to take six to eight weeks. More complex investigations or where additional information is required before proceeding with the investigation may take more time. As at December 31, 2016, there were 41 reports with investigations in process.

Table 5: Investigations in progress as at the end of 2016

Investigations in progress	Number of reports
As at December 31, 2015	74
Add: reports received in 2016	+287
Less: reports closed in 2016	-320
Total investigations in process as at December 31, 2016	41

Summary of type of reports

Table 6 below summarizes the number of reports received to December 2016 by report category since the inception of the Fraud and Waste Hotline in 2005.

Table 6: Fraud and Waste Hotline reports as at December 31, 2016

Report Category	2005 to 2012	2013	2014	2015	2016	Total
Unauthorized use or misuse of City property, information or time	261	50	40	84	82	517
Violation of laws, regulations, policies, procedures	153	30	31	39	26	279
Suggestions for improvement	193	10	8	24	19	254
Theft, embezzlement, fraud	153	25	12	21	18	229
Unethical conduct or conflict of interest	134	5	13	26	20	198
Suggested areas for audit	96	6	3	3	12	120
Health and safety, environment	28	6	1	7	1	43
Manipulation or falsification of any data	24	5	1	1	5	36
Management/supervisor	22	1	2	2	3	30
Alcohol or drug use or other substance abuse	17	1	1	0	3	22
Harm to people or potential harm to people	6	1	1	2	5	15
Financial reporting and accounting	8	4	2	0	0	14
Other *	129	26	51	110	93	409
Total	1,224	170	166	319	287	2,166

* The “Other” category includes reports related to social assistance (16 in 2016), to water/property tax bills (5 in 2016) and to organizations outside the Office of the Auditor General’s (OAG) jurisdiction (22 in 2016) such as Ottawa Police Service, Ottawa Public Health, Ottawa Public Library and Ottawa Community Housing Corporation. This category also includes reports that were not related to City services (18 in 2016) such as potential frauds committed by other members of the public. In addition, there were cases that did not relate to fraud or waste or had insufficient information to proceed with an investigation (32 in 2016).

Issues arising from the Hotline

This section includes summaries of the substantiated fraud and waste cases that were closed during 2016. Note, that on occasion, we receive more than one report on the same matter resulting in more than one report for a substantiated case. Where reports are found to be substantiated, any disciplinary action taken is the responsibility of management. Where management has taken action, the outcomes are noted below and have been grouped by typical categories.

Unauthorized use or misuse of City property, information or time

There were 24 cases involving 25 employees where there was unauthorized use or misuse of City property, information or time. Management found that policies and procedures were not consistently followed as detailed in the following paragraphs:

- There were 10 cases involving 11 employees relating to misuse of City property:
 - An employee used a City vehicle to pick up a meal which was not part of their job duties. The employee was verbally reprimanded which was documented in the employee's file. All supervisors in the section were directed to remind all employees of the City of Ottawa's Personal Use of City Vehicles Policy and that company vehicles are only to be used for work-related purposes.
 - Two employees went to a restaurant with a City vehicle for more than one hour. The incident was documented in the employee's files, and employees were advised that a repeat of this activity could result in discipline. All employees in the unit were also reminded of the Personal Use of City Vehicles Policy.
 - An employee left a City vehicle idling in contravention of the Equipment Idling Policy. The employee was reminded to follow the policy and that any future unwarranted situations of vehicle idling would be subject to possible discipline.
 - An employee stored their personal vehicle at a City facility when it was not in use in violation of the Code of Conduct which instructs against the use of City property for personal benefit. The employee removed the vehicle. Management distributed a memo to staff in the unit to clarify the policy.
 - An employee left a vehicle running while conducting work of short duration in violation of the Vehicle and Equipment Anti Idling Policy. Management clarified with the employee that vehicles should be turned off when work

- duration was expected to exceed one minute. The policy was also reviewed with staff in the work unit.
- An employee was alleged to be constantly surfing the Internet for personal use. A review of Internet usage found some, but not excessive personal use. The employee will be reminded of their obligations under the Responsible Computing Policy and the Code of Conduct.
 - An employee regularly used a City vehicle to pick up coffee for co-workers during assigned break times, with their supervisor's permission, in violation of the Personal Use of City Vehicles Policy. Both employees received warnings which were documented in their personnel files. All supervisors in that unit were asked to review the policy and to remind employees that the use of City vehicles be limited to work-related purposes.
 - Two employees used the City of Ottawa logo to make apparel. The action was stopped immediately, and the employees received verbal warnings.
 - An employee and a summer student were offered a City's truck and another employee to act as a driver as they visited a number of sites. The truck and driver were neither requested nor required as both the employee and the summer student had their personal cars. The driver received a verbal warning.
 - A contractor installed a garbage bin in a wrong place. Management asked the contractor to move the bin.
- There were 14 cases relating to 14 employees who did not use time or leave in conformance with policies:
 - An employee called in sick in order to work elsewhere. The employee was terminated, and sick leave payments of \$1,229 were recovered from the employee.
 - An employee claimed work on their timesheet when they were actually not working. The employee was terminated.
 - An employee was alleged to be making improper use of sick benefits. During surveillance, the employee was observed in some activities that may have been in contravention of their medical restrictions. The employee resigned before returning to work. Management decided not to pursue recovery of unpaid sick leave due to insufficient evidence.
 - An employee misused sick leave and special leave. The employee was suspended for ten days without pay. A Letter of Discipline was placed on employee's file. The inappropriately used sick leave and special leave was

recovered. The employee was also removed from working on special assignments for the period that the discipline remains on file.

- An employee left earlier than scheduled on three days. The employee was suspended for three days without pay, and the overpayment for the time not worked was recovered through payroll.
- An employee used City vehicle for personal use, inaccurately recorded time on the time sheet, and combined breaks in violation of the collective agreement. The employee was issued a three-day suspension without pay.
- An employee left before the end of shift on multiple instances. The employee received a Letter of Discipline and a one-day suspension without pay.
- An employee recorded incorrect start and end times on time sheets resulting in overpayments and underpayment to four employees. Four employees did not follow the collective agreement, and took a break after the job was completed, rather than during the job. The pre-start vehicle safety check was also not completed. Employees received suspension without pay. A total value of \$42.92 was recovered through payroll.
- An employee was alleged to be continually calling and texting for non-business purpose during work hours. The employee was reminded of expectation regarding their Flex Work Arrangement and regarding personal calls and texting during work hours.
- An employee brought a pet to the office during work time. The employee was advised that personal activities that may interfere with work should be restricted to lunch periods or breaks.
- An employee left early on two days and claimed time for the full shift. The employee received a written warning, and the excess pay was recovered through payroll.
- An employee was working on a side business while receiving long-term disability benefits. The benefits were suspended.
- An employee engaged in various activities while receiving long-term disability benefits which appeared to be inconsistent with the medical condition. The City's long-term disability administrator has closed the file, and employee's appeal was denied.
- An employee that supports multiple sites was alleged to be not working in their reported hours. Although the allegation could not be substantiated, steps were taken to improve visibility of the employees schedule and activities.

Theft, embezzlement, fraud

There were 10 cases of theft, embezzlement or fraud in cases closed 2016:

- Copper with an estimated value of \$2,700 was taken from a City facility. The investigation was not concluded as the employee allegedly involved in the theft was terminated as a result of another investigation.
- An employee submitted \$2,328 of unsubstantiated health claims. The employee was terminated.
- An employee submitted \$630 of unsubstantiated health claims. The employee was terminated.
- Advantages valued at \$222 were obtained as a result of an improperly shared software access password. The amounts were recovered. The employee who obtained the advantages was terminated. The employee who shared their password was issued a letter of expectation, attended training and will be monitored for adherence to corporate and departmental policies and procedures. Applicable employees in the department were reminded not to share their passwords with other employees.
- Two employees submitted \$12,933 of unsubstantiated health claims. The employees resigned. The case was referred to Ottawa Police Service for investigation.
- Three employees fraudulently issued advantages to friends and relatives with a retail value of roughly \$12,000. The employees resigned and the advantages discontinued. As the usage value was estimated at \$700, recovery of funds was not pursued. Seven other employees failed to log out of their terminals when leaving which allowed their access to be used to issue the advantages. These staff received letters of instruction on their files. The Cash Handling Policy and Procedures were reinforced with staff. Cash Handling Procedures will also be updated to enhance monitoring.
- An employee submitted fraudulent insurance claims of \$900. The employee resigned, and the amount owed was recovered from the employee.
- Six laptops with an estimated value of \$12,000 were stolen from a City office. The equipment was not recovered. Security was enhanced, and affected staff received additional training on security awareness.
- A theft of power tools occurred at a City of Ottawa facility. Security was upgraded.

Violation of laws, regulations, policies, procedures

There were nine cases as noted below:

- Three employees were late and did not perform their scheduled work which affected the integrity of a service process. The City received a delay claim of close to \$5,000 from the contractor. One employee was terminated, and two employees were suspended without pay.
- A resident did not obtain a building permit for a commercial structure resulting in reduced revenue for the City and other impacts. A Notice of Violation under the Zoning By-law has been issued to the property owner. The Municipal Property Assessment Corporation has also been asked to investigate if the property should be classified as “commercial”. A reclassification of the property to commercial would result in higher property taxes due to the City, on a go forward basis.
- An employee was found to have a rental arrangement with a social assistance client that had not been declared. The employee was issued a letter of expectation clarifying their responsibility as a City of Ottawa employee to disclose potential conflicts of interest with regard to clients.
- An employee was parking their vehicle overnight at an alternate location that is further than the designated location for employees working in the same area. The employee was directed to park the vehicle in the standard location.
- An individual who turned out to be a tenant had been smoking in a leased space in a City facility contrary to City policies and by-laws. The tenant was reminded not to smoke in the facility.
- Employee made a scheduling error resulting in one additional non-essential shift on a statutory holiday. The supervisor reviewed the scheduling standards with the employee.
- Two employees were smoking in a non-smoking area. They were reminded of the City’s Smoking By-Law and the Code of Conduct.
- An investigation of two landscaping contractors revealed that internally, an overall framework for managing similar contracts was not documented, although commonly accepted practices were being applied. Externally, the contractors were not in compliance with all safety requirements. Procedures will be documented to improve the consistency and effectiveness of the City’s management of these types of contracts.
- A contractor did not comply with a safety requirement. The issues related to the contractor’s work were provided to Supply Services. The department that

contracted out the work will conduct additional spot checks to ensure the issue does not reoccur.

Unethical conduct or conflict of interest

There were two cases as noted below:

- An employee used their email account for outside activities unrelated to City business. The employee was advised to discontinue this practice.
- An employee failed to make a written disclosure to their superior that a family member had applied for and was being interviewed for a position within their organizational unit. Rather, the employee disclosed this to the hiring manager, a subordinate, and only later at the end of the interview process to their superior. In addition, the hiring panel did not document a number of decisions taken in the selection process. Management's investigation however determined that the hiring was in accordance with the Employee Code of Conduct and the Employment of Family Members Policy. The employee was reminded of the requirements for disclosure.

Harm to people or potential harm to people

There was one case where an employee used a City vehicle for the purpose of an activity that was deemed contrary to the City's Code of Conduct and the Personal Use of City Vehicles. The employee received a three-day suspension without pay and will be subject to frequent check-ins with the supervisor.

Manipulation or falsification of any data

There was one case where an employee committed time theft and submitted falsified data reports in contravention of the Code of Conduct and the Fraud and Waste Policy. The employee was terminated, and the false data was removed from the applicable database.

Management/supervisor

There was one case where a supervisor made inappropriate comments to an employee. The supervisor issued letters of apology to the employee and to all employees who witnessed the event. The supervisor also provided respectful work-place training to all employees in the unit.

Suggestions for improvement

There was one case where a field under City responsibility received more frequent grass cutting than needed due to an error in updating the schedule. Management revised the cutting frequency to the normal schedule.

Suggested areas for audit

There was one case where a City building project had on overly complicated design and incurred approximately \$115,000 in additional cost. The additional costs were not recoverable. We were informed that similar future projects are required to have simple designs, and measures will be taken to ensure that related consulting services agreements will properly define all the services to be provided.

There was one case which raised questions regarding the quality of work done by contractors. We considered this case when deciding to include the Audit of Road Services Branch - Contract Management in our 2017 Audit Work Plan.

Other – Social assistance

Since the beginning of 2014, the OAG has requested that management review and provide the outcome for any social assistance cases received by the Fraud and Waste Hotline. As a result, in 2016, there were nine cases closed involving individuals collecting social assistance benefits for which they were not entitled. Overpayment recoveries were created.

The City's Fraud and Waste Hotline is not necessarily intended to be used for allegations regarding social assistance as there is a dedicated social assistance fraud line at 1-800-394-STOP (7867) for this purpose.

Review resulting from a Fraud and Waste Hotline report

In addition to the above, on June 20, 2016, the OAG presented to Audit Committee the *Review of CSC Laurier Cash Handling Process and Cash Discrepancies* which was conducted in response to a Hotline report. The review included 26 recommendations, and management agreed with all of them. The details of this review can be found in the report which was addressed in-camera.

Quality of management investigations

The OAG is largely dependant on City management to investigate fraud and waste reports. When we receive a report, we first assess if it is within our mandate and if the information provided is sufficient to understand the allegation. For the vast majority of reports, we then edit the text to remove any information which would allow the reporter to be identified and forward the report to City management to investigate.

The City Manager's Office (CMO) reviews the reports and assigns them to specific managers to investigate. There are corporate Fraud and Waste Investigation Procedures for these managers to refer to as well as a Fraud and Waste Hotline Investigation Review Report template and supporting guidelines. The CMO returns the completed review report to the OAG once the investigation is complete.

Most of management's investigations are satisfactory. However, there are exceptions. For example, one report alleging theft of materials was provided to management in November 2015. We received the investigation review report in March 2017, 16 months later. We believe that the number of individuals that were involved in the investigation and length of time that it took reduced the effectiveness of the investigation.

Another report that we received questioned the need and appropriateness of sending three City employees out of town for a software vendor's upcoming conference. According to the investigation review report that was returned to the OAG, the Lead Investigator for the report was the same individual that originally approved the trips. In our view, it was a conflict of interest for this individual to both approve a matter and then investigate it.

The City's Fraud and Waste Investigation Procedures direct the CMO to forward fraud and waste reports to the appropriate member of executive management to initiate an investigation, unless conflict of interest conditions exist. In this case, it is possible that the potential conflict of interest was not identified by the CMO when it forwarded the report due to the direction provided and urgency identified by the OAG. However, in our view, the individual should have recognized and disclosed the conflict of interest upon receiving the report to investigate and recused themselves from the investigation.

The Code of Conduct requires employees to disclose an actual or potential conflict of interest and avoid any involvement in the matter. However, the Fraud and Waste Investigation Procedures do not specifically address situations where an investigating manager becomes aware that conflict of interest conditions may exist.

Report on the Fraud and Waste Hotline

We made a recommendation to address situations where an investigator becomes aware of a potential conflict.

Recommendation

That the City amend its Fraud and Waste Investigation Procedures to address situations where an individual involved in an investigation becomes aware that they may have a conflict of interest.

Management response:

Management agrees with this recommendation. The City Manager's Office has amended the Fraud and Waste Investigation Procedures to clarify situations with respect to leads self identifying potential or actual conflict of interest situations.

The status of the implementation of this recommendation will be followed up as part of the OAG's follow-up schedule.

Overall, the OAG continues to be generally satisfied with the quality of investigations conducted. However, as the success of the Fraud and Waste Hotline is dependent on these investigations, we expect management's continued diligence and support, and we will consider including this area in a future audit work plan.

Appendix: Fraud and Waste Hotline reporting categories

Category	Description
Harm to people or potential harm to people	Concerns related to physical or mental harm or potential harm to employees or others relating to violence, threat, discrimination or harassment.
Health and safety, environment	Items related to the safety of people and the protection of the environment in which they work and live.
Alcohol or drug use or other substance abuse	Issues related to alcohol or drug use or other substance abuse.
Theft, embezzlement, fraud	Any act of stealing from an organization or individual, by whatever means, and attempts to conceal it.
Unauthorized use or misuse of City property, information or time	Items related to the unauthorized use or misuse of City property, equipment, materials, records, internet or harm or threat of harm to City property, equipment, materials or Internet. This would also include abuse of work time or fraudulent use of sick leave.
Manipulation or falsification of any data	Changes (unauthorized or authorized) made to any data, information, records, reports, contracts or payment documents possibly to cover mistakes or fraud, improve financial / operating / statistical results or to gain financial advantage or unfair advantage in a contract.
Unethical conduct and conflict of interest	Unethical or dishonest conduct by any person at any level of the organization and any situation or action of an employee that puts them in conflict, or could be perceived as putting them in conflict, with the interests of the organization.
Violation of laws, regulations, policies, procedures	Violation of any law, rule or policy set down by an organization, regulatory authority including securities commissions, or any level of government.

<p>Financial reporting and accounting</p>	<p>Items related to the accuracy and completeness of financial statements and other financial reporting to the Board of Directors, Board of Governors, or other governing body, and to regulatory bodies or the public (e.g. securities regulators, tax authorities, government departments, annual public reports).</p>
<p>Management/supervisor</p>	<p>Any issues, concerns or comments related to the level of support received through the actions or inactions of your direct managers and/or supervisors.</p>
<p>Suggestions for improvement</p>	<p>Suggestions to improve any aspect of the organization including ideas, concerns or comments related to municipal services and products, customer service and any other suggestions to aid the attainment of its objectives or to manage its risks.</p>
<p>Suggested areas for audit</p>	<p>Any suggestion to audit any area of the organization.</p>