Agenda – Executive Policy Committee – May 11, 2011

REPORTS

Item No. 4 Fraud and Waste Hotline Study

COMMITTEE RECOMMENDATION:

On May 6, 2011, the Audit Committee concurred in the recommendation of the City Auditor and recommends to the Executive Policy Committee and Council:

1. That the Fraud and Waste Hotline Study dated September 2010 be received as information.

2. That the Audit Department implement a Fraud and Waste Hotline to be managed by the Audit Department

Audit Department Report
Fraud & Waste Hotline Study – September 2010

A research study on fraud and waste hotlines was identified in the City Auditor's Audit Plan for 2009 to 2010. The objective for the study was to review fraud and waste reporting practices in other cities, determine whether additional measures would help enhance the existing processes in the City and identify potential costs.

Report Summary

The Association of Certified Fraud Examiners (ACFE) defines "occupational fraud" as: the use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organizations resources or assets. In the *Report to the Nations on Occupational Fraud and Abuse* the ACFE reported that the typical Canadian organization loses 5% of its annual revenues to fraud every year. The ACFE found that the number one method of detecting fraud is tips through a hotline. Fraud being discovered by a tip through a hotline accounted for 47 percent of the frauds detected. The ACFE found that 39 percent of people are more likely to report fraud if they could remain anonymous. The ACFE also concluded that losses are reduced when a hotline is present.

In July 2006, the City of Winnipeg Fraud, Theft or Related Irregularities Administrative Standard was approved by the Chief Administrative Officer (CAO) with the City Auditor agreeing to conduct investigations referred by the Public Service under this Administrative Standard. Since the implementation of the standard there have been three tips reported to the Public Service and no matters have been referred by the Director of Corporate Support Services to the City Auditor for investigation.

To enhance existing fraud controls, many municipalities across Canada have implemented a fraud and waste hotline in conjunction with their fraud prevention and detection programs and policies. Through our review we identified that the number of reports received by other Canadian cities significantly outnumbers the number of reports received in Winnipeg. This comparison leads us to believe that it is likely that a number of possible fraud and waste incidents are going unreported due to the requirements in the City of Winnipeg standard to report to the supervisor with the protection of anonymity.

The implementation of a fraud and waste hotline supports financial accountability, the integrity of the City of Winnipeg employees and the workplace and serves as a deterrent to fraud. The hotline also supports the protection of city property, resources and information and demonstrates the City's commitment to sound and ethical operating practices. The conclusion of the Study is the recommendation that the Audit Committee recommend to Council that the Audit Department implement a Fraud and Waste Hotline to be managed by the Audit Department. Upon approval, The Audit Department would assume responsibility for leading the implementation of the hotline. We estimate the cost of outsourcing the intake of the calls would be approximately $25,000 annually and we propose to absorb those costs within the department's current approved budget.

Policy

The report is being submitted in accordance with the City Organization By-law 7100/97 section 19(d)(iv) that the Audit Committee will "Receive and review audit reports, and table such reports with its recommendations at a regular meeting of Executive Policy Committee."

Audit Department Report
Fraud & Waste Hotline Study – September 2010

Recommendation:
The Audit Committee receive as information the Fraud & Waste Hotline Study dated September 2010, and forward the matter to the Executive Policy Committee and Council.

Further, that Audit Committee recommend to Council that the Audit Department implement a Fraud and Waste Hotline to be managed by the Audit Department

Attachment – Fraud & Waste Hotline Study


Fraud and Waste Hotline Research Stud