Fraud and Waste Hotline Research Study

Audit Committee

May 6, 2011

Fraud Trends in North America

- Corruption, billing, and expense reimbursement are the top three fraud schemes reported in the public sector.
- 47% of frauds detected were discovered though a tip.
- 39% of people surveyed by ACFE are more likely to report fraud if they could remain anonymous.

What is a Fraud and Waste Hotline

- A tool to identify potential unethical behaviour, fraud or waste through anonymous reports from employees
- Types of reports received through the line:
  - Misuse of city funds or resources
  - Duplication of efforts
  - Unethical behaviour regarding improper conduct or alleged violations of the Code of Conduct

Advantages of a Fraud and Waste Hotline

- Provides a centralized reporting or communication mechanism for employees to report concerns
- Identifies areas were controls need to be modified or enhanced
- Facilitates the reporting of alleged misconduct in a confidential manner

Fraud and Waste Hotlines in Canadian Cities

	Toronto	Windsor	Calgary	Edmonton	Ottawa
Year Fraud and Waste hotline implemented	2002	2004	2007	2007	2005
External/Internal	100% Internal	100% Internal	Report intake is outsourced	Report intake is outsourced	Report intake is outsourced
Hotline available to Staff and/or Public	Staff and Public	Staff and Public	Staff and Public	Only City Staff	Staff and the Public
Department that manages the hotline	Audit Department	Audit Department	Audit Department	Audit Department	Audit Department
Number of staff assigned to management of hotline	5 FTE hotline staff and .5 FTE administrative staff	1 Full Time Position	2 Full Time Position	Approximately .74 FTE	1 Full Time Position
Estimated Annual cost	Approximately $550,000 for salaries	Budget dollars have not been specifically allocated	$50,500 (External Agency)	$21,000 (External Agency)	$30,000 (External Agency)

Fraud and Waste Hotlines in Canadian Cities

- Investigations initiated in 2009 as a result of anonymous reports received from employees through the fraud and waste hotlines

	Toronto	Calgary	Edmonton	Ottawa
Reports received in 2009	677	52	44	165
Investigations initiated in 2009	51	20	16	5 audits initiated

City of Winnipeg Fraud, Theft or Related Irregularities Standard

- July 2006, the City of Winnipeg Fraud, Theft or Related Irregularities Administrative standard was approved by the CAO
- 2007 – 2 incidents were reported
- 2008 – 1 incident was reported
- 2009 – 0 incidents were reported
- 2010 – 0 incidents were reported

Operation of Fraud and Waste Hotline

Audit Department Role

- developing Hotline policy, procedures and responsibilities
- coordinating the communication of the Hotline Program to employees/unions and ultimately the public
- monitoring and documenting all reports received
- making a determination as to the disposition for all reports received and action to be taken
- reporting annually on the activity of the hotline and the outcomes of the investigations undertaken during the year
- responsible for the cost of the program

Conclusion & Recommendations

This research study lead us to the following conclusions:

- That the Audit Committee recommends to Council that the Audit Department implement a Fraud and Waste Hotline to be managed by the Audit Department.
- That the Audit Department in consultation with other City Department management and corporate stakeholders as required develop the following for Audit Committee approval:
  - a policy outlining the purpose, procedures and responsibilities for the operation of the Fraud and Waste Hotline;
  - recommended amendments to the Administrative Standard on Fraud, Theft and Other Irregularities; and
  - a Hotline implementation plan.

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