Agenda – Executive Policy Committee – March 13, 2013

AUDIT COMMITTEE

Item No. 6 Fraud Hotline Annual report 2012

WINNIPEG PUBLIC SERVICE RECOMMENDATION:

1. That the Executive Policy Committee, in its capacity as the Audit Committee, authorize the expansion of the Fraud Hotline to include accessibility to the public.

2. That the Executive Policy Committee, in its capacity as the Audit Committee, receive as information the Fraud Hotline Annual Report 2012 report dated February 15, 2013.

Audit Department Report
Fraud Hotline Annual report 2012

The Fraud Hotline commenced operations on April 30, 2012. The Fraud Hotline is a confidential and anonymous service that allows staff to report complaints 24 hours a day, 7 days a week. The Hotline is operated independently by a third party and is accessible by phone or Internet.

Report Summary

During the Fraud Hotline's first period of operation, from April 30 through to December 31, 2012, the Hotline received a total of seven complaints. Audit Department staff completed a thorough analysis of each compliant and closed six complaints; one is still open awaiting further information from the reporter. The City Auditor's 2012 Fraud Hotline Annual Report also provides additional information on the Fraud Hotline including:

- a summary of the Fraud Hotline Operation
- an overview of the Hotline Activity
- a summary of the Disposition of Complaints
- a summary of the Outcomes of Investigations
- a recommendation to expand the accessibility of the Fraud Hotline to include the citizens of Winnipeg

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."

Recommendation 1:

That the Executive Policy Committee, in its capacity as the Audit Committee, authorize the expansion of the Fraud Hotline to include accessibility to the public.

Recommendation 2:

That the Executive Policy Committee, in its capacity as the Audit Committee, receive as information the Fraud Hotline Annual Report 2012 report dated February 15, 2013.

Winnipeg

Audit Department

Fraud Hotline

2012 Annual Report

Leaders in building public trust in civic government

First Annual Report on Fraud Hotline

This is the first annual report on the operations of the Fraud Hotline. The City established a Fraud Hotline in 2012 with Audit Committee's support to provide an independent resource for employees to report wrongdoing involving City resources, anonymously if preferred. One of the purposes of reporting on the operations of the Fraud Hotline is to demonstrate to employees and the public that action is taken when issues of fraud and wrongdoing are reported to the City Auditor.

Sincerely,



February 15, 2013

Background

A research study on fraud and waste hotlines was identified in the City Auditor's Audit Plan for 2009 to 2010. 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.

On May 25, 2011, Council approved the implementation of a Fraud Hotline to be managed by the Audit Department. In conjunction with launching the Fraud Hotline, the City's *Fraud, Theft or Related Irregularities Administrative Standard* was updated and three new sections were incorporated.

Confidentiality of Information

All participants in an investigation of a fraud, theft, misappropriation or other related irregularity or retaliation shall keep the details and results of the investigation confidential. Investigation results will not be disclosed or discussed with anyone other than those who have a legitimate need to know. This is important in order to avoid damaging the reputation of an employee alleged to have committed a fraud, theft, misappropriation or other related irregularity and the allegation is subsequently found to be unsubstantiated.

Whistleblower Protection

The City will protect and support employees who report in good faith or participate in an investigation of any suspected acts of fraud, theft, misappropriation or other related irregularities. This is specifically outlined in Administrative Standard HR-008, City of Winnipeg Fraud, Theft, Misappropriation or Related Irregularities.

If an employee is targeted for reprisals by other employees because they think that the employee has made a complaint, please report this to the Hotline as well. We will investigate complaints of reprisals against employees.

Bad Faith Allegations

Bad faith complaints and false accusations are not acceptable and action will be taken against complainants where an allegation has been made in bad faith. This is specifically outlined in Administrative Standard HR-008.

Fraud Hotline Operation

The Fraud Hotline commenced operations on April 30, 2012. The Fraud Hotline is a confidential and anonymous service that allows staff to report complaints 24 hours a day, 7 days a week. The Hotline is operated independently by a third party and is accessible by phone or Internet.

Each complaint submitted is given a tracking number and a password, so the reporter can follow the progress of the case and see what action has been taken. The feature enables the City Auditor's Office to pose additional questions to the person submitting the complaint, thereby enabling the reporter to submit additional information if they so choose.

The City Auditor reviews each complaint. For many complaints, preliminary investigative inquiries are conducted by the City Auditor's Office to determine if the allegations have merit or to obtain additional information to make the matter actionable. If there is insufficient information

to proceed and the complaint was made anonymously, the City Auditor's Office staff will pose additional questions in the event the person who submitted the complaint checks on the status of their complaint. If no response is received within 30 days the complaint will be considered closed. Where contact information was provided, the City Auditor's Office staff will try to obtain sufficient information to investigate or resolve the matter. The unique circumstances of each complaint require the application of professional judgment to determine the appropriate disposition in each case. If warranted the City Auditor will ensure an appropriate, objective and impartial investigation is conducted, regardless of the alleged wrongdoer's position, title, and length of service or the relationship with the City of any party who might be involved in such an investigation.

In cases where the City Auditor's Office led the investigation or conducted a significant amount of investigative work, a separate report including recommendations may be issued to management. Decisions regarding the appropriate level of discipline are the sole responsibility of departmental management.

Fraud Hotline Budget

The Hotline was established within the existing approved budget for the Audit Department without incremental funding. Existing staff resources were assigned to complaints as they were received. The annual base operating cost for the external service provider in 2012 was $29,130 (includes costs up to March 31, 2013).

Hotline Activity

The following table summarizes the types of complaints received through the Fraud Hotline by the City Auditor's Office during the first period of operation, April 30 to December 31, 2012.

Category	Complaints	Investigations	Closed
Financial Reporting and Accounting	0		0
Health and Safety, Environment	0		0
Unethical Conduct and Conflict of Interest	1	0	1
Manipulation or Falsification of Data	0		0
Harm to People or Property	0		0
Theft, Embezzlement, Fraud	3	2	2
Violation of Laws, Regulations, Policies, Procedures	3	0	3
Organization	0		0
Management/Supervisor	0		0
Compensation, Pension and Benefits	0		0
Product/Customer Service	0		0
Office and Equipment Requirements	0		0
Safety and Security Issues	0		0
Suggestions for Improvement	0		0
Miscellaneous	0		0
Undefined	0		0
Total	7	2	6

Disposition of Complaints

The City Auditor's Office reviews each hotline complaint to determine next steps in the process. Complaints that are significant enough to require a response from department management are monitored until the necessary action is taken. Complaints with limited detail may be held until further details are reported. Complaints are analyzed to identify trends that should be considered in developing the Audit Department Audit Plan.

Each complaint is screened and can be disposed of in one of four ways:

1. **No Action -** Not enough information provided at initial stages to warrant further investigation, the matter was outside our jurisdiction or because preliminary inquiries by the City Auditor's Office determined that the complaint was not actionable.
2. **Referral to Another Agency** - Matter is more appropriately addressed by another body eg. Winnipeg Police Service.
3. **Referral to Department** – Complaint referred to Department for review and appropriate action or for information only. In these circumstances, department management takes the lead role in the investigation. The Audit Department provides advice, guidance and may participate in parts of the investigative work, such as conducting interviews and preparing or reviewing investigative plans as deemed necessary.
4. **Investigation –** The Audit Department takes the lead role in conducting these investigations. While it is expected that the majority of investigations will be coordinated with department management, the level and type of participation of departmental management is determined on a case by case basis.

If complaints are significant enough to require a response from department management, then department management is requested to report back to the City Auditor's Office on the resolution and any action taken. We review the results of these investigations prior to closing the reports on the hotline system.

If "No Action" is taken on a report it would typically be due to insufficient information being supplied to support the allegation. Despite attempts by the City Auditor's Office to obtain additional information through the hotline system, we may still have insufficient information to proceed.

	Complaints	Closed
No Action	2	1
Referral to Another Agency	0	
Referral to Department	3	3
Investigation	2	2

We investigated all complaints received in 2012 in accordance with internal procedures and guidelines, as well as professional standards. We gathered evidence to confirm or dispel the allegations reported. We consulted with other appropriate internal or external experts as deemed necessary.

Outcomes of Investigations

	Complaints	Closed
Substantiated	1	1
Unsubstantiated	5	5
Conclusion pending		

In 2012, the Audit Department received seven complaints and closed six, one complaint is still open awaiting additional information from the reporter. Audit Department staff conducted and closed two investigations. We also reviewed all findings from complaints referred to Departments to ensure that the reviews were thorough prior to closing those reports. In cases where the evidence does not support a finding of wrongdoing, the complaint conclusion is reported as “unsubstantiated”. Of the six closed complaints, 1 allegation was substantiated; the remaining 5 closed complaints were unsubstantiated and could not be confirmed based on the information available. However, in some cases, a determination could be made that the evidence does not support the finding of wrongdoing; but, this does not mean that the complaint is without some merit. In some cases, the review or complaint can highlight weaknesses in internal control or risks that are of a concern.

Through the investigations conducted this year, recommendations to management resulted in the following actions:

- The process to issue receipts to citizens for payments received was revised.
- Cash handling controls were enhanced to improve physical security as well as the security surveillance of specific cash handling areas.
- Staff was reminded of requirement to comply with existing departmental guidance regarding appropriate conduct in the workplace.
- The roles and responsibilities between departments and a corporate support division were revised to ensure consistent performance of duties.

Benefits of the Fraud Hotline Program

The main benefits that can be derived from the Fraud Hotline Program include the following:

- the deterrence of fraud and wrongdoing by increasing the perception of detection;
- the promotion of ethical conduct that in turn strengthens integrity at the City;
- the resolution of complaints leads to improvements related to internal controls, policies and procedures and mitigates misuse of City resources;
- the reporting of wrongdoing (anonymously, if preferred) is facilitated through the Hotline; and
- the ability to use complaint data to identify trends and address risks.

Next Steps and Recommendation

All organizations, whether in the public or private sector, are subject to fraud risks. In today’s environment, having a mechanism in place to allow individuals to anonymously report issues of fraud is viewed as a good practice. Large frauds have led to the downfall of entire organizations, significant legal costs and erosion of confidence by investors and the public at large. Wrongdoing conducted in the workplace can damage the moral of the co-workers and can

negatively impact the reputation of the organization. Diligent handling of complaints of potential fraud or wrongdoing within an organization sends a clear message to the employees, citizens, stakeholders, that the City is committed to ethical conduct.

Fraud Hotlines have been implemented in a number of cities across Canada. The larger Canadian cities with established hotlines in place include: Calgary, Edmonton, Ottawa, Toronto, Windsor and Montreal. Of the noted jurisdictions, all but Edmonton provide citizens with access to the hotline. Expansion of the Fraud Hotline to include accessibility to citizens would once again reaffirm the City's proactive efforts to ensure and demonstrate its commitment to corporate accountability, transparency, responsibility, and sound and ethical operating practices. It will support a high level of integrity of employees in the workplace, and also protect City property, resources and information.

Since the vast majority of hotline reports are submitted anonymously, it is not possible to identify what percentage of the totals reports come from the citizens in other jurisdictions. While the initial usage of the City's Fraud Hotline is considered low, the investment in the expansion of the hotline is fundamental to enhancing public confidence in civic government by providing a method to the public to report fraud and wrongdoing involving City resources.

The existing contract for the Provision of a Fraud Hotline and Case Management System allows for access to be expanded to include the citizens of Winnipeg. The incremental cost to the contract amount for one year from January 1, 2013 to December 31, 2013 is $20,000.00 plus GST and MRST.

The 2013-2015 Operating Budget contains an adjustment to the Audit Department's budget. The budget was increased by $20,000 to support the availability of the Fraud Hotline to the Public. As a result of that revision, the Audit Department does have sufficient budget resources to meet this obligation.

Recommendation:

1. That the Audit Committee authorize the expansion of the Fraud Hotline to include accessibility to the public.