ADMINISTRATIVE REPORT

Title: Creation of Full-Time Fraud & Waste Hotline Investigator position

Critical Path: Audit Committee - Council

AUTHORIZATION

Author	Department Head	CFO	CAO
B. Mansky City Auditor	B. Mansky City Auditor		

EXECUTIVE SUMMARY

The Fraud and Waste Hotline program was initially launched with no additional resources allocated to the program. The Hotline program is now considered mature and requires a dedicated resource to support it in an effective and efficient manner. The focus of the report is on reallocating existing funding, there is no request for any new resources. The Audit Department believes implementation of the report recommendation will:

- Better align audit resources to higher risk areas
- Provide superior overall value to the City organization
- Deliver investigative services more cost effectively
- Provide an overall increase in service levels

The report recommends redirecting a portion of the funds from the Independent Fairness Commissioner (IFC) role to a fully-funded full-time Fraud & Waste Hotline investigator role. Noting the improvement in Planning, Property & Development Department compliance with City policy and procedure in property transactions, the City Auditor has identified the reassignment of a portion of those budget dollars as the funding source for the dedicated investigator. This will arguably provide increased value to the City organization as a whole. The addition of 1 FTE (Senior Auditor) will enable the Audit Department to:

- Act quickly and thoroughly in the investigation of Fraud and Waste Hotline reports
- Investigate reports in a more cost-effective manner
- Investigate other areas identified through the Audit Department risk assessment process
- Enhance capacity of the Audit Department to focus on its core mandate as described in the Charter and City Organization By-law

The Audit Department will continue to oversee the performance of the IFC role. The City Auditor would be delegated the authority to identify future real estate transactions for compliance audit purposes based on a risk assessment methodology. With the implementation of audit recommendations and other process improvements made by Planning, Property & Development Department, the overall level of compliance evidenced in the IFC audit reports has increased considerably.

RECOMMENDATIONS

1. That the department be authorized to add 1 WAPSO Level 5 FTE to its staff complement to undertake investigations.

2. That the mandate for the Independent Fairness Commissioner (IFC) role, for compliance review of all real estate transactions and management services prior to presentation to Standing Policy Committee (SPC) and/or Council, be revised by delegating authority to the City Auditor to identify future real estate transactions for compliance audit purposes based on a risk assessment methodology.

REASON FOR THE REPORT

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."

Council approval is required to revise the mandate for the Independent Fairness Commissioner and to approve any new FTEs.

IMPLICATIONS OF THE RECOMMENDATIONS

Approval of the recommendation will enable the Audit Department to improve the timeliness of fraud investigations and conduct them in a more cost-effective manner.

Approval of the recommendation will end the requirement for the IFC to conduct a compliance review of all real estate transactions and management services that are currently within the Council approved mandate. Authority to identify real estate transactions for compliance audit would be delegated to the City Auditor.

The addition of one (1) new FTE will be fully funded by the reallocation of a portion of the budgeted funding for the Independent Fairness Commissioner.

HISTORY/DISCUSSION

Audit Department Mandate and Fraud & Waste Hotline

The primary mandate for the City Auditor, as defined in the *City of Winnipeg Charter* is to ensure that examinations of the operations of the city and each affiliated body are made at such times as the city auditor considers appropriate, and to determine whether operations of the city are carried on, and money is expended, with due regard for economy and efficiency.

In July 2013, Council adopted the Fraud and Waste Hotline program, to be managed by the Audit Department, to investigate and report on fraud, theft, misappropriations and other related irregularities. The hotline helps deter fraud, waste, and wrongdoing; strengthen internal control and mitigate risks; and improve policies and operating procedures. No additional salary dollars were allocated for the program at that time. Currently, investigations are being completed by

the existing employee complement as time and resources allow, and compete with the projects included in the Council approved Audit Plan.

Resources deployed to conduct investigations

Investigations are initiated when sufficient, credible information is available. As previously reported to Council in the Department's 2020 Annual Report and 2021 Audit Plan, the volume and complexity of investigations has been increasing in recent years. The maturity of the Hotline program in conjunction with the ongoing efforts to build awareness of the Hotline as an avenue for employees and residents to report incidents of alleged wrongdoing, is believed to be the reason for the increase in report volumes. Current volumes are within the range of activity reported in other municipalities.

The increased number of investigations is also resulting in more significant outcomes, as identified in the Department's 2020 Annual Report. The table below illustrates the significant increase in the number of investigations initiated in each of the past three years.

	# of Reports	# of Investigations
2020	139 (= 182 separate allegations[1])	81
2019	117	58
2018	114	27

Individual investigations need to be conducted on a timely basis since in many cases there is a time sensitivity to the report contents. The increased volume, complexity and quality of information being provided in the reports requires dedicated resources to effectively investigate. As one would expect the number of hours assigned to perform the investigations is increasing. The Department has also recently engaged a professional services firm to support internal resources in the timely investigation of the reports.

	Internal Resource Hours	External Resource Hours	Total Hours
2020	1,407	564.70	1,971.70
2019	1,152	0	1,152
2018	657	0	657

A dedicated investigator position would also be available to assess emerging areas of risk or other areas of concern identified by the Audit Department or the Public Service. Without a dedicated FTE to investigate Fraud and Waste Hotline reports, the City is at risk of missing opportunities to mitigate potential losses due to fraud, theft, misappropriation or harm to reputation. Additionally, untimely delays may result in loss of confidence by employees and the public that Hotline reports are taken seriously and actively investigated resulting in a decline of public trust. The City Auditor / Auditor General Departments in other Canadian cities have greater staff complements[2] and dedicate up to 2 of their FTEs to investigation services.

[1] 2020 is the first year to total the number of separate allegations received.

[2] FTEs - Edmonton (16), Calgary (16), Ottawa (9), Halifax (10), Hamilton (8), Winnipeg (7).

Resource cost to conduct investigations

An investigator resource would be recruited and compensated at the same rate as the department's existing senior auditor positions. The estimated total salary and benefit impact for a dedicated investigator is expected to be approximately:

Year	WAPSO Grade 5
2021	$120,908 (assumes full year)
2022	$124,507
2023	$128,346

A cost comparison of a new dedicated internal resource to the external market can be achieved by the calculation of a billable hourly rate. The fully-costed billable rate for an Audit Department staff member in 2020 was $132.00. This rate assigns a portion of all departmental costs (salaries, facilities, technology, etc.) to every productive/billable hour (hours for vacation, administrative duties, training, etc. are removed from the calculation). The associated rate for a professional services firm has been calculated to be $247.00 based on an analysis of local professional services firms in 2020. It is for this reason we believe it is in the best interests of our clients and stakeholders, to dedicate a new internal resource to investigations and demonstrate our commitment to corporate accountability, transparency and a sound, ethical work environment.

Independent Fairness Commissioner

Winnipeg City Council created the role of the Independent Fairness Commissioner (IFC) to have the power to review all Real Estate Transactions and Management Services before they are presented to the Standing Policy Committee and/or Council. Since January 2018, the IFC has been reviewing real estate transactions and submitting the associated IFC compliance reports to the SPC PDHDD.

To support service delivery Council approved additional consulting dollars to the Audit Department. The budget allocated to the IFC role is as follows:

Year	Allocated budget
2021	$242,338
2022	$213,855
2023	$190,464

The Planning, Property & Development Department has made considerable improvements in their internal processes over the past three years. This is evidenced in the implementation of recommendations made by the City Auditor in March 2019 specifically targeted to improving compliance with City policy and procedure. Of the 22 recommendations made, 15 have been implemented, four (4) were identified that they would no longer be implemented due to a change in other conditions[3]. Of the outstanding three (3) recommendations, two are expected to be implemented in Quarter 1 of 2021 and one resides with Legal Services as it relates to revising a legal document.

[3] Example – Recommendation was made to review appraisal requirements for non-monetary or non-market transactions but management elected to require an appraisal for all transactions.

An additional measure of process improvement can be identified through the number of compliance deficiencies noted in the IFC reports. Reported deficiencies has steadily decreased from 2018 through to present as noted in the table below:

Year	IFC Reports	
	# of Reports	Average # of Deficiencies
2018 Q1 & Q2	20	11.3
2018 Q3 & Q4	17	9.8
2019 Q1 & Q2	18	7.3
2019 Q3 & Q4	15	3.0
2020 Q1 & Q2	20	3.25
2020 Q3 & Q4	14	1.5

The initial IFC mandate required the IFC to review all real estate transactions and management services. In May 2020, Council approved a revision to the mandate for the IFC role, by limiting the types of real estate transactions and management services audited. The current mandate is limited to reviewing sales, acquisitions, land exchanges and leases.

The combination of process improvements implemented by PPD management and the decrease in deficiencies identified by the IFC, the City Auditor believes reallocating a portion of those resources will provide greater value to the City organization as a whole if redirected to an investigative resource. This would be a major change as the IFC would no longer be mandated to review specific transactions; on a go-forward basis the City Auditor would implement a risk-based approach to identify if a transaction would be audited by the IFC.

The Audit Department would continue the process whereby PPD staff advise the Audit Department of reports expected to be submitted for the next SPC PDHDD agenda. The Audit Department would conduct a combination of random audits and risk based audits of real estate transactions and submit a corresponding IFC report to the Committee. It is generally understood that random audits are an effective tool to monitor compliance as any transaction could be subject to an audit. The Audit Department would also consider the risks the IFC was designed to mitigate as part of our annual audit planning process.

Funding for a permanent investigative position

Noting the improvement in PPD compliance with City policy and procedure in property transactions, the City Auditor has identified the reassignment of a portion of these budget dollars as the funding source for the dedicated investigator. This will arguably provide increased value to the City through timely investigation of fraud reports.

Eliminating the requirement for the IFC to conduct a compliance review of all sales, acquisitions, land exchanges and leases transactions would free up consulting budget dollars. It is proposed that a portion of those funds be redirected to a dedicated internal investigative resource. The remaining funds would continue to be allocated to random IFC audits as selected by the Audit Department or other priority Audit projects.

Year	IFC Budget	WAPSO Grade 5	Difference
2021	$242,338	$120,908	$121,430
2022	$213,855	$124,507	$89,348
2023	$190,464	$128,346	$62,118

FINANCIAL IMPACT

Financial Impact Statement

Date: March 2, 2021

Project Name:

First Year of Program **2021**

Creation of Full-Time Fraud & Waste Hotline Investigator position

	2021	2022	2023	2024	2025
Capital					
Capital Expenditures Required	$ -	$ -	$ -	$ -	$ -
Less: Existing Budgeted Costs	-	-	-	-	-
Additional Capital Budget Required	$ -	$ -	$ -	$ -	$ -
Funding Sources:					
Debt - Internal	$ -	$ -	$ -	$ -	$ -
Debt - External	-	-	-	-	-
Grants	-	-	-	-	-
Reserves, Equity, Surplus	-	-	-	-	-
Other	-	-	-	-	-
Total Funding	$ -	$ -	$ -	$ -	$ -
Total Additional Capital Budget Required	$ -				
Total Additional Debt Required	$ -				
Current Expenditures/Revenues					
Direct Costs	$ 120,908	$ 124,507	$ 128,346	$ 132,211	$ 136,003
Less: Incremental Revenue/Recovery	-	-	-	-	-
Net Cost/(Benefit)	$ 120,908	$ 124,507	$ 128,346	$ 132,211	$ 136,003
Less: Existing Budget Amounts	120,908	124,507	128,346	132,211	136,003
Net Budget Adjustment Required	$ -	$ -	$ -	$ -	$ -

Additional Comments:

1. Direct Costs above represent the salaries and benefits (15%) of the Fraud and Waste Hotline Investigator position, WAPSO 5, Step 16 (full year salaries and benefits shown for all years). Amounts assume 1.7% annual inflationary increase in addition to movement on the salary scale.

2. If approved, this position is proposed to be fully funded by the reduction of budgeted funding for the Independent Fairness Commissioner.

original signed by T. Yanchishyn

Tanis Yanchishyn
Manager of Finance (Campus)
Corporate Finance Department

CONSULTATION

This Report has been prepared in consultation with: N/A

OURWINNIPEG POLICY ALIGNMENT

01-3 Prosperity - Direction 1 - Provide Efficient and Focused Civic Administration and Governance

This report supports the demonstration of accountability through reporting and to continuously pursue innovative, streamlined service delivery and decision-making processes.

WINNIPEG CLIMATE ACTION PLAN ALIGNMENT

The City of Winnipeg Audit Department provides assurance on the efficiency, effectiveness and economy of City programs and activities, thus enabling an organizational operating environment that promotes support of the vision and targets of the Winnipeg Climate Action Plan.

SUBMITTED BY

Department: Audit Department
Prepared by: Bryan Mansky, City Auditor
Date: March 2021

Attachments: N/A