

# INFORMATION NOTE

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**Title:** Report on the Fraud Hotline - 2020

**Date Prepared:** March 9, 2021

**Report To:** Audit Committee

**Councillor and Role:** Choose an item.

**Ward:** N/A

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## Issue:

To provide the committee with a summary of activities related to the Fraud Hotline during the 2020 year.

## Discussion – Background and Current Status:

### Description of the Fraud Hotline

2020 was the first year of operation for the City's Fraud Hotline. The Hotline allows any employee or member of the public to report incidents 24 hours a day, 7 days a week by phone, email, and traditional mail to the Office of the City Internal Auditor.

According to the Association of Certified Fraud Examiners (ACFE), a Fraud Hotline is a crucial element of a company's fraud prevention program. The Government Edition of the ACFE's 2020 Report to the Nations indicates that tips are, by far, the most common fraud detection method for government entities and that detection by tip was substantially higher at organizations with Hotlines. As such, the Fraud Hotline demonstrates sound management practice.

Although it is not always possible to quantify the savings realized by having a Fraud Hotline, its deterrence value can be substantial. It is estimated that organizations lose 5% of their revenues to fraud each year. The 2020 Report to the Nations indicates that the median losses at organizations with Fraud Hotlines is almost half of that compared to losses at organizations without a Hotline, and that frauds are detected 6 months earlier with a Hotline.

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# ST. JOHN'S

### Fraud Hotline Statistics

In 2020, 9 reports were made to the Fraud Hotline. While this is a relatively low number of reports, it must be remembered that this was the first year of the Hotline and, therefore, awareness of the Hotline was likely a factor. In addition, the Covid-19 pandemic may have also played an unknown factor in the number of reports.

Of the 9 reports submitted to the Fraud Hotline, 2 reports were submitted by City of St. John's employees and 7 reports were submitted by members of the public.

Table 1: Reports submitted by reporter type.

| Reporter | Number of Reports | Percentage |
|----------|-------------------|------------|
| Employee | 2                 | 22%        |
| Public   | 7                 | 78%        |
| Total    | 9                 | 100%       |

Reporters can submit reports by phone, email, or traditional mail. Table 2 shows the breakdown of reports by submission type.

Table 2: Reports by submission type.

| Submission Type  | Number of Reports | Percentage |
|------------------|-------------------|------------|
| Email            | 4                 | 44%        |
| Phone            | 5                 | 56%        |
| Traditional Mail | 0                 | 0%         |
| Total            | 9                 | 100%       |

When a report is received, we attempt to gather and review evidence to substantiate or dismiss the allegation(s). Many times, a report will be received without enough information to begin a review of the allegation. In these instances, we attempt to obtain additional information from the reporter. If additional information cannot be obtained these reports are classified as "no action taken" and are closed.

In other cases, reports received will deal with matters that are unrelated to the City of St. John's, such as reports of social assistance fraud or telephone scams. In these cases, where possible, we direct the reporter to the appropriate outside agency (e.g., Provincial Government, RCMP, etc.). These reports are classified as "referred to outside agency" and are closed.

Reports that are related to the City of St. John's and contain sufficient information to act upon will either be investigated by the Office of the City Internal Auditor or will be referred to another City Department for investigation. One report for 2020 is still under investigation and remains open as of the end of 2020. Table 3 provides a breakdown of the disposition of all reports received for 2020.

Table 3: Disposition of reports.

| Disposition                | Number of Reports | Reports Closed |
|----------------------------|-------------------|----------------|
| No Action                  | 0                 | 0              |
| Referred to Outside Agency | 3                 | 3              |
| Investigated               | 6                 | 5              |
| Total                      | 9                 | 8              |

A closed report is classified as "unsubstantiated" if there is insufficient evidence found to support the allegation made in the report, otherwise the report will be classified as "substantiated". Either way, opportunities for improvement in internal processes or controls may be identified during the investigation process and result in recommendations to management. Where reports are found to be substantiated, any disciplinary action taken is the responsibility of management. Table 4 shows the results of the 8 closed reports for 2020.

Table 4: Results of closed reports.

| Results of Closed Reports |   |
|---------------------------|---|
| Substantiated             | 3 |
| Unsubstantiated           | 5 |

Through the investigations conducted in 2020 the following actions were taken:

- A member of the public was issued a notice under section 5.2.1 of the Residential Property Standards By-Law to stop unlawful activity on a property. Follow-up inspection showed the activity had ceased.
- Theft of City property was identified and confirmed through an investigation by the Department of Public Works and the Human Resources Division. The employee's position with the City was terminated.
- An employee's pay was fraudulently redirected to another bank account through a phishing scam. New procedures were put in place to prevent this from happening in the future.
- An audit was scheduled and completed to further look into opportunities for improvement identified during an investigation. As a result, a report containing recommendations to improve processes and controls was issued to management.

### **Key Considerations/Implications:**

1. Budget/Financial Implications:
  - The City's Fraud Hotline is managed by resources within the Office of the City Internal Auditor. Investigations requiring external resources may arise that could impact budget. The existence of the Fraud Hotline likely has a positive financial impact for the City; however, this impact is difficult to quantify.
2. Partners or Other Stakeholders:
  - All departments, divisions, management, employees, and taxpayers of the City play a role in the success of the Fraud Hotline.
  - City contractors, vendors, third parties, etc. can also make an allegation through the Fraud Hotline.
  - Allegations received through the Hotline may also be directed to the RCMP and/or RNC.
3. Alignment with Strategic Directions/Adopted Plans:
  - The Fraud Hotline is aligned with the Sustainable City strategic direction as it helps the City to be financially responsible and accountable. It is also aligned with the Effective City strategic direction as it helps to improve processes and policies.
4. Legal or Policy Implications:
  - Depending on the outcome of investigations, there could be legal implications for City employees and/or the general public. Investigations can also lead to recommendations for updating existing policies or developing new ones.

## 5. Privacy Implications:

- Fraud investigations can have substantial privacy implications. These are dealt with through the City's Fraud Policy and with the City's Legal Department and ATIPP Coordinator.

## 6. Engagement and Communications Considerations:

- To improve the effectiveness of the Hotline additional engagement and communications may be required.

## 7. Human Resource Implications:

- The Human Resources Division are involved in any fraud investigation involving a City employee.

## 8. Procurement Implications:

- There are currently no procurement implications.

## 9. Information Technology Implications:

- To improve the effectiveness of the Hotline a web-based solution may be investigated with the City's Information Services Division.

## 10. Other Implications:

- There are no other recognized implications currently.

**Conclusion/Next Steps:**

This memo will be provided to the committee on an annual basis, in line with governance best practices and the City's Fraud Policy and is for information purposes only.

**Prepared By:** Sean Janes, City Internal Auditor

**Approved By:** Sean Janes, City Internal Auditor

### Report Approval Details

|                      |   |
|----------------------|---|
| Document Title:      | Report on the Fraud Hotline - 2020.docx |
| Attachments:         |   |
| Final Approval Date: | Mar 19, 2021                            |

This report and all of its attachments were approved and signed as outlined below:

**Kevin Breen - Mar 19, 2021 - 12:05 PM**