

# **FRAUD INVESTIGATION: ALLEGATIONS OF KICKBACK SCHEME**

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**Office of the  
Auditor General**  
City of Ottawa

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## Message from the Auditor General



The City of Ottawa's [Fraud and Waste Program](#) was established by the City Manager and is administered by the Office of the Auditor General. This program provides an anonymous channel for City of Ottawa employees and residents to report instances of fraud, waste or significant wrongdoing. The intent of this program is to prevent, detect, investigate and report on areas of fraud and waste linked to the administration of City services and programs.

The report being tabled today demonstrates the importance of such mechanisms and that the program is functioning as intended. Reporting instances of serious wrongdoing is not always easy. It often takes courage and a commitment of one's time to bring forward such concerns. Today, I want to thank those that have chosen ethics and courage instead of turning a blind eye and for taking the time to bring forward matters such as the one we are reporting on today.

I would also like to take a moment to thank the various City Departments that assisted us throughout the course of our investigation including Housing Services, By-Law and Regulatory Services, Recreation, Cultural & Facility Services Department, Technology Security, Legal Services Department and the Office of the City Clerk.

The team responsible for this investigation was comprised of Siam Rahman (Auditor) and Sarah Parr (Audit Principal) from the Office of the Auditor General, as well as independent forensic specialists from Ernst and Young LLP (EY), under my supervision and direction.

Respectfully,



Nathalie Gougeon, CPA, CA, CIA, CRMA, B.Comm  
Auditor General

### Introduction

In 2024, the Office of the Auditor General (OAG) received a report through the Fraud and Waste Hotline (FWHL) containing serious allegations of wrongdoing. Due to the significant nature of these allegations, the Auditor General promptly informed the City Solicitor, the City Manager, the General Manager Community and Social Services Department (CSSD) and the Ottawa Police Service (OPS) and commenced preliminary investigatory procedures. Following discussion with OPS, the Auditor General formally launched a full investigation.

### Investigation Objective, Scope and Methodology

The **objective** of this investigation was to review allegations raised in a report received through the FWHL. The reporter alleged the following:

- A Case Worker (Employee A) for the City of Ottawa had received kickback payments from a group of landlords in exchange for these landlords receiving more favourable rental rates under specific housing benefit programs administered by the City.
- The kickback payments began in approximately January 2024, although the landlords received more favourable rental rates starting in approximately October 2023.
- This group of landlords includes four individuals and two corporations all of which are overseen by one of the individuals (collectively and individually referred to as the Landlord).

The scope of our investigation was limited to assessing whether the allegations had merit, and if so, determining the appropriate course of action for each of the issues. However, to the extent that other control issues were identified and validated during the investigation, they have been presented in this report.

It is important to note that while the allegations received are linked to housing benefit programs administered by the City, the scope of our investigation did not assess the effectiveness of these programs. Furthermore, we were recently informed that management was investigating items related to the scope our investigation. As such, we have chosen not to perform additional procedures at this time. We will however consider this area for future audit work.

Given the complexity of the allegations and the time sensitivity associated with them, the OAG procured the forensic services of Ernst & Young LLP (EY) to assist in the conduct of the investigation. Refer to [Appendix A](#) for short biographies of the subject matter

experts. Furthermore, the OAG procured the legal services of Aird and Berlis for external legal support.

Early in the investigation, the Auditor General exercised the powers afforded to her under clauses 33 (3)(a) and (b) of the [Public Inquiries Act, 2009](#), which enable her, via summons, to require persons “to give evidence on oath or affirmation at the inquiry”; and “to produce in evidence at the inquiry such documents and things as the person or body conducting the inquiry may specify.” These powers were exercised to obtain banking records, records contained on personal devices and testimonial evidence to support or dispute the allegations. As a result of utilizing these powers, all individuals involved in or informed of the investigation were required to maintain confidentiality with respect to information obtained via summons.

Readers are cautioned about the important distinction between an investigation and an audit. An audit is designed to provide a high level of assurance over its findings and will typically feature rigorous testing and analysis. While this investigation was conducted in a systematic and professional manner, the extent of activities undertaken by the OAG and its consultants was narrow compared to an audit and focused solely on the concerns raised to our attention. Refer to [Appendix B](#) for additional details on the objective, approach and methodology of the investigation.

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***Value of Investigation: This investigation identified significant breaches by two employees of the City of Ottawa’s Employee Code of Conduct and internal processes. This reinforces the importance of the City’s Fraud and Waste Hotline. Beyond addressing the initial allegations, the recommendations are intended to improve overall controls and reduce the risk of such instances reoccurring.***

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## Investigation Findings and Recommendations

### 1. Primary Findings Related to Kickback Scheme

As noted above, the OAG procured the forensic services of EY to assist in the conduct of the investigation. Their report is included as **Addendum 1** and should be read in conjunction with this report. The observations have been summarized and further synthesized below. It should be noted that the recommendations contained in this report are made solely by the OAG.

#### 1.1 Payments from the Landlord to Employee A

We observed records of payments from the Landlord involved in housing benefit programs administered by the City to Employee A totaling over \$22,000 from November 14, 2023 to October 1, 2024. Several of the payment records we reviewed referenced addresses of units that Employee A assisted the Landlord with as part of Employee A's role at the City.

When we first interviewed Employee A on October 3, 2024, they stated that they worked for the Landlord part-time but that they did not disclose this work or relationship with anyone at the City. This represents a breach of the City of Ottawa's Employee Code of Conduct (City's Code of Conduct).

From our analysis of chat and messaging data from Employee A's mobile device, we observed several messages between Employee A and the Landlord that would indicate that these payments were made by the Landlord with the intention to utilize Employee A's role at the City to provide a financial benefit to the Landlord. This included messages where the Landlord told Employee A if they could get the Landlord "higher rent", "the bonus will be much larger". Without information to justify the legitimacy of the payments made by the Landlord to Employee A, we observed multiple factors that indicate that these payments are consistent with a kickback scheme designed to provide a benefit to both the Landlord and Employee A.

We observed that Employee A's family member, who is also a City employee (Employee B), had knowledge of Employee A's relationship with the Landlord that was not disclosed or otherwise reported to the City. This is considered a breach of the City's Code of Conduct. In addition, we observed that Employee B was directly involved with collecting payment from the Landlord to Employee A.

## **RECOMMENDATION 1 – TERMINATION OF RELATIONSHIP BETWEEN CITY AND LANDLORD**

The General Manager, Community and Social Services Department should terminate all business relationships with the Landlord.

Furthermore, a transition plan for City housing clients currently housed by the Landlord should be established.

## **MANAGEMENT RESPONSE 1**

Management agrees with this recommendation.

All business relationships have been halted on a go forward basis. A plan is underway to terminate all existing business relationships with the landlord as it relates to housing allowance programs. Tenants in receipt of housing allowances, that are currently residing in units owned by the landlord, will be supported to transition to alternate accommodations in a manner that will not put them at risk of homelessness. Staff will create individualized transition plans for affected tenants. The transition plans will be completed by Q3 2025, which reflects the time required to consider annual lease renewal periods, if necessary.

### **1.2 Moving Company**

As a result of our investigation procedures, an additional issue was brought to our attention. We noted that Employee B and the Landlord began operating a new business (the Moving Company). We observed that the Moving Company was responsible for moving a housing client of Employee A. We further observed that Employee A submitted an invoice on behalf of the Moving Company, which was paid by the City for moving services rendered. We observed that Employee B and the Landlord both financially benefitted from a portion of the profits of this transaction. We understand that Employee A and Employee B did not disclose their relationship with the Moving Company to the City, which is considered a breach of the City's Code of Conduct.

### **1.3 Program Processes and Controls**

In addition to the procedures conducted in support of the findings above, the OAG undertook additional work to assess the impacts to City housing benefit programs and processes.

#### **1.3.1 Lack of Formal Training**

We expected Case Workers to have a clear understanding of their roles and responsibilities, supported by formal policies, processes and training. Management

provided us with some process documents, however they also confirmed that Case Workers primarily obtained training upon hiring informally from their peers. No formal training program has been developed or implemented. This increases the risk of employees not clearly understanding their roles and responsibilities and inconsistently applying management's expectations.

### 1.3.2 Inappropriate Rent Negotiations

Based on discussions with management, housing Case Workers employed by the City are responsible for supporting clients with their housing search and securing a unit that they can afford at a reasonable cost, based on rental market conditions. It is not the Case Worker's responsibility to negotiate rental agreements on the behalf of housing clients. During our investigation, we obtained evidence demonstrating Employee A locating units and negotiating rental agreements on the housing client's behalf, which appears to be a breach of City process and represents a conflict of interest given the payments Employee A was receiving from the Landlord. Furthermore, we observed multiple instances where Employee A assisted housing clients in entering into leases which significantly exceeded the average market rent<sup>1</sup> for the area (see Table 1 below).

**Table 1: Examples of Rents Negotiated with Assistance of Employee A vs Average Rents as at November 6, 2024**

Area	# of Bedrooms	Average Rent	Total Rent	% in Excess of Average Market Rent
Beacon Hill South	2	\$2,100	\$2,900	38%
Ledbury/Heron Gate/Ridgemont	3	\$2,491	\$4,050	63%
Pineview	3	\$2,775	\$4,050	46%

While management has indicated that the above-mentioned benefits paid to the Landlord were within program parameters, compliance with program parameters was not in scope for our investigation. However, the rental agreements above, entered into by housing clients and paid for via the City administered housing programs, had rental amounts that were significantly above average market rent in those areas. We saw no evidence that

<sup>1</sup> Average market rent in this context is an average of available market rents within a specific geographic area, at the time the search was conducted (November 6, 2024). This is not synonymous with Canada Mortgage and Housing Corporation Average Market Rent (AMR).

Employee A scrutinized these rental amounts, as required. On the contrary, we observed evidence that would support Employee A's involvement in the determination of rental amounts (**Addendum 1**, page 28). There is a possibility that such significant increases in rental amounts may have resulted in inflationary rental prices in these areas.

### 1.3.3 Lack of Adequate Monitoring of Housing Benefit Programs

As with all City programs, we would have expected that an established monitoring process was in place to review the reasonableness of housing program activities. Management confirmed that compliance with program eligibility is reviewed; however, a monitoring process to ensure reasonability is not in place. Had a monitoring process to review the reasonability of program activities (e.g. rent reasonableness and trends) been in place, management may have detected irregularities in these transactions sooner.

### 1.3.4 Lack of Adequate Supervision of Housing Benefit Programs

Through a review of Employee A's emails, we observed an email from one team member to the entire team, including the supervisor, raising concerns about the Landlord trying to maximize potential benefit payments by requesting rental rates above the advertised rate for specific units. This communication occurred only two weeks prior to the commencement of payments to Employee A. As a supervisor had been made aware of these concerns, we would have expected to see appropriate steps implemented to guide staff and furthermore, to detect potentially inflated rents. Through our investigation, we saw no evidence of such actions being taken. Had adequate steps been taken following this email, including the establishment of a monitoring process, these may have deterred Employee A and prevented this issue.

### 1.3.5 Absence of a Formal Fraud Risk Assessment

In 2022, the OAG conducted an [Audit of Enterprise Risk Management](#), which included a recommendation to develop an enterprise-wide fraud risk assessment; however, at the time of this report, this recommendation had not been completed. Had a fraud risk assessment been undertaken, it may have highlighted the need for additional controls in this area that could potentially have prevented or detected this issue.

## RECOMMENDATION 2 – IMPLEMENTATION OF ADDITIONAL FORMAL TRAINING

The General Manager, Community and Social Services Department should establish additional, formal training for housing benefit programs to ensure staff are provided with clear guidance on how to execute their roles and responsibilities.

## MANAGEMENT RESPONSE 2

Management agrees with this recommendation.

Work is underway to review training. Staff will formalize the existing training program for staff administering housing benefits programs. The training program will ensure staff and management understand their roles and scope of responsibility throughout the benefits allocation process. A formalized training program will be completed Q1 2025.

## RECOMMENDATION 3 – ESTABLISHMENT OF A MONITORING PROGRAM

The General Manager, Community and Social Services Department should establish a monitoring program for housing benefit transactions, including a review of individual transactions and population trends to ensure reasonable oversight of these programs.

## MANAGEMENT RESPONSE 3

Management agrees with this recommendation.

Monitoring is in place. Work is underway to develop additional monitoring processes to ensure reasonable oversight of housing benefits programs. Specifically, management will ensure training programs outline staff accountabilities and additional review processes. A monitoring procedure and training guideline to support reasonable oversight of housing benefits programs will be implemented by Q1 2025.

## 2. Additional Findings

### 2.1 Housing Benefit Data

During our investigation, we requested various reports to help us validate or disprove the allegations. We expected sufficient, reliable and accurate data to be available, tracked and monitored by management. We observed that data is manually tracked for housing benefit programs, and as such, aggregated data is not readily available. This data, could have allowed management to implement a monitoring process (see Recommendation 3), increasing the likelihood that this behaviour, or other irregularities, were detected sooner. We understand from management that they plan to implement a solution using Microsoft Dynamics365 to address data availability issues and manual processes.

As aggregated and timely reporting could not be provided to us by management, we were unable to perform systematic analysis such as reviewing other landlords or the previous years' data. We were therefore unable to conclude on the pervasiveness of the issue.

#### RECOMMENDATION 4 – AVAILABILITY OF AGGREGATED DATA

The General Manager, Community and Social Services Department should ensure that key housing benefit programs data elements (e.g. date of lease, landlord name, monthly rent, location of unit, size of unit, Case Worker responsible) are incorporated in the design of the Dynamics365 solution.

#### MANAGEMENT RESPONSE 4

Management agrees with this recommendation as digitization will enable quicker access to information, thereby enhancing monitoring capabilities.

Work is already underway on digitization initiatives for housing benefits programs including implementation of the Integrated Housing System (IHS) and development of Dynamics 365 storage and information management solutions. Staff will create digitization strategy by Q2 2025.

### 2.2 Code of Conduct Training

The City of Ottawa requires that all employees complete the “Our City, Our Code: The Employee Code of Conduct and Ethics” training. This training is designed to be provided to new hires and additional training is required for new supervisors and managers. No additional training is provided following this initial offering. Based on our understanding, management is currently reviewing the Code of Conduct as well as associated training requirements. We expected City employees to clearly understand the requirement to abide by the elements of the Code of Conduct. We also expected monitoring processes to be in place to ensure compliance with the Code of Conduct training requirements.

On a quarterly basis, departmental training compliance reports are provided to supervisors, who are required to perform appropriate follow-up with their staff concerning incomplete training. Through our investigation, we learned that some part-time employees, including Employee B, had not completed the required Code of Conduct training. We saw no evidence that Employee B’s supervisor had performed the required follow-up to ensure completion of this training.

While employees acknowledge their requirement to be knowledgeable and comply with the City of Ottawa Code of Conduct as part of their acceptance of an offer of employment from the City, incomplete training could result in employees not clearly understanding their roles, responsibilities, and obligations as a City of Ottawa employee. This could increase the risk of inappropriate or unethical behaviours.

#### **RECOMMENDATION 5 – CODE OF CONDUCT TRAINING**

The City Solicitor, as part of their current update to the Code of Conduct, should implement more direct training (e.g., refresher training or annual attestations) to ensure employees clearly understand their requirements as a City of Ottawa employee. Where feasible, department-specific scenarios should be used.

#### **MANAGEMENT RESPONSE 5**

Management agrees with this recommendation.

Currently, all City employees are required to complete the Employee Code of Conduct training, an online module that covers key aspects of the Code and workplace ethics. Additionally, the New Supervisor and New Manager Orientation programs include in-person sessions led by the Office of the City Solicitor, emphasizing the importance of ethical culture and the leadership role that supervisors and managers play in fostering ethical workplaces.

Ad-hoc sessions on the Code of Conduct are also available upon request from managers or supervisors. These sessions are customized to address specific concerns, such as the use of social media, conflicts of interest, and handling of gifts and hospitality. Further resources, including FAQs, a library of material, self-assessment quizzes, and contact information are available to employees via the Ethics Home Page (on the City's intranet).

As part of the planned update to the Code of Conduct in early 2025, additional emphasis will be placed on training and the dissemination of the updated Code. Training formats will be tailored where possible to accommodate variations in workplace needs and employee availability.

#### **RECOMMENDATION 6 – ESCALATION OF NON-COMPLIANCE WITH TRAINING REQUIREMENTS**

The City Solicitor, in consultation with the Chief Human Resource Officer, should implement an escalation process for long outstanding non-compliance with Code of Conduct training requirements.

## MANAGEMENT RESPONSE 6

Management agrees with this recommendation.

The Office of the City Solicitor delivers training on the Code of Conduct and provides ongoing guidance through various resources, including through the Ethics Web Home Page (on the City's intranet), the Ethics Research Officer, and direct consultation.

Management will review practices to develop an effective escalation process by end of Q2 2025 for addressing non-compliance with Code of Conduct training requirements. Where possible, this process will be aligned with mechanisms already in place to monitor and track compliance for other mandatory training or workplace actions.

## Conclusion

We observed that Employee A's undisclosed relationship and dealings with the Landlord, including receipt of payments from the Landlord, represent a breach of the City's Code of Conduct. Additionally, without information to legitimize the payments made by the Landlord to Employee A, we observed multiple factors that indicate that these payments are consistent with a kickback scheme designed to provide a benefit to both the Landlord and Employee A.

We observed that Employee B had knowledge of Employee A's relationship with the Landlord and did not disclose it or otherwise report it to the City, representing a breach of the City's Code of Conduct. In addition, we observed that Employee B was directly involved with collecting payment from the Landlord to Employee A.

We observed that Employee A's and Employee B's undisclosed relationship to the Moving Company and dealings with the Moving Company, represent a breach of the City's Code of Conduct.

As a result of additional procedures performed during our investigation, we identified gaps in City processes including the absence of: appropriate monitoring processes to deter and assist in the detection of unusual or irregular transactions; a fraud risk assessment to ensure necessary controls were in place to deter, prevent and detect fraudulent activities; and a consistently applied accountability mechanism to ensure all staff have completed the required Code of Conduct training.

## Appendix A – Subject Matter Experts

**Steve Whitla** is a **Partner** in EY's Forensic and Integrity Services practice where he has led several high-profile disputes, arbitrations and investigations. Steve is EY's Public Sector leader for forensic and integrity services and his practice is largely focused on the Canadian federal government in respect to various investigative and litigation matters. His expertise extends to the investigation of various types of wrongdoing, as well as proactive fraud deterrents and detection, including fraud control frameworks and fraud risk assessments.

Steve has investigated several criminal cases involving employee, management and investor fraud, money laundering, kickbacks and homicide for profit. Steve is a **Chartered Professional Accountant** (CPA), **Certified Fraud Examiner** (CFE), **Chartered Business Valuator** (CBV) and is also certified as an expert in forensic accounting by the Canadian and US CPA Associations.

**Valerie Koleski** is a **Senior Manager** in EY's Forensic & Integrity Services practice. Valerie has experience leading and conducting fraud and compliance engagements, including providing accounting and financial guidance to companies and counsel responding to a variety of complex matters. Her engagement experiences include conducting fraud detection and investigations related to conflicts of interest, misappropriation of assets, employee misconduct, fraudulent financial reporting, as well as performing proactive fraud risk assessments, whistleblower program assessments, and compliance assessments. Valerie is a **CPA** and a **CFE**.

**Derick Vasquez** is a **Manager** in EY's Forensic & Integrity Services practice. He has experience in designing, coordinating, implementing, and executing Forensic Technology solutions for investigative, digital forensics, incident response, eDiscovery and forensic data analytics engagements. Derick's eDiscovery experience includes the planning, coordination and execution of numerous data collection, processing, hosting, analysis, and production workflows of multiple physical and cloud-based data sources to support investigative and compliance driven workstreams concerning internal, external and regulatory matters (i.e., securities, anti-corruption and anti-trust).

## Appendix B – About the Investigation

### Investigation objective

The objective of this investigation was to review the allegations raised in a report received through the FWHL.

### Scope

The scope of our investigation was limited to report(s) received through the FWHL. Our assessment covered the period from November 2023 to October 2024. To the extent that other control issues were identified and validated during the investigation, they were included in this report.

### Investigation approach and methodology

To assess the merit of the concerns outlined in the FWHL report(s), we conducted the following:

- Review of background documentation related to City housing benefit programs and the City's Code of Conduct.
- Interviews with City staff, the FWHL reporter(s), Employee A, Employee B and the Landlord.
- Issuance of Summons under the *Public Inquiries Act, 2009* in order to obtain key evidence and testimony under oath.
- Reviewed a sample of intent to rent documents.
- Analysis of banking records and payment transaction details.
- Forensic procedures on email accounts and employee electronic devices that stored key evidence.

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