

Fraud Scheme Update

ISSUE

In an effort to be transparent and to ensure other corporations are aware of fraud schemes, the City of Saskatoon (City) is providing an update on the fraud scheme that affected the City in August 2019.

BACKGROUND

On August 12, 2019, the City identified a fraud that had occurred. A fraudster electronically impersonated the Chief Financial Officer of a construction company and asked for a change of banking information. The City made the requested change to the banking information and subsequently made a payment into the fraudster's bank account through an electronic funds transfer (EFT).

CURRENT STATUS

The City has made numerous changes and additions to the procedures, processes and controls surrounding EFT payments, including how a vendor or employee changes their banking information, in an effort to eliminate the chances of this type of fraud occurring in the future.

DISCUSSION/ANALYSIS

Upon discovery of the fraud, the City notified the City's internal auditor, PricewaterhouseCoopers LLP (PwC), the City's banking institution, and the Saskatoon Police Service. Administratively, two teams were put into action. The Finance team with support from the internal auditor focused on implementing best-practice controls, and the Recovery/Investigation team focused on the internal investigation and recovery efforts in conjunction with a legal team in Toronto.

To ensure there were no other fraudulent requests to change banking information, the Finance team began reviewing all requests that had been received for changes to banking information from the beginning of 2019. The team contacted each of these vendors and spoke with individuals within those companies to confirm that the requested change was in fact requested by them. They found no other requested changes that were fraudulent. The team also formalized internal controls surrounding the changing of vendor or employee data.

The Recovery/Investigation team was comprised of senior civic leaders who are not directly involved in Finance functions. The team interviewed the individuals from the Accounts Payable area where the fraud had occurred to determine what controls had been in place, what documentation was available and followed, what actions occurred that lead to the fraud and to also determine if there was any culpability and/or malicious intent by any City employees. The investigation determined that there was no malicious intent by any civic employee. However, the team did determine that the fraud was due to systemic failure primarily related to a lack of appropriate procedures or guidelines for employees in this area of the Administration to follow. The City Manager

reviewed all findings and decided on all internal actions taken involving a number of individuals.

PwC reviewed the internal controls that the City had put into place immediately after the fraudulent incident and compared them to leading best practices with respect to EFT. On September 9, 2019, PwC presented its findings to the Recovery/Investigation team and although they acknowledged many appropriate controls had been put in place, PwC recommended additional changes. The City took further action and has fully implemented these recommendations.

IMPLICATIONS

The City has a court order to obtain all of the stolen funds, totalling \$1.04 million, plus \$25,000 awarded by the court to partially cover the City's legal costs. Legal fees are estimated to be \$100,000, but could rise in the event of an appeal of the court decision. An appeal has not yet been filed. At this time, the Administration estimates the net cost to the City due to this fraudulent act to be approximately \$75,000 for the cost of external legal fees required to complete the recovery of funds providing the City is successful in collecting the awarded court costs.

Following the City's public disclosure of its fraud incident, a private company in North Battleford (Spence Equipment) publicized that they also were recently defrauded of significant funds, and report that they chose to speak out due in part to the approach taken by the City. Since that time, another large organization has made their thanks known for the increased awareness of these types of fraudulent incidents. A fraudster attempted to defraud the organization, and the heightened awareness directly contributed to their eventual successful rebuffing of the fraudster.

There are no environmental or social implications identified.

NEXT STEPS

The other parties have until December 23, 2019 to appeal the decision of the court. Implementation of the Fusion ERP initiative and quality-management system will further bolster the City's resilience in this area.

REPORT APPROVAL

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