
Investigation into Cash Irregularities

Within a City Facility

May 13, 2004

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Within a City Facility

Introduction

The purpose of this report is to inform City Council and the City Manager of the results of the Office of the City Auditor's (OCA) and Community Services investigation into the cash handling fraud at a City Leisure Centre. This investigation required consultation and coordination amongst several groups including Corporate Security and Human Resources.

In 2003, cash handling irregularities were detected at the Leisure Centre. The Community Services Department advised Corporate Security and the OCA and an internal investigation was undertaken. This investigation revealed evidence of fraudulent activities on the part of a part-time employee who worked at the Leisure Centre. The individual under investigation was terminated from employment with the City of Edmonton in November 2003.

On November 4, 2003, the OCA turned the investigation over to the Economic Crimes Section of the Edmonton Police Service. On February 3, 2004, the Edmonton Police Service charged the former employee with one count of theft over \$5,000 and one count of fraud over \$5,000. The court date for election and plea was scheduled for March 16, 2004, subsequently delayed to April 7, 2004, April 26, 2004, then May 10, 2004 and now has been rescheduled to May 19, 2004 for plea.

Since the matter is before the courts, the Administration and the OCA will not release any details of the investigation.

Background

The Recreation Facilities Branch is responsible for the operation and programming of all municipal recreation facilities. This Branch includes the operations of Community Leisure Centres. Edmonton's Community Leisure Centre facilities accommodate approximately 2,087,000 visits annually. Operated by 75 full time and approximately 440 part-time staff, the City of Edmonton's Leisure Centres have an annual operating budget of \$13,377,000 with revenues amounting to approximately \$7,378,000 annually. The volume of cash handled makes Leisure Centre facilities more susceptible to misappropriation of funds. This Leisure Centre had operating expenses of \$716,000 and revenues of \$336,000 in the year 2003.

The Association of Certified Fraud Examiners has reported that the industry average for losses attributed to fraud is about 6% of the gross sales.

Investigation Objectives

The OCA objectives in conducting this investigation were guided by Policy A1431 – Conduct of Examination of Allegations or Suspicion of Fraudulent Acts. They were as follows:

- a. To gather evidence to either dispel or confirm the suspicion of fraud.
- b. To work co-operatively with the Edmonton Police Service (EPS) to ensure that evidence was documented at a level sufficient to substantiate any charges laid.
- c. To review and assess the adequacy of controls in place to safeguard the assets of the City against loss, misuse, unauthorized use, and fraud. The purpose of this review was to identify the cause(s) of the failure and provide recommendations to help avoid similar losses.

Scope and Methodology

At the request of Community Services Management, Corporate Security set up covert surveillance cameras to evaluate an employee suspected of not properly recording revenue. Video surveillance was conducted on four shifts worked by the employee. Corporate Security, Community Services and the OCA viewed the tapes and analyzed recorded transactions to ascertain whether theft and/or fraud had occurred.

Several additional actions were undertaken as part of this investigation, including:

- (a) No-sale transaction analysis, identifying that the employee in question was involved with improper cash handling practices (prepared by Community Services staff at the start of the investigation and verified by the OCA).
- (b) Electronic data analysis and a reporting software product called Audit Command Language (ACL) was utilized. ACL can rapidly process thousands of transactions and can be performed on entire populations of data, rather than small samples. Using ACL, the OCA was able to analyze each shift worked by the Community Services employee over several years. The OCA also analyzed cash transaction levels for all employees at the Leisure Centre to arrive at expected transactions for a given shift and compared it to the suspected employee transactions for comparable shifts. The comparisons were limited to shifts where a cashier was alone for the entire shift. The transaction analysis was based only on evening shifts from 5 PM to closing.

Investigation Results

A comparison of customer transactions observed on the video surveillance tapes with the transactional data in the Point of Sale system indicated that customer transactions were not always entered into the Point of Sale system. The OCA reviewed all transactional data performed by the suspect during her approved shift times at the Leisure Centre for January 1, 1999 to October 15, 2003. It was determined that the subject's average cash transactions were significantly less than those of other cashiers for similar shifts. The analysis performed by the OCA estimates the loss for the period

January 1, 1999 to October 15, 2003 to be between \$25,995 and \$41,845. The OCA's investigation determined that sufficient evidence existed to warrant reporting this matter to the Edmonton Police Service (EPS). Summarized information was forwarded to Economic Crimes Section of the EPS.

The subject made appearances in court for election and plea on March 16, 2004, April 7, 2004, April 26, 2004 and May 10, 2004 but in all cases the plea was delayed. The next court date for plea is now May 19, 2004.

Conclusions

Community Services staff managed this incident in a responsible and timely manner. Upon identifying the suspected fraud, they notified the OCA and worked closely to assist the OCA with their investigation. Monitoring of internal control is done through regular management and supervisory reviews of activities, comparisons, reconciliations and other available reporting tools. Good internal controls assist management in minimizing opportunities for fraud and maximizing the chances of discovering fraud.

In all fraud investigations conducted by the OCA, the OCA's goal is to provide assistance in helping the Administration to strengthen internal controls and improve methods of prevention and early detection of potential fraud. The OCA met with Community Services Representatives throughout this investigation and provided a number of recommendations designed to strengthen internal controls. These recommendations included the following.

1. That frequent analysis of transactions be reviewed by management to identify
 - High volumes of transactions relating to cancellations, refunds, voids, and no sales
 - Below normal averages for cash transactions per cashier

Community Services Response: Community Services has initiated a process to regularly produce and review transaction reports for the purpose of identifying behavior indicative of theft or fraudulent activity.

2. That consistent cash processing procedures be established, enforced, and monitored regarding the use of voids, cancellations, refund explanations, and in the keying of transactions.

Community Services Response: Community Services has developed or is in the process of developing procedures consistent with this recommendation. In January 2004 the Recreation Facility Services Branch of Community Services implemented a structural change which, in part, merged all the cash handling functions and staff in one section. The Customer Relationship Management section will supervise cash handling staff and cash handling functions at all 52 recreation facilities. The organizational change will result in allocation of

resources to standardize cash handling practices and minimize the risk of fraud and theft at cash handling sites.

3. That occasional surveillance be conducted in situations where there are abnormal averages and activities involving cash.

Community Services Response: With the assistance of the OCA and Corporate Security, Community Services will initiate surveillance of cashiers who exhibit transactional behavior that may be indicative of theft or fraudulent activity.

4. That Community Services make it a priority to explore and where feasible institute technological solutions and new reporting tools to monitor cashier activities.

Community Services Response: Community Services has developed reporting tools in CLASS to monitor cashier activities.

As a result of a joint project between Community Services and the OCA an investigation at another facility has commenced.