
Investigation into Cash Irregularities

Within a City Facility

February 2, 2005

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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 an investigation conducted by the Office of the City Auditor (OCA) and Community Services into a cash handling fraud at a City Leisure Centre. This investigation required consultation and coordination amongst several groups including Corporate Security and Human Resources.

As a result of analyses initiated and performed in 2004 by the Office of the City Auditor and Community Services in conjunction with Corporate Security, cash handling irregularities were discovered at the Leisure Centre. Video surveillance revealed evidence of fraudulent activities on the part of a part-time employee. The individual under investigation resigned from employment with the City of Edmonton in May 2004.

On June 4, 2004, the Office of the City Auditor turned the investigation over to the Economic Crimes Section of the Edmonton Police Service. On July 8, 2004 the Edmonton Police Service charged the former employee with one count of fraud over \$5,000. The court date for election and plea was scheduled for September 10, 2004, subsequently delayed to January 4, 2005 for plea. In December 2004, the City received voluntary restitution from the former employee in the amount of \$5,000. On January 4, 2005 the former employee plead guilty to an amended charge of theft under \$5,000 and received a 20 month conditional sentence confining her to her residence for six months (with approved exceptions) and then abiding by a curfew for the remaining fourteen months.

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 \$621,378 and revenues of \$381,294 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 joint request of Community Services and the OCA, Corporate Security set up covert surveillance cameras to evaluate an employee suspected of not properly recording revenue. Video surveillance was conducted on several 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 actions were undertaken as part of this investigation, including:

- a) Cash transaction data from the Point of Sale system was analyzed for all Leisure Centres based on methodology the OCA developed in a previous fraud investigation. In this investigation the employee in question was identified as potentially being involved with improper cash handling practices.
- b) Electronic data analysis was performed using specialized audit software that can analyze entire populations of data, rather than small samples. Using this technology, the OCA was able to analyze each shift worked by the Community Services employee over several years.
- c) 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 transaction data generated by the suspect during her approved shift times at the Leisure Centre for the period July 3, 2003 to March 31, 2004. It was determined that the subject's average cash transactions were significantly less than those of other cashiers at the same facility for similar shifts. The analysis performed by the OCA estimates the loss for the period July 3, 2003 to March 31, 2004 to be approximately \$7,800. 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.

Conclusions and Recommendation

Community Services staff managed this incident in a responsible and timely manner. Upon identifying the suspected fraud, they worked closely to assist the OCA with the investigation.

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 has provided analyses to Community Services to help identify additional irregular cash transactions. Community Services is continuing to work on developing clear consistent cash processing procedures and monitoring the implementation of those procedures.

The OCA met with Community Services Representatives throughout this investigation and re-emphasized the following recommendation (reported in a previous fraud) designed to strengthen internal controls.

1. 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

- In conjunction with the Office of the City Auditor, Edmonton Police Services, Human Resources and Finance, Community Services has developed and delivered workshops on theft and fraud awareness and prevention. All cashier supervisory staff and permanent cashiers have attended the workshops.
- Cashier Supervisors conduct unannounced cash counts of floats and receipts in the evenings and on weekends.
- Transaction reports are produced in the CLASS system and analyzed by Cashier Supervisors and management to monitor cashier activity.
- Community Services is exploring the application of video surveillance of cash stations.