

Initial Complaint Review and Mediation Scheme

Pensions and Allowances "Reintroduction" Fraud

1 Summary

- 1.1 Second Sight has asked whether there is an overarching briefing report which covers all Pensions and Allowances "Reintroduction" fraud. In asking the question, Second Sight assert that there appears to be "something of a pattern emerging" and, in particular, Second Sight questions why some of the prosecutions it has seen references to in Applicants' CQRs did not proceed to a conviction.
- 1.2 It is not within the scope of the mediation scheme or within Second Sight's expertise to comment on whether prosecutions should or should not have been brought, but for the avoidance of doubt Post Office only prosecutes cases which merit prosecution and does so always on legal advice. However, Second Sight may wish to note that Post Office's experience is that the vast majority of the cases it takes to court involving reintroduction fraud are successful prosecutions.
- 1.3 Second Sight appears to be drawing its information from eight CQRs which is only a narrow subset of cases and which do not reflect all of Post Office's prosecutions. In addition, Post Office has neither seen nor had the opportunity to investigate all of those cases. Nor has Second Sight, except in relation to two cases, been able to consider the evidence and assessment provided by Post Office.
- 1.4 There is no overarching briefing report which would assist Second Sight explain a 'pattern' as, for the reasons explained in this paper, Post Office does not consider that such a pattern exists. However, Post Office hopes that the information provided in this paper will answer the points raised by Second Sight.

2 Pensions and Allowances Reintroduction Fraud

- 2.1 "Reintroduction fraud" occurs where a subpostmaster (or assistant) dishonestly processes a false benefit claim through Horizon and then either does not remit the associated benefit paperwork (because no paperwork exists) or, more commonly, remits (reintroduces) paperwork for another benefit transaction (in effect trying to claim the same benefit twice). This generates a cash surplus within the branch accounts which can be set off against existing shortages or removed from the branch.
- 2.2 Second Sight has asked why the standard operating procedure, the design of the dockets, and the cancellation process did not prevent reintroduction fraud occurring.
- 2.3 Second Sight has also queried whether the surpluses could be created by human error rather than fraud.
- 2.4 In summary, Post Office's response is that:

- 2.4.1 P&A dockets were designed by Department of Work and Pensions (**DWP**) and therefore their design was outside of POL's control.
- 2.4.2 P&A dockets are no longer used – they have been replaced with the Post Office Card Account which uses a "Chip and Pin" system.
- 2.4.3 Nevertheless, DWP did have in place a process whereby dockets were checked to ensure that they were not duplicates, thereby identifying any fraud.
- 2.4.4 Even where the re-introduction of a benefit payment is accidental, this is still an error for which the subpostmaster is liable.
- 2.4.5 "Overclaims" and "reintroductions" will not cause a cash loss to a branch. They generate a cash surplus, which as long as the cash is not removed from the branch, will be off-set by a later transaction correction.

3 **Benefit payment methods**

- 3.1 There are various methods by which benefits can be received by customers:
- 3.2 Pension & Allowance (**P&A**) books
 - 3.2.1 P&A books were provided by DWP to customers entitled to benefits. A nominated Post Office branch was set out on the cover of each P&A book, together with the customer's name, address, reference number (National Insurance or pension number), serial number of book and Common Payment Package Number.
 - 3.2.2 Within each book were (usually) 20 dockets, vouchers or foils (referred to in this note as **vouchers**). These vouchers were not barcoded but did detail the customer's unique National Insurance or Pension number, serial number, a due on and not before date (to ensure that the benefits could not be claimed in advance), FAD code of the nominated Post Office branch, voucher number and amount to be paid. The vouchers normally appeared two to a page and were sequentially numbered.
 - 3.2.3 The vast majority of P&A books were barcoded. The subpostmaster or assistant should scan the barcode or, where for some reason that was not possible (because the barcode was damaged or missing) enter the P&A book details manually on to Horizon.
 - 3.2.4 On being presented with a P&A book by a customer, the subpostmaster or assistant should examine the front cover to check the branch is the nominated Post Office branch of payment, and then scan the barcode. Scanning the barcode or entering the required details manually ensures that the P&A book is checked against the Order Book Control Service (**OBCS**) electronic stop list, to see whether a payment should be made or restricted in some way. Once these checks were completed, Horizon would then instruct the subpostmaster or assistant to pay, pay and impound the P&A book, or impound the P&A book. There could be a number of reasons for a payment to be stopped or a book impounded (eg. the book had been flagged as being stolen).

- 3.2.5 In rare instances P&A books were not, and were not intended to be, barcoded. This was as a result of the DWP requirements which varied for different benefits. It was also DWP which specified which checks should be carried out for the different types of books. In such cases, the subpostmaster or assistant was required to check that the book did not appear on a manual stop payment list. Provided that it did not, in the case of non bar-coded books, the subpostmaster or assistant would enter the group number of the benefit to be paid as specified on the voucher, and the amount to be paid. These details did not result in the book being checked against OBCS and as such the instruction to pay or impound would not be given on Horizon.
- 3.2.6 The vouchers collected from customers were despatched each week by each branch to the Paid Order Unit (which in effect is the DWP) in Lisahally, Northern Ireland.
- 3.2.7 P&A books ceased to be used in circa 2005 and were replaced with Post Office Card Account.
- 3.3 Post Office Card Account (**POCA**)
 - 3.3.1 POCA is a limited service bank account that only allows benefits to be deposited into the account by DWP and cash to be withdrawn. Withdrawals are conducted by the customer taking his POCA card into a Post Office and withdrawing in cash either some or all of the benefits within his account. POCA uses a chip and pin security system to control access to the account.
- 3.4 Green Giros
 - 3.4.1 Customers who lose their POCA cards or customers who are on temporary benefits may be sent Green Giros by the DWP.
 - 3.4.2 These are cheques (also known as DWP cheques) which set out the payment amount and can be cashed in the usual way. These cheques are datestamped and retained by the Post Office after paying the customer. They have historically been accounted for and despatched by each branch weekly to Alliance & Leicester. They are now sent to Santander (both banks are referred to in this note as **Santander** for ease of reference).
- 4 P&A fraud**
 - 4.1 P&A fraud encompasses a number of different types of fraud, some of which are historical due to the change in payment methods over time as detailed above. These methods are as follows:
 - 4.2 Overclaim fraud
 - 4.2.1 Overclaims occurred with P&A books and Green Giros.
 - 4.2.2 For each benefit payment to a customer recorded on Horizon, the branch should take from the customer the associated voucher or cheque and remit each week all

vouchers to DWP and all Green Giro cheques to Santander. An overclaim occurs when the branch records a benefit payment on Horizon but does not remit the associated voucher or cheque. Without the voucher / cheque POL cannot recover the payment from DWP / Santander. This places a loss on POL which is then passed to the branch by way of a transaction correction (formerly known as an error notice, but referred to in this note as a **transaction correction** for ease of reference).

- 4.2.3 Overclaims are relatively easy to identify as the branch must record the remittance of vouchers or cheques out of the branch on Horizon and therefore it is possible to identify any missing weekly remittance.
 - 4.2.4 A fraud can be committed by recording fake benefit pay-outs on Horizon, which lowers the amount of cash recorded to be in the branch (as Horizon assumes the cash has been passed to the customer). This causes a short term surplus (until the missing voucher / cheque is discovered and a transaction correction sent through) which can be used to cover other losses or removed from the branch at the end of trading period (assuming that there are no other offsetting losses).
 - 4.2.5 Where a fraudulent purpose was intended, the perpetrator would not scan the P&A book barcode but would rather manually input partial details of the P&A book on Horizon so to avoid the automated OBSC checks.
- 4.3 Reintroduction fraud
- 4.3.1 Reintroduction fraud is a more sophisticated version of overclaim fraud whereby the false benefit pay-outs are disguised by the submission of duplicate paperwork.
 - 4.3.2 In reintroduction fraud, a legitimate benefit pay-out is recorded on Horizon with cash being paid to a customer but with the corresponding voucher / cheque not being datestamped or remitted out. At a later date (typically the following week), the same benefit pay-out is recorded again on Horizon. This time however no cash is paid to a customer (as the customer is not present) but the voucher / cheque is date-stamped at the later date and remitted to DWP / Santander.
 - 4.3.3 For example, in week 1 there would appear to be an overclaim (amount claimed but no corresponding voucher or cheque). The amount would be claimed again in week 2 by submitting the cheque or voucher from week 1 (by this time datestamped). The fraud is premised on DWP / Santander not spotting the reintroduced voucher / cheque.
 - 4.3.4 The material difference between "overclaims" and "reintroductions" is that the former is possibly caused by human error (eg. forgetting to remit a voucher) however the latter takes a positive decision to re-process a benefit pay-out even though the transaction with the customer has already occurred. Although a "reintroduction" can happen by accident, the subpostmaster would still be liable for this error and multiple reintroductions would be indicative of fraud.
- 4.4 Each of these frauds have taken place both before the introduction of Horizon and once Horizon was in operation in Post Office branches. This is not a Horizon related issue.

5 Detection of fraud

- 5.1 The detection of P&A book frauds, of any kind, was by the DWP (specifically the Paid Order Unit or POU responsible for paid orders) which referred them to the Post Office where appropriate.
- 5.2 The detection of Green Giro frauds, of any kind, are identified by Santander and the DWP (for lost/stolen cheques) and referred to Post Office where applicable.
- 5.3 Examples of patterns that would suggest improper activity would include large overclaims, high volumes of manual entries (as opposed to scanning barcodes or entering full details manually) with barcoded P&A books, reintroductions week after week and significant amounts of lost/stolen encashments in a branch.
- 5.4 Following investigation, where appropriate, a prosecution may have been brought by Post Office, or sometimes a jointly led case with DWP. Accordingly, Post Office did / does not instigate these investigations and in effect there were / are at least two parties who assessed the situation and determined whether a case was worthy of investigation.
- 5.5 By the nature of these frauds, which often involve DWP, police assistance and powers of arrest were often required, for example if a fraud was deemed to be significant or prolific, or if there were reasonable grounds to suspect searches were necessary and evidence was likely. Post Office only deals with suspects on a voluntary basis whereas suspects can be compelled where the police are involved. For this reason, suspicions of this type of fraud are often passed to the police to investigate.

6 Prevention of fraud

- 6.1 Second Sight has queried why such frauds have not been prevented.
- 6.2 In the above cases, the fraud is committed at the point in time that the Horizon operator in a branch records a duplicate or false transaction on Horizon, or alternatively when the perpetrator deliberately inputs a bar-coded book as non bar-coded. At that point, POL has no information available to determine whether the transaction is fraudulent or not. This checking process is engaged when the branch remits (or fails to remit) vouchers / cheques to DWP / Santander as described above or where DWP identifies that barcoded P&A book vouchers were being inputted as if they were non bar-coded. Horizon was required to have functionality to permit subpostmasters to input the details of non bar-coded books because DWP issued these books and required POL to pay the benefits from them.
- 6.3 Due to the number of transactions carried out throughout the Post Office network on a weekly basis, it is not possible for the DWP or Santander to check every single transaction carried out. Instead, they conduct random or rota checks. This may mean a fraud is not immediately discovered. If an overclaim or reintroduction was discovered as a result of a rota check, then Post Office would issue a transaction correction provided only a single instance of an overclaim or reintroduction had been discovered. Where more overclaims or reintroductions are evident, an investigation would be raised.
- 6.4 However, it was open to a subpostmaster to carry out immediate checks for P&A fraud as the subpostmaster will have access to (i) each week's batch of cheques/vouchers and (ii) that

week's records of P&A transactions as recorded in Horizon. It is therefore possible for a subpostmaster to easily confirm that the value of the cheques and vouchers being remitted each week match the value of benefit pay-outs recorded on Horizon. This would reveal any overclaims or reintroductions.

7 Non-fraudulent errors

- 7.1 A cash surplus may also be created in error if a subpostmaster or an assistant accidentally duplicates a benefit payment entry on Horizon. The Mediator's Briefing Report at sections 10.5 (mis-key) and 10.8 (errors in cash handling) describes potential "operator-error" causes of surpluses in more detail.
- 7.2 Although these errors would not be fraudulent, the branch is still liable for the error and it is appropriate for POL to submit a transaction correction to the branch to correct the error.
- 7.3 In the case of an overclaim, if on receipt of the transaction correction the branch has the missing voucher, then they can remit the voucher to POL and the transaction correction will be withdrawn.
- 7.4 It should be noted that "overclaims" and "reintroductions" will not cause a loss to a branch. They generate a cash surplus which, as long as the cash had not been removed from the branch, will off-set any later transaction correction.

8 Criminal prosecution of P&A fraud

- 8.1 There are a number of important matters to be taken into consideration when deciding whether to prosecute a case of suspected P&A fraud. In particular, Post Office applies the two-stage test for prosecution set out in the Code for Crown Prosecutors namely that:
 - There must be evidence sufficient to provide a realistic prospect of conviction; and
 - The prosecution must be in the public interest.
- 8.2 Various parties contribute to this decision-making process including DWP, Post Office investigators, Post Office Decision Managers, Post Office Legal and the instructed barrister. There are therefore a number of checks and balances built into the system before a decision is taken to prosecute.
- 8.3 Post Office also confirms that from its experience where prosecutions were conducted by Royal Mail prior to separation, those prosecutions were also only brought following the same process and on legal advice.
- 8.4 Investigations can take time, partly as a result of the involvement of the DWP and Santander and the additional time needed to obtain witness statements or evidence from them.
- 8.5 In considering why prosecutions may not proceed, it is relevant to be aware that the victims in P&A frauds are often the elderly and vulnerable. These victims are crucial as witnesses. Given their circumstances, it can be a difficult experience for them to give evidence in court and

some, naturally, do not wish to do so. In addition, some victims/witnesses pass away before a case gets to trial or are otherwise unable to take matters forward due to ill health.

- 8.6 The availability of crucial witnesses is a factor in Post Office's decision whether to pursue a case to prosecution. It does not follow that simply because a prosecution is not progressed all the way to trial, Post Office was incorrect to seek to bring that prosecution in the first place.
- 8.7 It should be noted that where Post Office offers "no evidence" in Court this does not mean that there is no evidence of an offence. Offering "no evidence" is the legal process by which criminal proceedings can be brought to a close for a variety of reasons (eg. there may be very strong evidence of an offence but it may not be in the public interest to proceed).

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