Strictly Private and Confidential; Subject to Legal Privilege

Spot Review 12 - Response

STATUS: DRAFT

Author: Andrew Winn

Version: 4

Last edited by: Bond Dickinson

Last edit date: 01/05/2013

APPROVED BY	**DATE**
POL legal	
Fujitsu	
Simon Baker	

ALL APPROVALS REQUIRED BEFORE SUBMISSION TO SECOND SIGHT

THIS PAGE TO BE DELETED BEFORE SUBMISSION

FINAL SUBMISSION TO BE IN PDF FORMAT TO ENSURE ALL META-DATA ABOUT PREVIOUS
DRAFTS IS REMOVED

Strictly Private and Confidential; Subject to Legal Privilege

Horizon Spot Review - Response

SR012: Missing Cheques

Executive Summary

It is noted that this Spot Review does not raise any suggestion that there is an error in Horizon. Rather, it is focussed on Post Office procedures and branch processes.

It is acknowledged that a cheque loss could occur at the branch, in the Royal Mail pipeline or at the FSC. Post Office's policy is that a branch will only bear the cost of a lost cheque if the SPMR has failed to follow proper operation processes and POL has been unable to mitigate the loss by other means. If the root cause of a lost cheque is unknown or attributed to some other cause outside the branch, POL will absorb this loss and not pass it on to the SPMR.

Spot review scope

From the Spot Review, the following key issues have been identified:

1. There are "mysterious" or "unexplained" shortages in the remittance of cheques from branch to POL which lead to transaction corrections being issued against SPMRs.

2. By the time a transaction correction is raised in relation to a missing cheque, it has become impossible for the SPMR to identify the customer who handed over the cheque. The SPMR cannot therefore mitigate the loss and this is inequitable.

3. Various other matters specific to the case of Ms Jo Hamilton.

General Background

Branch process

Most Post Office branches are entitled to accept cheques from customers as the method of payment for a range of designated counter transactions. The cheque should be scrutinised and the reverse of the cheque needs to be date stamped, initialled and relevant transaction details recorded on the reverse. This will enable identification of the relevant product and customer.

The method of payment should be recorded as a part of the Horizon transaction. The cheque is then recorded on Horizon as a part of the branch stock held. There are no customer details recorded on Horizon or retained in branch.

All cheques taken should then be despatched from the branch via the final Royal Mail collection of the day (except Fridays). The branch process for remitting cheques is as follows:

1. SPMR produces a cheque listing report from Horizon.

Strictly Private and Confidential; Subject to Legal Privilege

2. SPMR verifies that the cheques held in the till match (volume and value) against the cheque listing report.

3. The total cheque value is then marked on Horizon as being remitted to POL (known as "remmed out").

4. A further cheque listing report is then produced. This will show the cheques being remmed out as a negative value. The report total will now total zero.

5. The cheque listing report is cut off. The branch cheque stock will now also be zero.

6. A Batch Control Voucher (BCV) is then manually completed to show number of cheques, value and despatching branch. The cheques are attached to the BCV. The cheques are then despatched for processing in the relevant envelope via Royal Mail to the Financial Service Centre (FSC) - not Chesterfield as incorrectly stated in the Spot Review.

7. Horizon cheque listings and remittance slips are retained in branch.

<u>FSC process</u>

The POLSAP finance system at the FSC is automatically uploaded each night via the Horizon-POLSAP Finance Interface. The cheque team in FSC are able to view this data the day after the transactions and will see the outward remittances recorded (day 1). All Horizon transactional data is "polled" into FSC ledgers at summary level via this process.

On day 2 an electronic file will be received from the cheque processor via an automatic upload into POLSAP to represent the actual cheques received from each branch.

The cheques sent by the branches are then compared and cleared by FSC against the POLSAP records where they match each cheque against its "remitted" value.

Approximately 1,000 entries will remain unmatched each day (ie. there is a discrepancy between the cheques received by FSC and the information sent via Horizon by SMPRs about cheque remittances) and could be an indication of missing cheques. Many cases are resolved quickly (ie. late delivery by Royal Mail or the SPMR missed the collection). There will be around 100 cases per month where it becomes apparent that a cheque has actually gone missing.

<u>Investigating lost cheques</u>

It is acknowledged that a cheque loss could occur at the branch, in the Royal Mail pipeline or at the FSC. Post Office's policy is that a branch will only bear the cost of a lost cheque if the branch has not followed proper procedures. If the root cause of a lost cheque is unknown or attributed to some other cause outside the branch, POL will absorb this loss and not pass it on to the SPMR. In the vast majority of cases, Post Office either mitigates the loss caused by a lost cheque or absorbs the loss itself. Only a very small number of missing cheque cases result in transaction corrections being issued to a branch.

The process for investigating missing cheques is as follows:

Strictly Private and Confidential; Subject to Legal Privilege

Strictly Private and Confidential; Subject to Legal Privilege

- The transaction to which a missing cheque relates is (if possible) identified from the information input into Horizon by the SPMR.

- Branches will be contacted when the missing cheque case is set up to see if the cheque can be found in branch or if they are aware of which customer has presented the cheque which has subsequently gone missing.

- If the branch cannot find the lost cheque, a variety of techniques (depending on product/information available) is employed to identify the customer and their address from the transaction data.

- The customer is then contacted to request a replacement cheque. If a replacement cheque is provided then the loss to Post Office is avoided.

- If a replacement cheque is not forthcoming, the relevant client organisation (ie. the product supplier, say Bank of Ireland, Environment Agency, etc.) is informed that the payment for that particular transaction has not been received and the transaction is reversed where possible. By reversing the transaction, the loss to Post Office is avoided.

- Alternatively, if Post Office is unable to identify the customer details, the relevant client organisation may be is asked to try to contact the customer directly for payment. By payment being made direct from the customer to the client, the loss to Post Office is avoided.

- If the transaction related to the missing cheque cannot be identified or if the transaction is identifiable but payment cannot be recovered from the customer or the client and the transaction cannot be reversed, Post Office will absorb the loss of the cheque provided operational instructions have been followed at the branch.

- There are 2 typical scenarios where an SPMR has failed to follow operational processes and will be held liable for missing cheques:

  1. Cheques have been accepted by the SPMR for a non-cheque acceptable product (e.g. Bureau sales). By accepting payment by cheque for a non-cheque acceptable product, it may not be possible to link a missing cheque to a transaction record. If the transaction record cannot be identified then it may not be possible to identify the customer and/or client. This then frustrates Post Office's usual loss mitigation steps described above.

  2. The method of payment has not been correctly recorded on Horizon with cheques as the method of payment and it subsequently proves impossible to associate any transactions with the cheques. Such an instance will typically be illustrated by branches recording multiple/all transactions through "Fast Cash" and then introducing a bulk cheque value to Horizon via a "Cash/Cheque Adjustment" at the end of the day prior to remitting out.

Strictly Private and Confidential; Subject to Legal Privilege

Strictly Private and Confidential; Subject to Legal Privilege

Issue 1: There are "mysterious" or "unexplained" shortages in the remittance of cheques from branch to the POL which lead to transaction corrections being issued against SPMRs.

As explained above, where the root cause of a missing cheque cannot be identified, Post Office absorbs the loss itself and does not pass the loss on to SPMRs. Loss caused by missing cheques is only passed on to SPMRs by way of a transaction correction if the SPMR has not followed the set operational processes for taking and recording cheque transactions.

Issue 2: By the time a transaction correction is raised in relation to a missing cheque, it has become impossible for the SPMR to identify the customer who handed over the cheque. The SPMR cannot therefore mitigate the loss and this is inequitable.

As explained above, a transaction correction is only issued to a SPMR where the SPMR has failed to follow proper operation processes and POL has been unable to identify a customer by other means. In this scenario, it is fair and equitable that the loss should be passed back to the SPMR.

It is recognised that once a transaction correction is issued, a SPMR may not be able to identify the relevant customer in order to obtain a replacement cheque. Post Office tries to investigate all missing cheques itself before issuing a transaction correction so not to waste SPMRs' time on issues that can often be resolved without their involvement. It is noted however that the transaction correction date is largely irrelevant as an enquiry will, in most cases, have already been raised with the branch about a missing cheque.

Even if there was a significant delay in notifying an SPMR of a missing cheque, providing additional Horizon data or transaction records will not provide branches with the information to identify a customer as it will have been the SPMRs failure to properly input correct information into Horizon that has caused the cheque to go "missing" in the first instance.

If SPMRs follow operational instructions when processing cheques, they will not be held liable should if chques subsequently go astray. The prime requirements are for branches to only accept cheques as a method of payment on cheque acceptable products and to record transactions accurately with cheque as the method of payment on Horizon. By following the set operational processes, SPMRs can avoid any liability for missing cheques.

Issue 3: Various other matters specific to the case of Ms Jo Hamilton

Horizon data is held for 7 years. This means that no transactional information is available to investigate this specific case.

It is also impossible to comment on what an unnamed Post Office employee is alleged to have said back in 2007 as reported in the Sunday Times. In any event, it is impossible for a SPMR to just "take the money" generated by a missing cheque as, by its very nature, a missing cheque does generate extractable cash. Post Office can only assume that the SPMR has wholly misunderstood the processes around cheque remittances.

Strictly Private and Confidential; Subject to Legal Privilege