Memo

To: Security Team
From: Dave Posnett, Andy Hayward
CC:

Date: 15/12/09
Subject: Horizon On-Line Cash Verification – Fraud Impact

As you are aware all branches in the network are migrating to Horizon Online in the New Year (due to commence February through to April 2010). The business has also determined that cash verifications should be conducted at all branches (except Crowns), and as such this will be a primary focus for many sections and individuals in the coming months.

The Security Team are involved in the migration on various fronts, but a key area remains the cash verifications. It is on this particular point that this update seeks to clarify and where required provide support in assisting with fraud cases that materialise. The following details the potential impact of fraud and what this could mean for each Strand and individual within the Security Team.

Appendix 1 at the end of this report is primarily for the Fraud Strand and details the criteria for raising a fraud case.

Appendix 2 is a spreadsheet designed to enable Investigators to consider the support available and factor resource into their enquiries. This spreadsheet details contact numbers and support levels, with some details missing that need to be addressed (postcodes and level of support [Officer Status]). **Action All:** Review Appendix 2 and provide missing details and Capability levels.

Pilot Cash Verifications completed:
On the 11th and 12th November, 150 cash verifications were completed in order to test the impact on the Network Audit, Contracts and Security Teams in readiness for live migration. These visits were unannounced, random (as opposed to risk

based), and involved a mixture of branch types and sizes.

- Planned visits: 150   (combination of 1, 2 or 3 persons attending)
- Visits conducted: 146   (109 Centrally Supported/37 Multiple/BDMs)
- Escalated to Tier 2 Audit: 12   (£1k loss trigger)
- Suspensions: 5   (all in Centrally Supported branches)
- Fraud cases: 2   (Springbank Rd £11k, Alloway £19k)

Impact If Replicated
Whilst not an exact science, it is possible to use the above figures and estimate the volume of fraud cases at live migration. One key difference at live migration will be the fact that branches are to be 'informed in advance' when they will be attended and that their cash will be checked.

- Circa 11,700 branches in the network
- Divide by 150 visits completed = 78
- 78 x 2 fraud cases (2 x per 150 visits) = 156 fraud cases
- Reduce by 25% (due to branches being informed) = 117 fraud cases.

NB: the losses from the 2 fraud cases amounted to £30k. If this was replicated across the network at live migration (i.e. £30k x 78), the amount of losses would be £2.3m (or £1.7m if the 25% reduction is factored in). Again however with advance notice it is expected that a number of shortfalls in branches will be 'made good' prior to the migration visit.

Fraud Team Impact
Clearly, 117 fraud cases is a significant amount (if assessed as accurate), though during migration (Feb to Apr), it would reasonably be expected to raise a number of cases as normal BAU:- 52 cases raised Feb to Apr in 2009, 42 of these due to audit shortages carried out as BAU.

Consideration will need to be given regarding if and how the Fraud Team can cope and manage. Contingency proposals are as follows:

- The 15 x Investigators only call (where possible) on non investigation colleagues (from all Strands) to assist in support officer capacity.
- Support officers assist with other elements of the investigations e.g. tape transcripts, evidence gathering, witness statements, committals, etc.
- 2 Fraud Team Leaders, 2 Financial Investigators and 4 Fraud Risk Managers are PACE trained and can undertake enquiries.
- This increases the investigative resource by over 50%, though allowances would need to be made in respect of individuals BAU remits:

1. **Team Leaders** – less capacity to undertake line management activities and other duties associated with their roles.
2. **Financial Investigators** – less capacity to deal with case files; resource reduction v probable increase in case files v taking on criminal investigations.
3. **Fraud Risk Managers** – less capacity to deal as robustly with current programmes, (notably low-risk programmes).

Additional Mitigation:

- Individuals in other Strands are PACE trained and could further alleviate pressures on the Fraud Team by undertaking investigations (with similar allowances made for BAU activities).
- Review current cases on hand (now/new year) and where appropriate close non urgent or less priority, completed cases. NB: there have been culls in recent years (ODR, BAU, previous reorganisations). *Active case management is currently ongoing with the expectation of a further reduction by Feb 2010.
- * As at Dec09, fraud casework currently has 143 active cases on hand: running approximately 75% of capacity, with the ability to take on an additional circa 40+ cases across the two teams.
- In preparation for HOL migration, audit team activity will be minimal in December and January, further resulting in reduced fraud case files being raised.
- Triggers and timescales to be confirmed as agreed (see Appendix 1) – in a similar way that Audit/Contracts have a trigger for involvement/suspension.

- Cases to be 'stacked and packed' – there may be delays in that cases take longer to investigate, but dealt with in a priority order and as and when basis.
- Assistance from elsewhere within RMG or externally could be necessary if the volume of losses is higher and/or expectations materialise re investigations.

In summary and taking in to account the above comments and potential for approx. 117 cases materialising from HOL migration, there is an initial expectation for the fraud team to directly manage and absorb the majority: circa 90-100 cases (40+ x expected spare capacity / 52 x expected BAU activity), with the surplus cases being managed via additional activity and support noted above. The main risk to this is the small 3-month time-scale for migration, combined with natural elements (i.e. geographical, s/leave).

The network wide cash verification is the first of its kind and it is difficult to establish exactly what the impact might be. *Important to note is the cash check will be **'bulk cash'** only and not include ATM cash verification (although branches will be informed that all cash & ATM will be checked). The above proposals will mitigate the worst case scenario and enable the Fraud Strand (through assistance from colleagues in other Strands) to manage any potential fallout. Your assistance is therefore greatly appreciated and ticks a significant box in 'working with others to win'.

Next Steps / Actions:
Action All Strands: Review Appendix 2 and provide missing details and confirm Capability levels of individuals to Dave Posnett by 21/12
Action Fraud Team Leaders: Review current cases on hand, with reduction of live cases prior to full migration: Feb 10' (currently ongoing)
Action Fraud Team: Reduce outstanding a/l and TOIL in readiness for full resource capability at migration (currently ongoing)
Action Fraud/ Contracts Teams: Periodic monitoring and review 'suspensions/casework raised' activity during migration, to identify emerging trends/hotspots and decision making processes. (Weekly/monthly c-calls).
Action Crime Risk/P&BA/Cash Inventory: Confirm monitoring of M.I. at branches pre and post migration to identify potential

fraud risk activity (ongoing and agreed 'Cash Tracking, stock-adjusts, rem-reversals).

Action Crime Risk/P&BA: Although ATM not intended to be checked, provision will be made to supply details of High Risk Cash & ATM holding branches to the audit intervention team.

Network activity: January 2010:

04/01:	12 x branches to be migrated
18/01:	260 x branches to be migrated
25/01:	Stakeholder meeting (tbc)
08/02:	circa 1000 x branches to be migrated
25/02:	Full branch migration rollout

Fraud Strand
December 09

Appendix 1 – Triggers/Criteria for Raising Fraud Cases

Criteria	Case Raise	Rationale
•Loss of any amount •No suspension	No	•The minimum criteria for case raise is that a Sub postmaster must be suspended. •Contract Managers are best placed to consider all circumstances and make this decision. •Burden of proof (Contract); no suspension if 'balance of probability' cannot be proven. •Burden of proof (Fraud); if no suspension, then it's very unlikely that 'beyond reasonable

		doubt' will be proven.
•Loss <£1k •Suspension	No	• Represents <u>Low risk</u> to the business - cost of pursuing would significantly outweigh the loss. •It would not be in the public interest to investigate or prosecute such a low risk loss. •It would not be in the business interest to investigate or prosecute such a low risk loss. •90% of cases raised YTD are audits, with average loss of £17k. No losses <£1k have been raised.
•Loss £1k to £5k •Suspension	Possibly: (to be discussed with Contracts team)	•Represents Medium risk to the business, though all circumstances should be considered. •The loss should be unexplained (e.g. no pending TCs, centrally held debt, or other known factors). •Liaise with Stakeholders (Audits & Contracts Managers). •90% of cases raised YTD are audits, with average loss of £17k. Only 5 losses <£5k have been raised.
•Loss >£5k •Suspension	Yes	•Represents High risk to the business, though all circumstances should be considered. •Bulk of loss should be unexplained (e.g. no pending TCs, centrally held debt, other known factors). •Liaise with Stakeholders (Audits & Contracts Managers). •90% of cases raised YTD are audits, with average loss of £17k. 73 losses >£5k have been raised.

NB: This is a guide only, as each loss will need to be assessed on its own merits and include other factors (e.g. admissions, resource, timescales, Modus Operandi, etc).

Appendix 2 – Security Team Support

The following spreadsheet details members of the Security Team (by Strand) and their postcodes and contact numbers. The definition of Officer Status is as follows:

- **1st Officer** – has training and experience (maybe dated) of leading a criminal investigation (including interviews, evidence gathering, and relevant legislation).
- **2nd Officer** – has training and experience (maybe dated) of supporting a taped interview and/or searches of persons, vehicles, property.
- **3rd Officer** – has received search awareness training and can support in searches only, as well as other ad hoc duties as directed by the 1st Officer.

First name	Surname	Strand	Postcode	Telephone	Officer status
John	Scott	ALL	GRO	GRO	

First name	Surname	Strand	Postcode	Telephone	Officer status
John	Bigley	Asset			1st, 2nd, 3rd,
Paul	Fielding	Asset			3rd
Richard	Griffin	Asset	GRO	GRO	3rd
Kevin	Patnell	Asset			3rd
Andrew	Scott	Asset			3rd
Ged	Harbinson	Asset			1st, 2nd, 3rd,

First name	Surname	Strand	Postcode	Telephone	Officer status
Nigel	Viles	Commercial			
Serpil	Fischer	Commercial	GRO	GRO	
Tony	Newman	Commercial			

First name	Surname	Strand	Postcode	Telephone	Officer status
Dave	Pardoe	Physical			1st, 2nd, 3rd,
Bob	Brown	Physical			3rd
Lesley	Frankland	Physical			3rd
Allison	Drake	Physical			3rd
Nikki	Dummett	Physical			2nd, 3rd
Richie	Graham	Physical	GRO	GRO	3rd
Wayne	Griffiths	Physical			3rd
Bill	McClarin	Physical			3rd
Peter	Mitchell	Physical			3rd
Brendan	Palmer	Physical			3rd
Sheila	Prime	Physical			3rd
Gordon	Grant	Physical			
David	Bywater	Physical			

Appendix 2 (Continued)

First name	Surname	Strand	Postcode	Telephone	Officer status
Sue	Lowther	I.S.		**GRO**	
Dave	King	I.S.			
Alan	Simpson	I.S.			

First name	Surname	Strand	Postcode	Telephone	Officer status
Iain	Murphy	Risk	**GRO**	**GRO**	
Jonathan	Bissett	Risk			3rd
Joanne	Hancock	Risk			
Helen	Rose	Risk			1st, 2nd, 3rd,
Mark	Dinsdale	Risk			
Jane	Owen	Risk			
Chris	Thorpe	Risk			
Bhaven	Karavadra	Risk			

First name	Surname	Strand	Postcode	Telephone	Officer status
Andy	Hayward	Fraud	**GRO**	**GRO**	2nd, 3rd,
Lisa	Allen	Fraud			1st, 2nd, 3rd,
Natasha	Bernard	Fraud			1st, 2nd, 3rd,
Steve	Bradshaw	Fraud			1st, 2nd, 3rd,
Graham	Brander	Fraud			1st, 2nd, 3rd,
Jason	Collins	Fraud			1st, 2nd, 3rd,
Robert	Daily	Fraud			1st, 2nd, 3rd,
Helen	Dickinson	Fraud			1st, 2nd, 3rd,
John	Longman	Fraud			1st, 2nd, 3rd,
Andrew	Daley	Fraud			1st, 2nd, 3rd,
Adrian	Morris	Fraud			1st, 2nd, 3rd,
Dave	Posnett	Fraud			1st, 2nd, 3rd,
Colin	Price	Fraud			1st, 2nd, 3rd,
Gary	Thomas	Fraud			1st, 2nd, 3rd,
Paul	Whitaker	Fraud			1st, 2nd, 3rd,
Mike	Wilcox	Fraud			1st, 2nd, 3rd,
Suzanne	Winter	Fraud			1st, 2nd, 3rd,
Chris	Knight	Fraud			1st, 2nd, 3rd,
Sharron	Jennings	Fraud			1st, 2nd, 3rd,
Lester	Chine	Fraud			1st, 2nd, 3rd,
Dave	Posnett	Fraud			1st, 2nd, 3rd,
Kim	Abbotts	Fraud			1st, 2nd, 3rd,
Graham	Ward	Fraud			1st, 2nd, 3rd,
Paul	Southin	Fraud			1st, 2nd, 3rd,