

Post Office Ltd Investigation Team Monthly Report

Confidential

To:

POL ET, Director Security Corporate, Head of Investigations Corporate
Head of Criminal Law, Head of Security POL.

From:

Tony Utting
National Investigation
Manager

Date: Dec 2006

Investigation Team Report Period 9 - December 2006

The principle aims of the Investigation Team are to stop criminal offences taking place, apprehend and prosecute those who commit offences against us in order to maximise our recovery and reduce loss to POL and its clients through the identification of areas of weakness throughout the business both operationally and within our product offerings.

1.0 Executive Headlines

1. Major process weaknesses identified in respect of **Postal Order Cashback offer for Home Insurance Product**. Potential loss at present circa £150k. An investigation has commenced to establish whether this is an organised fraud.
2. Investigations raised in to two frauds against **IASA** to the value of £125k Money Laundering Investigation also commenced..
3. **Internal Contact Centre fraud at EDS Preston in respect of Card Account**. Investigation ongoing, three further suspects (all internal to EDS) identified. Current loss circa £30k.
4. The **Travel Card Product is still causing concerns** in a number of areas. **SOCA (Serious and Organised Crime Agency)** are now showing interest.
5. Rugeley Case finalised and Postmaster pleaded guilty on day one of the second trial.
6. **Identity Fraud** issues continue to be raised and **Police and SOCA** are showing interest in both **check and send and redirection frauds** being perpetrated at Post Office branches.

1.1 POFS £50 cash back issue; insurance customers (car and home & building combined) receive a £50 cash back offer as part of the deal. The cash back is facilitated by way of open, **uncrossed postal order despatched in the ordinary course of posting**. Customer complaints suggest that a number of orders have not been received. **Such is the scale of reported non-receipt that replacement cheques have been issued to the value of around £150K**. Number of process failures identified and Commercial Security will work on improving the refund process leaving investigation colleagues to deal with any issues of criminality. For note **this method of open cash back was opposed by Commercial Security but was introduced irrespective of concern or risk assessment**.

1.2 As a result of a number of issues around fraud and fraud risks in relation to a number of **POFS products**, a meeting was held between POFS Relationship Manager, BOI Fraud team members, BBUK relations managers, Contact Centre representatives and Investigation Team managers to discuss current roles and scope future closer working, to protect all parties in the future. Investigations have now commenced in respect of two alleged fraud cases and an assessment will be made as to whether the Investigation team can add ongoing value in this area.

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1.3 An internal fraud was uncovered at the Card Account Contact Centre in Preston in October, whereby a Call operator discovered falsely accessing a high deposit account and undertaking large withdrawals was arrested. Investigations are continuing in with regard to this matter. Further enquiries have revealed a further three suspects and accounts that appear to be fraudulent and in receipt of money intended for genuine customers, as well as a number of customer accounts that have been compromised. The Reputation risk is considerable and DWP are aware of the issues. Investigations are working closely with EDS and JP Morgan to deal with both the fraud case and remedial action on the processes at EDS.

1.4 The Travel Card Product is still causing **concerns in a number of areas**. Since 22/5/06 there have been 1098 fraudulent attempts on remote reloads amounting to £1,521,892.75. Once again this prevention has been due to the vigilance of First Rate operators and associated processes. Over the same period there are now known to be 340 cards blocked following identification of fraudulent withdrawals. Since 8/7/06, Branches have now accepted cheques totalling £46,590.51 for reloads that have subsequently been returned unpaid. From those transactions, PBA have now been credited with £27,150.25 funds that had been frozen. Remote reloads still remain high risk and the move from First Rate to BOI/Merchants call centre has now been put back to 8/1/07. Our web offer for remote reload has also been put back until the New Year and extended verification parameters for fraud identification are now being finalised with Cyber Source. Given the extent of the attempted fraud on this product, the Serious Organised Crime Agency are showing an interest and liaison with them is underway. An update will be provided next month. Since the product was launched, Police have now arrested three individuals one of which received a 3 month prison sentence and the other two are still subject of legal process.

1.5 The long running case in respect of Rugeley where the postmaster and an outsider were involved in manipulating the exchange rates in respect of the Bureau De Change, to a cost to POL of over £1.6M has now completed. As previously reported, both were acquitted of the conspiracy to defraud, but the decision was taken to retry the postmaster in respect of a shortage of £395k found at audit on the day he was arrested. He has now pleaded guilty to theft at the commencement of his second trial. Two people worthy of mention in respect of this enquiry, are Manish Patel, who despite resigning from POL last year to become a pilot, has continued to support the investigation and prosecution and Trevor Lockey, who has been made surplus and is about to leave, but has never the less done an excellent job in seeing this case through to a satisfactory conclusion.

2.0 Investigation Operations : This months recovery figure is **£63K**. Period 9 case raise figures for deficiencies at audit alone were **£140K**.

In total, **31** new investigation cases were raised during the period, with a current loss value of **£245K**

At present the team is dealing with **248** ongoing investigations with a loss value of in excess of **Nine Million Pounds (£9.2M)** of these **80** are currently going through the courts.

Post OD case loads have been managed down and are now at a sustainable level, though the team continues to work at capacity and some enquiries are inevitably lapsed before any value can be added. There has been and will continue to be a fall in prosecutions achieved and this will eventually impact on recovery figures.

A review of the criteria used to instigate enquiries is about to commence and this will see a reduction in the number of cases raised to investigation status.

New KPIs are also currently being developed that will show how the team continues to add real value to POL.

Below is a document containing a number of graphs, summarising the current state of the caseload of the Investigations team.

Also provided is a summary of major enquiries ongoing.

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"Bar charts Period
8.doc"



"Over 100K Live
cases 291106.xls"



"FI Monthly Report
Nov06.xls"

3.0 Policy and Standards Changes to the internal structure of the Security Team, have resulted in this area being passed back to the Investigation Operations Team in order to increase the resource available for Commercial Security. Changes in Corporate Security have also increased the Training burden and again there will be a knock on effect on the team as investigative resource will need to be used for this work.

4.0 Financial Investigations

Walsworth Post Office® branch. The sub-postmaster was interviewed over an audit shortage of £50K. He claimed that the money was given to a third party and then sent to Nigeria. A money laundering investigation has been set up and identified assets (two houses and two high value cars) these have been restrained and orders sort with the banks and Western Union. Further orders have been sort with the suspects solicitors and his accountants. The money laundering investigation continues.

Gaerwen Post Office® branch. The sub-postmaster pleaded guilty to false accounting by inflating his cash account by approx 48K. On the 6th November 2006 he was sentenced to 9 months imprisonment. His defence council indicated that the defendant was completing the sale of his house [REDACTED] **GRO** [REDACTED] for £100K. This is a much reduced price and it is thought that he was selling his house in order to dissipate his assets to prevent them being available for confiscation. Accordingly on the 7th Nov 06 a restraint order was obtained to prevent the sale. Enquiries indicate that paperwork for the sale may had already gone through Solicitors, but the sale has not been registered with the Land Registry. In any event it is thought that we will recover the loss either directly from the sub-postmaster or indirectly as a tainted gift from [REDACTED] **GRO** [REDACTED]

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5.0 Banking Fraud Monitoring: The reorganising of the team and return of managerial support to the banking fraud area, combined with a drop in request numbers has resulted in a marked improvement in the timescales by which requests are completed.

| Month | High Risk | Multiple | Police Req | DWP Req | Other Req | ** Follow Up | Statements | Requests Outstanding |
|---------|----------------|----------|------------|---------|-----------|--------------|------------|----------------------|
| Aug 06 | *Instant Saver | 1 | 203** | 47 | 34 | 53 | 4 | 42 |
| Sept 06 | *Instant Saver | 3 | 127 | 45 | 29 | 55 | 6 | 67 |
| Oct 06 | | 1 | 199 | 68 | 25 | 56 | 4 | 143 |
| Nov 06 | | 0 | 135 | 38 | 36 | 46 | 6 | 9 |
| Dec 06 | | | 186 | 44 | 1 | 69 | 4 | 0 |

** This figure includes 80 urgent terrorist related requests for information.

The multiple transaction report has again been lapsed, partly due to a failure in the TES system

6.0 Commercial Security**Unpaid Cheque Losses**

| PERIOD | PERSONAL BANKING | BUREAU | POSTAL ORDERS | GIFT VOUCHERS |
|--------------|------------------|------------------|------------------|-----------------|
| 1 | 9747.50 | 30527.92 | 12827.51 | 3244.00 |
| 2 | 7817.50 | 28813.80 | 9810.53 | 2303.50 |
| 3 | 8571.61 | 22941.58 | 10519.29 | 841.50 |
| 4 | 10053.00 | 36589.64 | 13773.11 | 800.00 |
| 5 | 18680.00 | 23145.78 | 7077.02 | 1733.01 |
| 6 | 11689.00 | 25096.75 | 15141.70 | 1509.00 |
| 7 | 14855.00 | 35861.08 | 14584.53 | 2284.02 |
| 8 | 17614.00 | 27661.90 | 17684.93 | 0.00 |
| TOTAL | 99027.61 | 230638.45 | 101418.62 | 12715.03 |

Unpaid cheque losses have decreased this month by £4623.80 against period 7.

A marked reduction in cheques accepted for bureau, and a somewhat disappointing increase in the postal orders figure given the decline last month.

The true reflection however will still not be seen until the end of the next period as the figures shown are for the 2 months since withdrawal of cheque as an acceptable method of payment. All unpaid cheque figures are based on a process enjoying / enduring a 90 day cycle and therefore retarding somewhat the immediate benefits of the withdrawal.

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Counterfeit Notes As reported last month, there are still issues with counterfeit €50 notes (£6054.78 in the month). The problem seems to be escalating further despite the 'Message Broadcast' sent to all branches 27/10/06. However, following the 'Message Broadcast' two Branches on the South Coast called the Police in respect of a suspect individual and an arrest has been made.

Outmoded Notes Polish Zloty accepted this month totals £2226.98 and Bahrain Dinar £1288.61. We have been particularly hit this month again with Kuwait 20's Dinar notes - £20056.95. To date in respect of the Kuwaiti Dinar we have had 50 incidents, totaling £50,305.50. What is worrying however, is that of these, 29 (totaling £36,703.05) have occurred since the Ops Focus article in July this year. A side issue from this - as these notes were stolen by Iraq in the first Gulf War, but are circulating now, when the country is going through its transitional phase, it is possible that the influx of these could be being co-ordinated by members of the previous regime to fund terrorism. Liaison is underway with the Serious Organised Crime Agency (SOCA).

Bureau Transactions No specific concerns at present in respect of Bureau and a notable drop in cheque fraud on the product by £8199.18 compared to last month.

Travel Money Card Since 22/5/06 there have been 1098 fraudulent attempts on remote reloads amounting to £1,521,892.75. Once again this further prevention has been due to the vigilance of First Rate Travel Services (FRTS) operators and associated processes. Over the same period there are now known to be 340 cards blocked following identification of fraudulent withdrawals.

Since 8/7/06, Branches have now accepted cheques totaling £46,590.51 for reloads that have subsequently been returned unpaid. PBA have now been credited with £27,150.25 funds that had been frozen in respect of these. Remote reloads still remain high risk and the move from First Rate to BOI/Merchants call centre has now been put back to 8/1/07.

Our web offer for remote reload has also been put back until the New Year and extended verification parameters for fraud identification are now being finalised with Cyber Source.

Given the extent of the attempted fraud on this product, the Serious Organised Crime Agency are showing an interest and liaison with them is underway. An update will be provided next month.

Since the product was launched, Police have now arrested three individuals one of whom received a 3-month prison sentence and the other two are still subject of legal process.

Postal Orders New style – following the spate of £250 counterfeit orders being presented at Banks (which were rejected by the Co-OP and no charge to Post Office) Police have arrested an individual and liaison is underway to establish the extent of possible offences committed. Ebay transaction payment still seem to be featuring quite high for the fraudsters with genuine serial numbers being used, which relate to low value orders. To date the attempted fraud on counterfeit postal orders totals £62,259.56, which is up £53,446.13 on last month. Fortunately there is no loss to Post Office on this product.

Instant Saver High Level Blueprint now submitted that will amend a number of elements surrounding the offer including, from a crime risk perspective, a revised cheque acceptance process; this should see a demise in the cheque accepted as cash scenario that, erroneously, gives cheques an immediately cleared status.

DVLA Up to the end of period 5, the total number of MVL's reported as missing at Branch was 716 with 1317 being reported as stolen. Whilst an automated return project is ongoing, early results are disappointing a quick cut of automated data from branches (which would be our process under any implemented automated system) revealed in September a gain of 95632 disks and in October a gain of 109890. This is, in the main, attributable to the 3,000 branches or so, each period, that adjust stock on hand.

BOI Agreed Investigative Processes A meeting took place between with investigation team and client representatives of BOI along with Gus Maciver as POFS Head of Commercial Relations to discuss some sensible improvements to Instant Access product processes, along with general PO Ltd / BOI Investigation protocols. As a result two major enquiries have been raised on behalf of the product that appear indicative of external fraud, but had not previously enjoyed a thorough investigation due to a variable police response.

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ID Check & Send Issues Driving Licence – 'Check and send'- identification "scam" – very productive meeting took place between DVLA and members of the Security Team. Accordingly, changes are being proposed to the product and associated acceptance process. A Courier/Focus article is under development to raise awareness of the 'brand' damage caused by this type of fraud.

POFS Insurances £50 Cash Backs POFS £50 cash back issue; insurance customers (car and home & building combined) receive a £50 cash back offer as part of the deal. The cash back is facilitated by way of open, uncrossed postal order despatched in the ordinary course of posting. Customer complaints suggest that a number of orders have not been received and as such cheque refunds have been issued by Royal Mail Sales & Customer Services. Such is the scale of reported non-receipt that replacement cheques have been issued to the value of around £150K. Number of process failures identified and Commercial Security will work on improving the refund process leaving investigation colleagues to deal with any issues of criminality. For note this method of open cash back was opposed by Commercial Security but was introduced irrespective of concern or risk assessment.

7.0 Major Incidents The POFS Postal Order case noted above has been upwardly reported using then established process.

Tony Utting
National Investigation Manager

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