

Appeal against Summary Termination of Contract  
Mr Lee Castleton Marine Drive

Mr Lee Castleton

**GRO**

Date of suspension: 23<sup>rd</sup> March 2004.

Date of termination of contract: 17<sup>th</sup> May 2004.

Details of charge: The branch incurred a twelve week period of large unexplained losses, which were not made good. The Subpostmaster blames the Horizon computer system for these losses, however no evidence has ever been forthcoming to support such claims and the contract for services was terminated on the 17<sup>th</sup> May 2004 under section 1 paragraphs 5 and 10 and section 12 paragraph 12.

### **1. Brief Case History**

The Subpostmaster Mr Lee Castleton first reported that a large cash shortage of approximately £1100.00 had occurred in week 39, although this loss was made good prior to the cash account being produced. The next large shortage of £4230.97 was reported in cash account week 43 and this was reported to the Retail Line Manager.

Subsequently on each of the next three weeks the shortages in the account are rolled over with each increasing loss being added to the rolling total. At of cash account week 46 there was a total of £8243.10 in counter losses at the branch.

This figure was then transferred to the suspense account for cash account week 47. There were further losses in cash account week 48 of £3509.18 , this figure was added to the suspense account to give a total held in table 2a of £11752.78.

The counter loss of £3512.26 in cash account week 49 was rolled over into cash account week 50.

The final result in cash account week 50 produced another counter loss £7140.85, which when added to the loss rolled over from week 49 gave a total of £10,656.11.

The final rolling loss figure at the audit of the 23<sup>rd</sup> March 2003 found there to be £11,210.56 short in the accounts with £11,752.78 being held in the suspense account. The final figure posted to the late account duty totalled £25,758.75.

Despite receiving advice from the Retail Line Manager and from the National Business Support Centre Mr Castleton did not implement the advice on introducing tighter managerial controls to identify the source of the ongoing

problems, he repeated states that the problems all the fault of the Horizon computer system.

The balance results that have been recorded by the interim Subpostmasters since the date of suspension on the 23<sup>rd</sup> March 2004 have in every week replicated the results that would be expected at a branch that transacted the level of business of Marine Drive. There have been no issues identified by the Horizon System Helpdesk, Fujitsu nor have there been any corresponding transactional error notices that could explain the losses that were reported over the period in question.

## **2. Enquiries Pre Appeal**

- a) Enquires were made to Cheryl Woodward at Transaction Processing to check on the volume of error notices recorded prior to the loss period between weeks 42 and 51 as well as checking as the level of error notices that had been received since the suspension on the 23<sup>rd</sup> March. Only one error notice of note had been received and this was for the sum of £1256.88 to be charged to the late account. Two smaller error notices totally £292.00 were also to be charged to the late account.
- b) An analysis of seventeen weeks cash accounts were undertaken to establish the following: The arithmetical accuracy of those accounts, the average volume and value of the transactions at the branch over this period, the average cash usage, the cash ordering cycle as well as identifying any transactional areas that were outside the mean average value for the branch.
- c) A visit to the Marine Drive branch on the 28<sup>th</sup> June 2004 to investigate all those transactions that had been identified as being outside the mean average value. The transactions were proved against the Horizon receipts on hand in the branch. A number of further checks were conducted across the receipts on hand to prove the final totals that appear in the end of week accounts. Again these were proved to be correct.
- d) Enquires were conducted with the Retail Line Manager as to why the advice she had imparted had not been followed by the Subpostmaster and any reason as to why such losses were consistently dismissed by the Subpostmaster as being proper to the Horizon System.
- e) A daily transactional analysis could be conducted from balance snapshots in the cash accounts of weeks 46, 47 and 50. The transactional analysis and cash usage that was conducted indicated that there were anomalies between the cash declared on each Tuesday and the final cash declaration on the Wednesday at the final balance.
- f) A further visit to the branch was made on the 30<sup>th</sup> June 2004 to track the Girobank business deposits that the branch received to establish the flow of cash into the office. The branch holds the account book for a customer account GRO and this customer regularly deposits significant volumes of cash every Wednesday. Analysis of all the customers' deposits that had been made since November 2003 was conducted to confirm the deposits had been brought to account. The

cash account weeks of 46, 47 and 50 where daily transactional analysis was being conducted were doubled checked to establish the levels of cash that had been stated as being received from this customer.

- g) The analysis from the additional cash deposits confirmed as being paid in by the customer, GRO demonstrated that false cash declarations were being made as the cash usage that occurred in each week examined (46, 47 and 50) was not reflected in final cash declared upon the completion of the balance. The cash that was received from this customer was not reflected in the cash that was finally declared in each of the weeks examined.
- h) Enquires were made to NBSC and HSH to ascertain and verify checks that had previously been requested and conducted on the Horizon system to confirm the systems integrity.
- i) Analysis of all the telephone records held by NBSC and the HSH to ascertain the detail of the calls, check the instructions issued to Mr Castleton as well as check that the branch did not close due to running out of cash.

### 3. Appeal Hearing

## Notes of Appeal

**Mr Lee Castleton**  
**Thursday 1<sup>st</sup> July 2004 – Darlington Area Office**

**Present:** Mr Lee Castleton (LC)  
Mrs Julie Langham, Representative (JL)  
Mr John Jones, Appeals Manager (JJ)  
Miss Paula Carmichael (note-taker)

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JJ made the necessary introductions and outlined the appeals process. He explained that a decision would usually be made within seven days.

JJ began the interview by stating that LC's contract had been terminated and went on to ask him why he was appealing against this decision. LC replied that he felt there had been computer errors at the branch and he wanted more information.

JJ asked LC what cash declaration process he used. LC replied that he used the cash declaration sheet and counted cash from the safe and drawers. JJ asked if his cash declarations were accurate and LC replied that they were, nine times out of ten. JJ asked about his process for ordering cash. LC said that the car auction supplemented their cash requirement (garage which makes a large daily deposit of cash) and he made sure they had enough cash by placing an order before 2pm on a Tuesday. JJ asked LC how he knew how much cash to order and LC replied that he based it on amounts

previously used and Chrissie's experience (assistant). JJ asked what he would do if there was a discrepancy. LC said he would go through the usual places to look such as Girobank cheques, re-check the cash and go through all columns on the final balance.

JJ asked LC what his process was for dealing with error notices. LC replied that he would work back through the paperwork and make it good before the next balance.

JJ asked what action he took following the first discrepancy in Week 39. LC said he made a call to the helpline to say he was short and began to work through all the figures. LC stated he kept asking for help following subsequent shortages, but his Retail Line Manager said it could be in the system and would probably come back.

JJ asked if LC had taken any other action. LC said they had discussed splitting the stock unit or running a manual week. LC said he had been in favour of running a manual week to prove the system was wrong, but this had not actually been done and he was then suspended.

JJ asked LC what system problems he thought were happening. LC said that they constantly had to re-boot the system, the screen was freezing, ONCH was quadrupling and there were so many other things. LC said he thought it might be a software problem and at this point JL asked if it was not possible for the hard disk from the computer to be taken away to be checked. JL went on to say that she thought it appeared that there was no actual cash missing, more that the figures had been misinterpreted on the lines.

JJ explained that the actual cash account adds up and that there was only three things the computer could do:-

- Change balance forward figure
- Increase payments
- Increase receipts

JJ produced a report showing a 17-week cash analysis. He showed this to LC and asked him if it surprised him. LC asked how the report was generated, to which JJ replied that it was taken from the cash accounts. LC then responded 'no then', indicating that the report didn't surprise him.

JJ then produced a report showing a cash analysis for cash ordering which showed rems inbound, average cash in hand, as well as tracking cash in and cash ordered. JJ asked why extra cash had been ordered to which LC replied 'I haven't got a clue'. JJ went on to talk about a figure from the report, which showed that the branch already had £60K, but another £40K had been ordered. JJ said there was a higher trend between weeks 42 and 49 of how much cash had been ordered. The difference between payments and receipts is around £25K-£35K, but the trend in weeks 42 to 49 still was that significantly higher amounts had been ordered. LC said he only ordered what he felt was required. JJ said that for the entire period they actually needed

between £200K-£265K, but had ordered £305K, of which £20K had gone back.

JL said at this point that she felt her branch would be similar and went on to explain that because of pre-planning, she had had to ring up for extra cash in fear of running out, which had happened a couple of times. JL said it was difficult to gauge how much cash you would need.

JJ went on to ask LC what had happened to all the extra cash. LC replied that he didn't know.

John then went on to talk about two snapshots from 10/2/04 and 11/2/04. On 11/2/04 there was £39K in receipts and £23K had been paid out. The cash declaration from 11/2/04 stated £33K, when it should have stated £41K. On that particular day, the auction had paid in £16.5K in cash. JJ asked LC to explain these figures. LC said that it was a problem with Horizon not adding up.

Looking at the cash declaration, JJ asked why this was not declared on Wednesday 11/2/04. LC said that it must be within the paperwork. Declare £68,163 on Tuesday, differential £16K receipts and pay out £12K. Should lock up £72K – declare £81K in office. Declared false figure.

JJ asked why in Week 50 did he declare exactly the same figure of £3,500 each night on the snapshot. LC said it was all generated within the office. JJ said that LC had told him he had declared accurate cash figures. LC said it was generated from the system.

JJ said that £16.5K had physically come into the office in cash, but that the cash declarations did not physically reflect this. LC responded that all figures are generated from the machine that, in his view, is not working. JJ asked LC what evidence he had of this and explained that the same Horizon kit was still in the office. LC asked JJ what happened as part of the audit upon changeover. JJ explained that they would transfer the difference out and that the incoming subpostmaster does not carry any loss. A figure of £25K would be transferred to Chesterfield. JJ stated that since LC had been suspended, there had been no discrepancies over £22.00 at Marine Drive.

JJ said that Fujitsu had looked at the system on two occasions remotely and have constantly said that the cash declared does not match. LC said that checks had only been done going back to 1<sup>st</sup> March 2004, whilst the problems had started on 13<sup>th</sup> January 2004. LC asked why had they not checked back to when the errors had first started. JJ said that Fujitsu cannot find any problem with the system.

JJ went on to ask LC about his aversion to the possibility of theft when mentioned by Cath Oglesby on a visit to his branch. LC said that he was there most of the time and Chrissie was there all of the time. LC went on to say that Chrissie had worked there for 17 years and there was no chance that anyone was left unsupervised. JJ asked LC why he was averse to advice

from Cath. LC said that in his opinion it was impossible for someone to steal through that period of time. LC went on to say that he was averse to the suggestion of theft after 8 weeks of reporting misbalances. LC said that all figures are generated within the office and that they had been through all the figures. He said he had tried to find the problem all along, but didn't believe it was due to theft as no one was left unsupervised. He said he had received no support from Cath Oglesby from the start.

JJ said that checks had been done to test the integrity of the system. JJ explained that Clear Desktop is an integrity system function that checks data. LC confirmed he understood this.

LC said he could not understand why after week 1 or 2 someone couldn't have come to support him. JJ explained that the Horizon system has to have a high resolution of integrity.

JJ moved on to talk about snapshots taken on 9/3/04 (week 50) and asked why the net discrepancy is the same throughout the week and different on the final one. LC said it was because the machine is not working and that the discrepancy should have showed on the top of the snapshot. At this point LC handed JC the instructions manual.

Whilst JJ read this, LC said 'John, you are a specialist aren't you?'. 'Are you not paid separately for Horizon?' LC specifically asked for his two comments to be included within these interview notes.

JJ said he would have to take all the information away and look at it thoroughly, as well as taking advice from the Horizon team. JJ said suspense account checks had been done and this was just one issue in a whole set of issues.

JJ asked LC to show him cash declarations for weeks 45 and 46 and asked him why he was doing a cashflow before his cash declaration. LC said he was able to have a look at how it was showing up cash. Again, JJ asked LC why he was doing his cash declaration after producing a cashflow. LC replied 'I haven't got a clue. NBSC said the facility was there'. LC said he didn't know what it was for.

JJ then referred back to why larger amounts of cash had been ordered. LC replied that he must have needed it. JJ asked LC if he had taken the money. LC replied 'no, absolutely not, 100%'. LC said that two tests had been done throughout this period and found nothing wrong, but obviously there was.

JJ asked LC if he wanted to add anything further. At this point LC handed JJ a log of phone calls to the helpline etc. JL said she thought it had took a long time for Cath Oglesby to get involved, especially as they were new to the office. JJ explained that the role of a Retail Line Manager has changed and they are now not the first point of contact for subpostmasters, the helpline is. JL asked JJ if he personally felt that LC had had enough support and JJ

confirmed he felt the support he had been given mirrored the support given to every subpostmaster in Post Office Ltd.

JJ closed the interview.

#### **4. Post Appeal Enquiries**

- a) A further check was made to Transaction Processing late account duty to confirm that there were no other outstanding errors notices in the system.
- b) The Horizon final account declarations were handed to Network Development Manager, Anita Turner who has no knowledge of the case to conduct an analysis of the losses and the movements into the suspense account between cash accounts weeks 45 and 50. The results of this analysis were communicated in a letter to Mr Castleton on the 8<sup>th</sup> July 2004.

#### **5. Factors affecting the decision**

- a) The branch incurred unprecedented declared losses over a twelve week period , for which Mr Castleton could only offer the explanation that it was the Horizon System that was causing the errors.
- b) The Subpostmaster has not during any period both prior to his suspension on the 23<sup>rd</sup> March 2004 and the appeal hearing on the 1<sup>st</sup> July 2004 provided evidence that could be used to further investigate or corroborate the allegations that he continually makes.
- c) The checks that have been conducted by Fujitsu indicate that the branch makes false cash declarations, this analysis was further corroborated with the daily account analysis that was conducted as part of the pre appeal enquiries. Mr Castleton was unable to offer explanations for this, other than it was a fault on the system.
- d) The weekly analysis that was conducted identified that the branch required approximately £265k to meet its transactional requirements between weeks 42 and 49, however the cash remittances were increased outside the normal previously ordered remittances. This resulted £305k being ordered over the same period, with only £20k being returned. In each case the additional cash is ordered prior to a subsequent cash discrepancy being declared. Mr Castleton could offer no explanations as to why such sums of cash had been ordered that were in excess of what was actually required.
- e) That no error notices are evident through Transaction Processing to provide an explanation to the counter losses that have been declared.
- f) The daily cash transactional analysis that was conducted identified in cash accounts week 46,47 and 50 that there was clear evidence of false cash declarations being made as the cash received from a giro customer was not reflected in the final cash declaration at the branch. Mr Castleton was unable to offer any explanation for such discrepancies, other than it 'was the system'.

- g) That the branch has never incurred such large losses since the suspension of Mr Castleton, despite a number of interim Subpostmaster operating the branch. Mr Castleton could offer no explanation as to why accurate balances are being recorded on the system that he repeatedly alleges is corrupt.
- h) That Mr Castleton when questioned denied ever taking the cash himself.
- i) The account declarations and movements into the suspense account have been extensively examined by both the Retail Line Manager and colleagues as well as an experienced manager in London to confirm that the accounts declared by the Horizon system and the suspense account are functioning correctly.
- j) That the branch never ran out of cash and subsequently closed, if the system was declaring spurious entries in the account there would always be sufficient cash in the branch to meet its requirements. The excess ordering of cash ensured that the branch always remained trading, however Mr Castleton was unable to explain as to why the additional cash was required in the branch if it was a system error as any such system error would not affect the cash on hand as this was a physical entity.
- k) The accounting practices of Mr Castleton indicates that he chooses to declare losses, make good error notices and declare the true position of his accounts as he pleases. The evidence suggests that the continuing practice of rolling losses together without seeking authority to carry them even after the first amalgamated losses are introduced into the suspense account in week 47, this practice continues from week 49 until 51.

## **6. Conclusion**

The case has a number of facets interrelated to the branches accounts apart from the immediate headline issue of the large and unprecedented counter losses declared at the branch.

The extensive analysis that has been conducted through the accounting documentation made available for the appeal case as well as the cross examination of transactional records at the branch indicate that the transactions performed on the whole are done so accurately and in accordance with operational guidelines.

This fact is corroborated by Transaction Processing who do not have outstanding or waiting system adjustment error notices that could otherwise explain such discrepancies. There are only three error notices, and all of these are to charge that have been added to the late account of the branch and in each case they relate to a period immediately prior to the suspension of Mr Lee Castleton.

The cash usage analysis and tracking of transactions that fall outside the mean average value for the branch however indicate another factor to the case. The cash that is ordered for the branch requirements is systematically

increased on four occasions, following the increases in the branch remittance, their occurs a large cash discrepancy. Such trends are not in keeping with a computer system error as Mr Castleton maintains, although he is unable to provide any form of satisfactory answer as to why there is a need to keep ordering extra cash for the branch.

The normal process for ordering cash at the Marine Drive branch is that the branch contacts the Cash Centre prior to 14.00pm on a Wednesday to place an order that will be delivered a day later on a Thursday. At this point of the week the branch should be able to accurately estimate the actual cash the branch requires. However in the weeks 42 through to 50 this appears not to be the case.

The daily cash usage from cash accounts weeks 46, 47 and 50 present another anomaly when the actual cash usage is compared with the actual cash received from a Giro business customer, then the cash declarations made on the Tuesday and Wednesday of each of these weeks has been demonstrated to be false. Mr Castleton was asked on several occasions to explain why such entries have been made and he was unable to offer any reason other the same 'it's the system' fault.

The printouts from the snapshots and final balances have been examined by numerous managers all who have extensive experience in the use of the Horizon accounting system as well as the functionality of the suspense account, all have arrived at the same conclusion independently that the system is functioning and not creating spurious entries.

Mr Castleton was given advice as to effective management of his accounts as well as applying a proven methodology to identify either the losses or in the event of misappropriation the person perpetrating such activity, it is concerning that he chose to ignore such advice and blindly blame everything on the computer system. Such an approach by Mr Castleton gives me cause for concern as he is a relatively new Subpostmaster and is making definitive statements about a computer system with out even considering any other case for the account discrepancies.

To summarise, when Mr Castleton was presented with the factual occurrences from the accounts he has produced that indicate that false declarations and practices that do not equate to the normal running of his branch he is unable to offer any explanation other than blaming the Horizon system.

Mr Castleton has however failed to provide any evidence nor show any from of trend within the branches accounts that would indicate that there was a problem with the computer system.

He has spent much time and effort in asking irrelevant and unrelated questions to the case and these I can only conclude are borne out of a wish to distract away from the actual facts of the case and the unexplained counter losses.

It is my opinion that the losses incurred at the branch are genuine and that the decision to initially suspend Mr Castleton as a precautionary measure and ultimately terminate his contract for services were soundly based and warranted in the circumstances.

## **7. Decision**

Appeal Dismissed.

## **8. Recommendation**

The case in respect of the losses was not investigated by Security and Investigation, however I have considerable concerns over the in payment practice operated by the Girobank customer (account [REDACTED]).

The customer leaves the in payment book in the branch at all times and apparently entrusts the Subpostmaster to complete the deposit entry and process the transaction following their cash deposit.

No customer receipts are ever handed back to the customer as these are left with the in payment book.

I was able to establish that all the deposits entered into the customers in payment book from November 2003 until June 2004 were processed through the Horizon system.

What I was unable to establish was whether the amounts the customer deposited at the branch were the same amounts that were entered into the customers deposit and processed in the same time window.

I would request Security and Investigation to check this customers actual deposits for the period 42 to 51 as I have already established that the cash declarations made where the daily analysis in week 46, 47 and 50 does not match the cash that should have been declared.

I believe that there may be a case to answer in respect of Giro account suppression.

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