



OFFICE OF THE
City Auditor

Cash Theft Investigation - Facility X

May 5, 2009

The Office of the City Auditor conducted
this project in accordance with the
*International Standards for the
Professional Practice of Internal Auditing*

Cash Theft Investigation - Facility X

1. Introduction

On February 17, 2009, a Security Advisor in Corporate Security contacted the City Auditor to inform us of a series of thefts by a cashier (Cashier A) at Community Services Facility X¹ in accordance with the provisions of City Policy C522, *Fraud and Misconduct – Reporting, Investigation and Whistleblower Protection*. As defined in the policy, the City Auditor is responsible for coordinating fraud investigations, including providing reports on why control failures occurred and recommendations to prevent reoccurrence.

2. Background

A supervisor in the Community Services Department reviewed Cashier A's recent cash register transaction records. The Supervisor noted several instances of what appeared to be relatively low cash transactions and cash sales prior to contacting Corporate Security.

The Community Services Department advised Corporate Security that they suspected that Cashier A was stealing money. Corporate Security then installed a hidden surveillance camera in the cash counting room and observed three incidents in which Cashier A placed cash in his pockets after completing cash-out deposit procedures and prior to leaving the room.

Corporate Security also reviewed surveillance video from the cashier's area and observed that Cashier A left the cash drawer open at times during his shift in violation of the City's *Handbook for the Handling of City Money* (a supplement to Administrative Directive A1200B, *Handling of City Money*). Further, they observed Cashier A completing multiple cash transactions without entering the transactions into the cash register or giving customers receipts.

The City terminated Cashier A's employment on February 19, 2009. During the termination interview, Cashier A admitted to stealing money from the City.

3. Scope and Methodology

We began our phase of the investigation by viewing the hidden surveillance video that Corporate Security obtained and discussing the case with them. We then reviewed

¹ We have identified the facility in which the theft occurred as Facility X because the investigation is not yet complete and naming the facility may impair the results of the investigation.

Administrative Directive A1200B, *Handling of City Money* to determine the proper procedures for operating a cash register and handling customer payments.

Since Cashier A started with the City in the beginning of July 2008, we extracted cash register transaction records from the CLASS system database² from July 1, 2008 through February 19, 2009 to include Cashier A's full period of employment. Using specialized audit software, we compared Cashier A's transaction data against that of other cashiers at Facility X.

We discussed the patterns we observed with a Community Services Department supervisor to determine whether they were expected or abnormal and to better understand the context in which the theft occurred. We reviewed Corporate Security's investigation and termination interview report, which provided the timeline of events leading up to Cashier A's termination and recommendations to decrease the City's risk of similar thefts.

From the information we compiled, we researched and evaluated a variety of analytical techniques to quantify the City's loss.

4. Objectives

Our objectives were to analyze the Facility X sales records for Cashier A's term of employment to estimate the amount of revenue loss and to identify any control weaknesses that would expose City assets to fraud and misconduct.

5. Observations and Analysis

Corporate Security made five recommendations to strengthen the Department's cash controls. We believe that Corporate Security's five recommendations are reasonable, subject to further cost/benefit analysis. If Community Services Department implements those recommendations, we believe that it will mitigate the likelihood of future losses of this type.

Cashier A was leaving his cash drawer open in violation of Administrative Directive A1200B, *Handling of City Money*. In addition, the Facility X cashier supervisor sent an email to all the cashiers at the facility on September 16, 2008 insisting that all cash drawers be closed and warning that cashiers could lose their job if they were caught with open cash drawers. Cashier A was also reprimanded prior to November 30, 2008 for not entering transactions into CLASS and for leaving his cash drawer open.

² CLASS is the corporate system used largely by Community Services Department for facility bookings, course registrations, membership pass sales and pass validation, and cash register sales of admissions and merchandise at facilities.

In addition to increasing the risk of cash misappropriation by leaving cash drawers open, Cashier A's practice challenged our traditional data analysis techniques because much of the expected transaction data was not available. We therefore conducted a much broader cash register data analysis to identify other patterns that could be used to estimate the City's loss in these circumstances.

In order to estimate the loss, we contacted Community Services Department to identify other cashiers at Facility X who worked similar shifts. The Department indicated that Cashier B worked "...for the most part the same shifts" as Cashier A, so we concentrated our analysis on these two cashiers as well as the averages of the data for other cashiers who work at Facility X. Our high-level analyses, including calculations based on information provided during Cashier A's termination interview, indicated that the range of loss was between \$8,200 and \$18,000. Our detailed analysis produced an estimated loss of \$13,700, which is near the midpoint of the probable range.

During our data analysis to quantify the magnitude of the theft at Facility X, we observed that the average frequency of 'no sale' transactions at Facility X ranged between 5 and 15 percent of all transaction items. Reportedly, the 'no sale' transactions are required to make change for patrons to rent locker space, obtain products from vending machines, use the telephone, etc.

Cashiers' frequently using the 'no sale' transaction to open the cash drawer increases the risk that cash may be misappropriated. We believe that some measure to reduce the 'no sale' transaction frequency would significantly reduce the risk of misappropriation by ensuring that cash drawers are only opened to complete sales transactions.

6. Conclusions and Recommendations

The Community Services Department needs to ensure that Administrative Directive A1200B is strictly enforced at its facilities with appropriate penalties for non-compliance in order to reduce the risk of additional frauds.

We also believe that Community Services Department needs to evaluate installation of devices or adopting processes that would reduce the frequency of 'no sale' transactions without compromising any corporate cash handling procedures. In our opinion, the Department needs to take all reasonable actions to mitigate the risks associated with having cash drawers opened unnecessarily.

The Director of Risk Management advised us that the City's insurance deductible for this type of loss is \$25,000, so the City will not be able to file an insurance claim to recover any of the stolen money. We have recommended that the Department work with Law Branch to evaluate whether to pursue restitution through alternate means.

At the time we prepared this report, the Edmonton Police Service investigation was in progress. Corporate Security will convey this report and supporting evidence to the investigating officer.

Recommendation 1	Management Response and Action Plan
<p>The OCA recommends that Community Services Department take steps to ensure that Administrative Directive A1200B, <i>Handling of City Money</i>, is consistently enforced with appropriate discipline levied for non-compliance.</p>	<p>Accepted Comments: The Community Services Department supports the OCA's recommendation and will continue to insure Administrative Directive A1200B is consistently enforced and appropriate discipline will be levied for non-compliance.</p> <p>The Community Services Department is currently investigating the costs of installing change machines in high volume facilities to reduce the frequency of 'no sale' transactions without compromising any corporate cash handling procedures. If installation and operation of these machines does not exceed current budget the Community Services Department will go ahead with this recommendation.</p> <p>Planned Implementation: In Progress Responsible Party: Director, Business Development</p>

Recommendation 2	Management Response and Action Plan
<p>The OCA recommends that Community Services Department, in collaboration with Law Branch, evaluate whether to pursue restitution for the loss incurred.</p>	<p>Accepted Comments: Risk Management has reviewed cash handling practices with Recreation Facilities Branch staff to satisfy any potential concerns expressed by our crime insurer. Even though the loss is below our crime policy deductible, we still report incidents as part of the fiduciary relationship which exists between the City and its insurer(s). From an insurance "risk" perspective our cash handling procedure policy did alert City staff that a cash shortage was a possibility, which is important from an insurance underwriting perspective.</p> <p>Even though the potential claim is not recoverable by insurance it is still a loss incurred by the City. In this regard we have opened a recovery file in the Law Branch and will initiate recovery efforts in concert with the EPS investigation. If the person is charged criminally we will apply for restitution through the crown attorney attached to the case. If this avenue does not work, we can then get a judgement in Provincial Court and garnishee Cashier A's wages, seize his property, etc. Community Services Department agrees with this course of action.</p> <p>Planned Implementation: In progress Responsible Party: Director, Risk Management</p>