

2001/2002 Student Bus Pass Theft

Report Date: September 18, 2002

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Introduction

The purpose of this report is to inform City Council and the City Manager of the results of an investigation into a theft. The joint investigation by ETS Security & Risk Management (lead investigator), Corporate Security and the Office of the City Auditor (OCA) was into the theft of an unknown number of student bus passes while under contract by the City to a vendor for production.

On May 28, 2002 the Manager of Edmonton Transit System, ETS Security & Risk Management, and Corporate Security met with the OCA to discuss this theft. Prior to the meeting, Edmonton Police Services (EPS) Economic Crimes Unit had been informed of the theft. The OCA worked with ETS Security & Risk Management and Corporate Security to develop the investigation file for EPS. This investigation required extensive consultation and coordination among other groups including Corporate Risk Management, Corporate Communication Services, Materials Management, Accounts Payable, ETS Business Development, Transportation/Transit Finance, and Law Branch.

A criminal charge of theft under \$5,000 has been laid by EPS against an employee of one of the vendor's subcontractors. A court date has been scheduled for January 21, 2003. The Law Branch is reviewing the matter to determine what rights the city has to bring an action for a potential recovery from the vendor or other parties for the \$15,723.38 spent to reprint a portion of the student passes. Edmonton Transit System and Corporate Services are undertaking a "Fare Media Process Review" to strengthen internal process controls surrounding tendering, production, distribution and accountability.

Background

In the summer of 2001, the City issued an order with Vendor A for the production of 600,000 ETS Student Bus Passes at a contract price of \$29,114.70. Records indicate that the goods were received on October 4, 2001 and payment was made on October 24, 2001.

In October 2001, an ETS Operator confiscated a May 2002 student bus pass from an unidentified student. The pass was authentic in all regards with the exception of the missing serial number. On May 9, 2002 ETS Security & Risk Management initiated an investigation following a second report of 5 fraudulent passes being confiscated by an outside agency. On May 16, 2002, a third incident occurred with another ETS Operator confiscation. Following the investigation, a verbal admission was obtained by EPS from the accused and

charges were laid on June 25, 2002. The individual charged with theft was an employee of a subcontractor that was scheduled by Vendor A for a component of the printing job.¹

From the chronology of events reconstructed by ETS Transit Security & Risk Management, ETS Business Development Section authorized a reprint of a portion of the passes in December 4, 2001 in the amount not to exceed \$20,000 based on a concern with the potential circulation of stolen passes. A reprint was required with a new design template to distinguish the new passes from the stolen ones. It should be noted that the reprint order was placed before an assessment for additional costs associated with the reprint was completed (i.e., the City or Vendor A) to take action to limit the potential revenue loss from stolen passes. Vendor A's invoice for the reprint of 400,000 passes indicates that a 25% discount was provided to the City. It is unclear as to why a 25% discount was given. The final invoice for the reprint was for \$15,723.38.

Although the contract for the reprint was with Vendor A, two other vendors were subcontracted by Vendor A for portions of the total job. The City was not advised in writing that portions of the work were being subcontracted. Neither was the City provided any indication of the security measures in place to protect the integrity of the entire print job at the subcontracted facilities. At the time the reprint was authorized, it was not known how many sheets or passes were missing. The results of the investigation concluded that at least 2 sheets of bus passes were stolen while in the possession of one of the scheduled subcontractors. The estimated value of the property stolen was \$750.

Investigation Objectives

The OCA's objectives in conducting this joint investigation were guided by Policy A1431 – Conduct of Examinations of Allegations or Suspicion of Fraudulent Acts. They were as follows:

- To assist Edmonton Transit System as they worked co-operatively with Edmonton Police Services to ensure that evidence was documented at a level sufficient to substantiate any charges laid.
- To explore opportunities for recovering additional costs the City incurred because of the reprint.
- To review and assess the adequacy of controls in place to safeguard the assets of the City against loss, misuse, unauthorized use and fraud related to the production of ETS fare media at external vendors. The purpose of this

¹ On July 25, 2002, an ETS Operator confiscated another July 2002 Student Pass from the batch originally printed. However, unlike the previous theft that did not have a serial number, this current pass had a serial number on the back. EPS has followed up on this latest incident and concluded that further action is not warranted given the explanation provided by the individual(s) involved.

review was to identify the cause(s) of the failure and provide recommendations to help avoid similar losses.

Findings / Investigation Results

Criminal and Civil Proceedings

The evolving joint investigation resulted in EPS conducting an interview with a suspect that resulted in a verbal admission to the theft of 2 sheets of passes. On June 25, 2002, the individual was charged with theft under \$5,000. The individual appeared in court August 30, 2002 and entered a plea of not guilty. A court date has been scheduled for January 21, 2003. The investigation file has also been passed to the Law Branch to facilitate a review of what legal rights the City has to bring a claim against Vendor A or some other related third party that may be responsible for the loss of the \$15,723.38 (the costs of the reprint).

Process Improvement

Edmonton Transit System and Corporate Services are undertaking a "Fare Media Process Review" to enhance the security of Edmonton Transit's fare media during tendering, printing, and distribution. The process review will include (but not be limited to):

- A review of tender documents and awarding of tenders.
- A review of the receiving and payment processes for fare media.
- An inclusion of provisions in future contracts to ensure that: (a) the City's ability to recover costs is maximized, and (b) security measures are written and in place to minimize risks.
- A verification of roles and accountabilities within the City of Edmonton to ensure that all business units are aware of their functional responsibilities and limits of authority.

This process improvement review is scheduled for completion by April of 2003.

Conclusion

This joint investigation identified the need to enhance the City's operational procedures and practices pertaining to tendering, printing, distribution and accountabilities. The primary responsibility for maintaining appropriate internal controls to prevent, detect, and deter theft rests with management. Monitoring of internal controls must be done through regular management and supervisory reviews of contract activities and actions routinely conducted by employees performing their regular duties.

The OCA's goal in all investigations is to assist the Administration in strengthening internal controls and improving methods of prevention and detection of theft or fraudulent acts. The OCA will participate as a team member in the "Fare Media Review Project", providing expertise to help evaluate alternate control systems.