

## Payroll Cash Advances Fraud

### RECOMMENDATION

1. Note the report and agree to receive an update report on the progress against the action plan in six months.

### SUPPORTING INFORMATION

- 2.1 The Council's Head of Employee Payments and Taxation was checking the supporting documentation to a cheque she had been asked to sign when she noticed that her signature on a payment request form to authorise a gratuity payment for £534.31 had been forged. A subsequent check on the signatures on the form showed that all 3 had been forged. The officer who had signed for collecting the cash was interviewed and he admitted taking the cash. The Head of Employee Payments and Taxation referred the theft to the Head of Audit and Risk Management for investigation.
- 2.2 An investigation by Internal Audit identified two junior members of staff within the central Payroll Team who had fraudulently obtained cash using the Payroll cash advance process and subsequently stole the cash advances.
- 2.3 The amounts stolen were:

Case 1	a total of £1,696 on 5 separate occasions
Case 2	a total of £5,656 on 13 separate occasions.
- 2.4 Both employees have been investigated and dismissed in line with the Council's disciplinary procedures and the cases are now in the hands of the Police. The employee referred to as Case 2 has indicated on numerous occasions that he has the money and intends to repay this to the Council. However, on four separate occasions he has failed to meet with us on a pre-agreed time, date and location.
- 2.5 All attempts have been made to secure partial repayment of the stolen money from outstanding salary payments. Neither of the ex employees were members of the Local Government Pension Fund so no recovery from their accrued pension contributions was possible.

- 2.6 The Payroll cash advance system was used to make immediate payments to employees where their pay was below their contracted entitlement. A typical example for a cash advance is where changes of circumstances or overtime claims were not processed into their wage/salary. These underpayments, which in effect are a breach of the employees contract of employment would be made using the cash advance system and then recovered automatically from the next Payroll system payment run.
- 2.7 The Audit investigation identified three separate fraudulent methods of obtaining cash from the payroll system ...
1. A number was added or amended on a legitimate payment request, for example 42 became 342 and 161 became 761. Authorising signatures were obtained prior to amending the figures. In these instances the employee received the correct amount of cash requested and the fraudster kept the difference.
  2. The fraudster created fictitious payment request forms. The authorising signatures were all forged and the whole amount of cash was stolen. These items never appear in the payroll records.
  3. The fraudster raised a payment request, obtained the cash then reversed the associated records.

All these items did appear on the controls reconciliations in the Accountancy Service which match the balances within the financial ledger to the physical balances within Payroll. These balances were identified as 'unresolved items' carried forward and this is where the control framework broke down.

- 2.8 The key action that has been taken to make sure that no opportunities exist for any further frauds to be committed is ...
1. Payroll cash advances have been stopped completely.
    - Where there is a demonstrable need to make a payroll advance this is now being done electronically via BACS transfer, utilising the controls already in place with our Financial Director system.
    - Where there is a demonstrable need to make a same day payment, and these will be exceptional items, the CHAPS system will be used so that the funds are cleared in the employee' account on the day of payment.
- 2.9 The Action Plan to address some of the control/systems weaknesses is attached at Appendix 2.

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<b>Background papers:</b>	None
<b>List of appendices:</b>	Appendix 1 – Implications Appendix 2 – Payroll Cash Advances – Control/System Weaknesses Action Plan

<b>IMPLICATIONS</b>
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**Financial**

1. The total value of those frauds is £7352 and attempts are ongoing to seek full recovery of this amount.

**Legal**

2. The two cases of fraud have been referred to the Police.

**Personnel**

3. Both employees committing these frauds have been dismissed in line with the Council's disciplinary procedures.

**Equalities impact**

4. None directly arising.

**Corporate objectives and priorities for change**

5. None directly arising.

## Appendix 2

### PAYROLL CASH ADVANCES – CONTROL/SYSTEM WEAKNESSES ACTION PLAN

		Resp Officer	Action taken	Action planned	Date
<b>1.</b>	<b>Accountancy</b>				
1.1	Ensure the monthly reconciliation of the cash advances made and cash advances received are completed with all anomalies fully investigated, actioned and recorded	ZD/CW	A monthly reconciliation has been completed.	To renew the effectiveness of the reconciliation and make sure that all reconciliation differences are promptly achieved.	31/5/09
1.2	Improve control of the multiple forms used to record, manage and reconcile the control/clearing accounts.	ZD/CW		Multiple forms used to manage the control/clearing accounts to be rationalised.	31/5/09
1.3	Roles and responsibilities for the controls framework, within Accountancy and across other services, to be reviewed with a view to reinforcing the control framework.	ZD/CW		A wide review of the controls framework, including but not limited to Payroll, to be undertaken. Roles and responsibilities across the department to be confirmed.	31/5/09

## Appendix 2

		Resp Officer	Action taken	Action planned	Date
<b>1.</b>	<b>Accountancy cont'd</b>				
1.4	To improve the effectiveness of the reconciliation control framework monitoring schedule.	ZD/CW	This is currently in place to control completion of reconciliations, but not being used to check that reconciliation differences are consistently actioned with respect to supporting records for all balances.	The Accountants Process Improvement Group - APIG - has agreed improvement to increase controls and monitoring of action taken. The financial year end is the initial focus ensuring that actions are verified for all reconciliation differences. An exception report will be provided to the Head of Accountancy each month to monitor performance and control.	30/4/09
1.5	Include in the APIG training programme training/mentoring to support the control framework.	ZD/CW	This has already been raised with the Accountants Process Improvement Group	A small group to be convened to document best practice accounting controls and procedure notes to include a focus on fraud awareness. To be supplemented by training.	30/9/09

## Appendix 2

	Resp Officer	Action taken	Action planned	Date
<b>2. ESC</b>				
2.1 All requests for salary payroll advances to be verified against a formal request by the relevant employee	SOR	Agreed and actioned. All requests for payments have supporting evidence to justify payment attached. In addition to the payment request form itself.		
2.2 The payroll advance book to be a key controlled document and any amendments made to be reviewed and signed off by the payroll manager or his/her deputy	SOR	Report showing all advances is produced from Vision. This report is checked against entries in the advance book signed and dated by the Payroll supervisor. This check is carried out twice monthly on the first gross to net pay run and then on the final gross to net pay run.		
2.3 In conjunction with accountancy and cashiers review and rationalise the number of payment request forms used and ensure all forms obtained are managed as controlled stationery.	SOR		The Payroll forms will be rationalised and made into controlled stationery following action 1.2.	31/5/09

## Appendix 2

		Resp Officer	Action taken	Action planned	Date
<b>2.</b>	<b>ESC cont'd</b>				
2.4	All payment advances to be made in the name of the requesting employee and all those advances to be reconciled back to the employee record held in the vision system	SOR	Report showing all advances is produced from Vision. This report is checked against entries on Dynamic connect and signed and dated by the Payroll supervisor to ensure that all advances are being recovered.		
2.5	The payment request form to record the amount both in figures and words	SOR	Form amended to include amount in words and issued to all Payroll units. All employees receiving payment advances are required to sign the advances book.		
2.6	Cash advance payments to be ceased.	SOR	Paper being prepared for Conditions of Service Working Party.	Cash advance payments to be stopped	23/3/09
2.7	Revised procedures for making 'Payroll Advances' to be implemented.	SOR		Any advance payments to be made via BACS payment using Financial Director. On completion of the Payroll system upgrade the ESC will be able to make daily BACS payment runs for any urgent payments required.	31/3/09

## Appendix 2

		Resp Officer	Action taken	Action planned	Date
<b>2.</b>	<b>ESC cont'd</b>				
2.8	Monthly report on missed deadlines, incomplete and inaccurate returns requiring payroll advance to be prepared and reported to COG on a quarterly basis.	SOR		First report for 4 <sup>th</sup> quarter/year end.	31/3/09