Office of the Auditor General: Investigation into Three Reported Client Service Centres Deposit Shortages, Tabled at Audit Committee – June 22, 2017
Overview

This report documents the results of the Office of the Auditor General's (OAG’s) investigation into the three shortages in Client Service Centres (CSCs) deposits reported by the City’s bank in March and May 2016. These were:

1. $2,700 shortage in the March 9, 2016 Ben Franklin CSC deposit;
2. $600 shortage in the March 17, 2016 Ben Franklin CSC deposit; and
3. $100 shortage in the May 27, 2016 Orleans CSC deposit.

On March 23, 2016, CSC management notified the Ottawa Police Service (OPS) of the March 9 ($2,700) shortage after becoming aware of the March 17 ($600) reported shortage, based on advice received from Legal Services. CSC management also notified OPS of the second shortage on March 29, 2016 and the May 27, 2016 ($100) shortage on June 2, 2016. The advice provided by Legal Services was not in accordance with the City’s Fraud and Waste Policy which states that “Decisions to refer an investigation or the investigation results to the Ottawa Police Service or other enforcement agencies for independent investigation will be made by the Auditor General, in consultation with the City Clerk and Solicitor.”

Limitations on the OAG investigation

As a result of OPS involvement, the OAG’s investigation was limited. None of the City employees directly involved with these deposits have been interviewed by the OAG. Therefore, this investigation conducted between April and September 2016 focused on analysis of documents, discussions with management and review of security video.

The quality of the security video was another limitation. The video from the Ben Franklin CSC cash counting room is generally grainy and of poor quality. One can make out what looks to be paper on the counting desk; however, one cannot distinguish if the paper is a bank note or the denomination of the notes (e.g. a $10 note or a $20 note). The security video for the Orleans CSC counting room could not be obtained for the dates in question because the hard drive of the video recorder was defective. Corporate Security subsequently replaced the hard drive. The OAG then reviewed the footage for a sample day to ensure it was working properly. The footage revealed that the camera’s angle is such that the surface of the counting desk is totally blocked so it was not possible to observe the preparation of the deposit.
Observations

Below is a summary of events related to the three cases.

1. The $2,700 shortage in the March 9, 2016 Ben Franklin CSC deposit

   The shortage was related to a difference of 27 x $100 notes between what was expected on the deposit and what the bank reported receiving. In addition, the deposit included a $245 cheque where the text describing the amount appeared to have been altered by a City employee to match the numeric amount on the cheque. After a second (verifying) employee had left the counting room, a City employee re-opened the original sealed deposit bag, removed the contents and placed what appeared to be the original contents together with another small envelope that may have contained loose change forgotten from the original bag into a new deposit bag. The deposit slip was not updated with the new deposit bag number.

   Subsequently, in early June, the bank sent the City a letter indicating that it understood that the City’s internal review had concluded that the deposit did in fact contain the $2,700. The bank indicated that the branch was holding a cash overage for a similar amount which could be attributed to the same time frame. The bank therefore credited the City’s account for the difference. In a conference call with City finance employees, bank staff would not be more specific about the cash overage that it reported, and they made City staff believe that the credit was a good faith payment.

2. The $600 shortage in the March 17, 2016 Ben Franklin CSC deposit

   The shortage was related to a difference of 6 x $100 notes. On the deposit slip, the itemized number of $100 bills was recorded as 101, which differed from the total amount for the $100 bills, which was recorded as $10,700. The “coin cash total” was noted as $23,969.70 which is the total cash amount based on $10,700. However, the net deposit amount was recorded as $1,226,549.99 which is the total deposit based on $10,100 and is the amount that the bank indicated it received.

   Before the deposit was sent to the bank, the City staff verifying the deposit had corrected the net deposit amount to $1,227,149.99 to reflect the $10,700 included in the coin cash total. However, the verifier did not count any of the bundles to confirm that they had the correct number of bills.

   As at July 2016, bank staff reported that the missing funds had not been found. As there appeared to be an addition error made by the City on the deposit slip and
proper bank protocol was followed for processing a short deposit, the bank did not reimburse the City.

3. The $100 shortage in the May 27, 2016 Orleans CSC deposit

The shortage was related to a $100 difference in what the City staff noted was included in the deposit and what the bank indicated it received. When the deposit was processed at the bank, a bank employee altered the number of $100 notes on the deposit slip by slashing the 6 and writing 5 beside it. The net deposit on the slip was also changed from $18,692.32 to $18,592.32 by writing 5 over the 6. The bank credited the City’s account with $18,592.32.

On June 1, 2016, City finance staff noticed that the bank had credited the City’s account with $100 less than expected and followed up with the bank. Later in June, the bank credited the $100 back into the City’s account because the correction was made incorrectly. Per bank procedure, the bank staff should not have altered the deposit slip.

OAG conclusions

The OAG found that for the two cases at the Ben Franklin CSC, City staff did not follow proper cash handling procedures. Some of the actions that were contrary to prudent practices include:

- Use of funds from the deposit to make change;
- Inadequate verification of banking deposit amounts by the person responsible for checking the deposit. For instance, the verifier did not spot check any of the bundles of large bills to confirm they had the number of bills expected per bundle;
- A verifier not being present to witness the sealing of the deposit bag or reopening of a deposit bag to add an envelope that had not been included; and
- Staff altering a cheque to match the text with the cheque amount.

Based on evidence gathered for the three cases, a number of mutually exclusive alternatives which explain the reported shortages are all possible. These range from misplacement or theft of funds or recording errors by employees involved in the preparation or verification of the deposit; theft by a secure courier service employee or

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1 Subsequent to the OAG closing its investigation, on December 21, 2016 after a discussion between a City finance employee and the management team at the bank, the bank reimbursed to the City the $600 from the March 17, 2016 deposit.
misplacement or theft of funds or recording errors by bank staff. For all three cases, the OAG is unable to conclude with certainty that the City’s deposits were short; and if any of them were short, the cause of the shortage(s). This is primarily due to limitations of the video evidence which result in the City being unable to conclusively support what was put in the deposit bags, lapses in cash handling practices and nature of information available.

At the conclusion of OPS’s investigation in September 2016, they indicated to management that they had found no reasonable probable grounds to suspect any employee was responsible for the deposit discrepancy. As such, no City employees would be charged as a result of the reported shortages. The OAG’s opinion was that too much time had passed since the incidents occurred to successfully conduct detailed interviews with the employees involved. Therefore, the OAG’s investigation was closed.

Recommendations

Recommendation #1

That the City update its operating procedures and related documentation for staff involved in preparing and verifying deposits at the CSCs. Procedures should explicitly state that:

- Deposit bankers should:
  - Not alter cheques;
  - Not use deposit funds to make change;
  - Notify their supervisor immediately of discrepancies and breaches of procedures; and
  - Not open a sealed deposit bag unless witnessed by a verifier. If a new bag is used, the new bag number should be written on the deposit slip.

- Deposit verifiers should:
  - Verify the math on deposit slips;
  - Open and recount a sample of the banded notes (i.e. stacks of $50 or $100 notes) using the counting machine;
  - Watch all items go into the deposit bag;
  - Watch the bag sealing; and
  - Notify the manager immediately of discrepancies and breaches of procedures.
Management response:

Management agrees with this recommendation.

In response to the 2015 Audit – Review of CSC Laurier Cash Handling Process and Cash Discrepancies – Counter Services developed procedures to address all aspects of cash handling. The branch-specific Cash Handling procedure was reviewed by Revenue Services, and changes were incorporated in September 2016. The procedure specifically addressed the proper handling of cheques, making change, discrepancy and breach of procedure reporting and the requirements of a deposit verifier. ServiceOttawa has completed training all Counter Services staff, and full implementation was achieved in October 2016.

In addition, Revenue Services staff met with the banking institution regarding these discrepancies. As a result, the banking institution has implemented a more robust review when receiving deposits from the City. Any anomalies will be addressed through an enhanced escalation process should they arise. Management considers this recommendation complete.

Recommendation #2

That the City conduct training on its updated operating procedures for all staff involved in preparing and verifying deposits at the CSCs.

Management response:

Management agrees with this recommendation.

In response to the 2015 Audit – Review of CSC Laurier Cash Handling Process and Cash Discrepancies - Counter Services implemented the branch-specific Cash Handling procedure in October 2016. A robust training program was completed, which included a group session, individual one-on-one training and an eTraining module with a testing component. The new procedure and subsequent training specifically detailed the preparation and verification of deposits best practices to be followed.

Additionally, the eTraining module and testing component is now an annual refresher for Counter Services staff. This module, combined with continuing Quality Assurance Control measures such as spot checks by Team Leads, will ensure continued compliance to Cash Handling Procedures. Management considers this recommendation complete.
Recommendation #3

That the City, as part of regular ongoing compliance monitoring/quality assurance, ensure that staff at the CSCs adhere to procedures while preparing deposits.

Management response:

Management agrees with this recommendation.


To ensure compliance to the new procedure, spot checks are conducted by Quality Assurance staff on a monthly basis. In addition to Quality Assurance staff checks, team leads and the program manager are now conducting supplemental regular reviews. Management considers this recommendation complete.

Recommendation #4

That the City update the quality and angles of security video cameras at the CSCs to ensure deposit preparation is recorded and details can be seen including denominations of notes. If required, remove items over desks (if blocking views) or use two cameras per room.

Management response:

Management agrees with this recommendation.

Corporate Security has reviewed the camera quality and angles at all CSC locations in partnership with ServiceOttawa. The cameras at the North Gower and West Carleton CSC have been relocated and improved lines of sight were verified. Any obstructions to the lines of sight have been relocated.

Corporate Security has obtained the scope of work and estimates required to achieve this recommendation. The scope of work will include the replacement, relocation and/or the addition of digital CCTV cameras throughout the four urban CSC’s. Corporate Security will work with ServiceOttawa to ensure that the cameras installed in the deposit preparation areas provide the best possible viewing angles. With respect to image quality, new or additional cameras will be installed with the capacity to determine denomination of notes in the deposit preparation areas. A work plan is in place to implement all changes by Q4 2017.
Recommendation #5

That the City select a sample from all of its security video cameras on an on-going basis to review and test to ensure they are functioning as required and continuing to meet business requirements.

Management response:

Management agrees with this recommendation.

Corporate Security, through the Security and Emergency Management (SEM) Systems and Coordination section, has modified its processes since July 2016 in support of this recommendation. All networked CCTV sites have been programmed to provide an automated notification should video loss be detected from any camera. Notifications (system health checks) are regularly analyzed by SEM Systems Specialists. A service call is placed to investigate any loss of video or loss of video quality. Management considers this recommendation complete.

Recommendation #6

That the City should adhere to the Fraud and Waste Policy in situations such as this and consult with the Auditor General before referring to the Ottawa Police Service or other enforcement agencies.

Management response:

Management agrees with this recommendation.

Legal Services will review the Fraud and Waste Policy with the OAG to ensure clarity with respect to incident reporting or referrals. Management anticipates that this review will be completed by the end of Q4 2017.