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DEPARTMENT OF HEALTH

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MANAGEMENT - IN CONFIDENCE

EL(90)MB/120

Directors of Finance:

Regional Health Authorities  
District Health Authorities  
Special Health Authorities for the  
London Postgraduate Teaching Hospitals

26 June 1990

Dear Director of Finance

LOSSES DUE TO FRAUD

1. Health Circular HC(78)42 "Losses and Special Payments" as amplified by Appendix 3 to FM4/81, Appendix 4 to FM9/81 and Appendix 3 to the June 1988 Financial Matters (EL(88)P/97) requires Authorities to submit reports of all discovered frauds perpetrated by NHS employees, computer frauds and cases of suspect or proven procurement fraud by contractors.

2. Government departments have to submit annual reports of these frauds to Treasury. The reports include frauds involving Departments indirectly (eg by health authority staff).

3. Treasury analyse the cases reported and circulate details so that Departments may be on their guard about particular types of fraud.

4. A copy of the 1988-89 Treasury analysis is attached. The 175 cases of fraud by staff and the total identified gross loss of £2.4m compare with 187 cases and an estimated gross loss of £2.5m in 1987-88. Thus the level of detected fraud remained virtually unchanged. The figures do, however, underline the need for continuing vigilance in preventing fraud.

Reported fraud by staff including computer fraud

5. Annex A contains an analysis of frauds perpetrated by staff. Annex B provides an account of individual cases involving more than £10,000, one of which related to a fraud perpetrated by an NHS employee. Annex C summarises those cases which involved computer fraud.

MANAGEMENT - IN CONFIDENCE

## MANAGEMENT - IN CONFIDENCE

6. Although much of the increase in the amount of attempted or actual fraudulent encashment of instruments of payment results from one case (item 3 in Annex B), any increase in this type of fraud is of particular concern. Authorities should therefore give special consideration to the adequacy and effectiveness of controls in this area. There has also been a marked increase in the discovery of frauds arising from false claims for hours worked. This may have resulted partly from concerted management action in one particular government department but nevertheless, authorities should consider whether they need to review their arrangements for checking the accuracy and validity of timesheets etc.

7. The proportion of reported frauds discovered by the normal operation of control procedures was 30%. This figure is lower than that for 1987-88, which was 35%. The proportion of cases which was discovered following suspicion of the perpetrators' activities was 15%, about the same as for 1987-88. In the light of these figures, authorities are reminded once more that they should consider whether internal check controls are adequate and whether their staff are sufficiently aware of the possibility of fraud and how to report any suspicions they may have.

### Procurement fraud by contractors

8. There were 35 cases of suspected or proven procurement fraud notified involving a total estimated amount of £11.3m. The corresponding figures in 1987-88 were 41 cases and £8.3m. A summary of individual cases involving more than £10,000 is set out in Annex D. Of the total of £11.3m in 1988-89 some £10.5m was accounted for by just three cases, illustrating the risks which may be associated with high valued contracts. Authorities should note that "Procurement Fraud" relates to fraud by contractors in connection with contracts for the supply of goods and services.

### Telex Fraud

9. During the investigation of one particular case, doubt was thrown on the authenticity of a telex apparently sent by a bank and accepted as genuine by the department involved. The police enquiry was focused on the possibility that, despite appearances, the telex did not originate with the bank. Authorities should be aware of the possibility that telexes can be falsified, even with genuine call-back numbers.

### Arrangements for Reporting Fraud

10. Treasurers are reminded that details of frauds where the loss falls within the authority's delegated limit, should be submitted with the annual financial accounts (Note 16).

MANAGEMENT - IN CONFIDENCE

MANAGEMENT - IN CONFIDENCE

Distribution of this letter

11. As this letter describes how frauds have been carried out, it has been classified Management-in confidence. Would you please therefore restrict its distribution only to those of your Managers who are responsible for the development and review of control systems. Staff involved in the operation of systems and procedures should not be made aware of its content.

12. Any enquiries about this letter should be addressed to: Mr P A Gardiner, Room 516, Friars House, telephone 071 972 3399, (direct line).

Yours sincerely

*P. Garland*

P GARLAND  
Assistant Secretary  
Finance Division A

This letter will be cancelled on 31 March 1991

MANAGEMENT - IN CONFIDENCE



MANAGEMENT IN CONFIDENCE

ANNEX A

ANALYSIS OF FRAUD

TYPE OF FRAUD	1987/1988		1988/1989	
	Cases	Amount	Cases	Amount
Fraudulent Encashment of Instruments of Payment	12	39,595	20	738,919*
Travel and Subsistence	61	41,253	56	29,954
Misappropriation of Cash	32	125,168	31	62,750
Instrument of payment received on false documentation	23	581,712	22	646,160
Theft of Assets	15	750,133	5	151,865
False claims for hours worked	17	15,527	28	85,898
Miscellaneous/Others	27	930,118	13	656,025
<b>TOTAL</b>	<b>187</b>	<b>2,483,506</b>	<b>175</b>	<b>2,371,571</b>

\*This figure includes a single case involving an attempt by a civil servant to divert a tax repayment of £647,045 into his personal bank account - see case 3 Annex B.

INDIVIDUAL CASES OF OVER £10,000

FRAUDULENT ENCASHMENT OF PAYABLE INSTRUMENTS

1. £29,185 - Duplicate payable orders were generated and the duplicates were fraudulently converted by the perpetrators and paid into private bank account.
2. £36,956 - See Annex C, case 4.
3. £647,045 - The perpetrator diverted a tax repayment to himself and attempted to pay it into his personal bank account. Bank officials became suspicious and notified the department.
4. £13,302 - Due to lapses in control, the perpetrator was able to issue girocheques fraudulently and to encash them.

MISAPPROPRIATION OF CASH

5. £13,102 - The perpetrator collected cash and issued receipts to debtors, but failed to remit the payments to the department.
6. £10,682 - The perpetrator took money from the taxpayers and issued false receipts. The matter came to notice when one of the taxpayers queried the receipts.

INSTRUMENT OF PAYMENT RECEIVED ON FALSE DOCUMENTATION

7. £350,586 - The perpetrator registered a non-existent farm and nursery business for VAT purposes and submitted VAT returns in respect of the fictitious business. He covered the fraud by using his official position to intercept

## MANAGEMENT IN CONFIDENCE

any queries relating to the fictitious trade. The fraud was discovered when the perpetrator took a period of authorised unpaid leave. A query was received and a visiting VAT officer was unable to locate the farm.

- 8. £12,330 - The perpetrator created fictitious claimants who were subsequently paid allowances. The fraud was discovered through internal test checks.
- 9. £135,000 - The perpetrator created false tax repayment claims and banked the payable orders repaying the tax reclaimed.
- 10. £88,225 - The perpetrator was able to both authorise and make payments, which he did to his own advantage.
- 11. £16,591 - Due to his seniority and position of trust the perpetrator misappropriated a large number of cheques over a long period from an urgent payment account. The fraud was discovered by experienced members of staff.

### THEFT OF ASSETS

- 12. £150,000 - The perpetrator used his position as a "specialist" to misappropriate a large quantity of equipment and materials.

### FALSE CLAIM FOR HOURS WORKED

- 13. £11,880 - An officer continued to receive pay even after resignation and failed to report the facts.
- 14. £68,000 - False claim for allowances. Discovered during annual audits.

MANAGEMENT IN CONFIDENCE

MANAGEMENT IN CONFIDENCE

OTHERS

15. £500,000 - A trader was investigated by the department in connection with VAT suppression. During the course of the enquiry evidence came to light that a VAT officer had assisted the trader in evading the VAT.
16. £152,703 - The perpetrator issued publicly supplied rations to non-entitled personnel and over-issued supplies to certain entitled personnel.

MANAGEMENT IN CONFIDENCE



IDENTIFIED CASES OF COMPUTER FRAUD

5 cases were reported as computer frauds, albeit in one case no money was involved.

1. £2,240      The perpetrators obtained benefit payments by entering false claim details and addresses into a computer system. In one case the perpetrator gained access to the system via a terminal which had been left unattended by an authorised user.
2. £4,000      "
3. £861      "
4. £36,956      The perpetrator created orders for goods from a fictitious company using the stores computer system. The resulting false invoices were paid and the cheques were fraudulently encashed by the perpetrator (the stores manager) through Building Society accounts. Discovered through planned Stores Review audit.
5. -      No amount was involved in this case but the perpetrator attempted to award a higher tax code by altering computer records.

MANAGEMENT IN CONFIDENCE

ANNEX D

PROCUREMENT FRAUD BY CONTRACTORS - OVER £10,000 CASES

1. £210,000 - An employee of the contractor's company and another person misappropriated scrap equipment owned by a department. VAT inspectors discovered the fraud.
2. £75,000 - A case of progress payment irregularities discovered by the department at the time when the company went into receivership.
3. £48,000 - Mis-use of project funds.
4. £2,500,000 - Premature payments requested by the company and made.
- \*5. £5,000,000 - Overpricing on spares contract; discovered by the department's technical costing staff.
6. £54,000 - False accounting on progress payments.
7. £3,000,000 - False statements at time of pricing; discovered during cost investigation by the department.
8. £166,268 - The perpetrator invented a non-existent manufacturer and then used a list of greatly inflated prices to claim from the authorities.
9. £294,118 - Changes of contract between supplier and third party not agreed with HMG.

\*This case also figured in the 1987-88 return.

MANAGEMENT IN CONFIDENCE